

THE ACTUARIAL UPDATE

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HONORS

Guy King Honored with Actuarial Public Service Award

Roland E. (Guy) King, who served 16 years as chief actuary of the Health Care Financing Administration (HCFA), received the 1996 Robert J. Myers Actuarial Public Service Award at the November 12 Academy Annual Meeting.



Myers Award winner Guy King urges support for government actuaries.

At HCFA, King's professional integrity and stewardship of the actuarial office won the trust of both parties in Congress. He also was recognized as the leading authority on the intricate financing structures of Medicare and Medicaid. His service earned him Presidential Meritorious Executive Awards from both Presidents Reagan and Clinton and a 1993 tribute in the *New York Times*, which

praised him for "independence, accuracy, and integrity."

In presenting the award, Academy President Jack Turnquist said, "Guy King has brought the best kind of recognition to the actuarial profession—recognition of the value of our skills and our independence as true professionals."

In his acceptance remarks, King thanked the Academy for recognizing the contributions of public sector actuaries. "They work very hard for little compensation and are really the unsung heroes of the profession." He also noted the pressure on government actuaries. "The actuarial profession should do all it can to support them. With Medicare heating up as a political issue, the actuaries at HCFA—all outstanding professionals—are going to confront intense pressure to produce politically acceptable results," King said.

King also said he was honored to receive an award named for former Social Security chief actuary Bob Myers. "I started my career at Social Security after Bob's departure, but I heard him discussed so often and with such respect that he became a legend to me. To have an award with his name is a very great honor."

King, a graduate of the U.S. Naval Academy, left HCFA in 1994 and is now a consultant in private practice in Washington, D.C. For the profession, he leads the Academy Medicare Work Group and in January will join the Actuarial Standards Board.

The Myers Award honors an actuary's contribution to the common good through service to government or other public organizations. King is the second recipient; John Montgomery of the California Department of Insurance received the award in 1995. A nomination card for the 1997 award is included with this mailing of the *Actuarial Update*. Deadline for submission is March 1.

Zimpleman Assumes Academy Leadership at Annual Meeting

Pledging a sharpened public policy focus and more effective communications, Larry Zimpleman took office as 1997 Academy President at the November 12 annual meeting in Boca Raton, Florida.

In his address to the members, Zimpleman stated that the coming year will offer increased public policy opportunities for actuaries. "The Democratic president and Republican Congress proved that they could work together when they passed the Kassebaum-Kennedy health insurance reform law," he said. The results of the November election seem to call for continued bipartisan problem-solving, according to Zimpleman. (For more on Zimpleman's plenary background, see his editorial on page 2 and interview in the *October Update*.)

Zimpleman praised his predecessor, Jack Turnquist, for a successful year as president and many years of service to actuarial professionalism. Before serving as president, Turnquist was the first chairperson of the Actuarial Standards Board and first Academy vice president for professionalism.

In his remarks, Turnquist reported significant strides during 1996 toward fulfilling the public policy and professionalism goals of the Academy strategic plan. "Greatest praise for our success must go to our actively involved members," said Turnquist. More than six hundred volunteers offered their time to the Academy in 1996, he noted. Turnquist also urged members to read the 1996 *Academy Report to the Membership*, which was mailed to all members in late November. "The successes described in the report are just a fraction of the Academy's achievements for the year," he said.

In his speech to the membership, Executive Director Wilson Wyatt offered a summary of those achievements. Academy analysis of medical savings accounts and the Kassebaum-Kennedy bill brought unparalleled public attention to the actuarial profession, he noted. Medical malpractice, pension simplification, and Medicare also were high-profile issues for actuaries.

Actuarial visibility and credibility with elected officials were greatly enhanced in the past year, Wyatt said. He recounted his experience at a recent dinner for Commerce Secretary Mickey Kantor, where three prominent Washington insiders sought him out to praise the work of the Academy. Sens. Jim Jeffords (R-Vt.), Jay Rockefeller (D-W.Va.), Ron Wyden (D-Oreg.), and Rep.

Nancy Johnson (R-Conn.) are among the elected officials who have personally requested Academy assistance in recent months.

Wyatt also noted Academy success with state regulators. "Less than 2 years ago, leaders of the National Association of Insurance Commissioners (NAIC) regarded us with some suspicion, unsure if we were truly impartial or a lobbying organization," he said. "Now, through the impartial efforts of our volunteers, the

Academy is engaged in over forty projects for the NAIC.

The Academy's program for actuarial professionalism and the work of the Actuarial Standards Board and Actuarial Board for Counseling and Discipline are key to the enhanced credibility of actuaries."

In other business, David Hartman, chairperson of the 1996 Nominating Committee, announced new Academy officers. Allan Kaufman is 1997 president-elect. He is a principal with Milliman & Robertson in

West Paterson, N.J. and former president of the Casualty Actuarial Society (CAS).

New vice presidents also were announced. Bill Bluhm, principal for Milliman & Robertson, leads the Health Practice Council; Ken W. Hartwell, assistant vice president with Sun Life, heads the Council on Professionalism; and Michael Toothman, consulting actuary with Arthur Andersen, is casualty vice president. New directors elected at the meeting: Theodosios Athanassiades, president and CEO of Metropolitan Life; Ed Husted, senior vice president of Hay-Huggins; Lawrence Johansen, actuary with the New York State Teachers Retirement System; and P. Andrew Ware, vice president of Northwestern Mutual Life.

Presidents-elect joining the board as special directors are Anna Rappaport of the Society of Actuaries, Mavis Walters of the CAS, and Karen Jordan of the American Society of Pension Actuaries. Jeff Furnish will represent the Conference of Consulting Actuaries, whose president-elect, Vince Amoroso, serves on the board as pension vice president. (For more about the leadership selection process, see page 3 interview.)



Larry Zimpleman (l) accepts the gavel from Jack Turnquist.

IN BRIEF

Center Does Not Hold, Pundit Says

The influence of the moderate center will be diminished in the next Congress, political commentator Norman Ornstein of the American Enterprise Institute and CBS News told the Academy Annual Meeting on November 12. Although the American people in November voted for moderation, according to Ornstein, the 105th Congress will be more sharply polarized between left and right than ever before.

Using a football metaphor, Ornstein explained: "Traditionally the majority in both parties was between the 35-yard lines. However, most Democrats and Republicans are now behind their own 20-yard lines, with a frightening number in the end zone. Getting people to the middle where compromises can be struck will be much more difficult."

Ornstein added, "How well the two sides can work together in the 105th Congress will determine whether the Academy will be analyzing future laws or merely proposals that will not be enacted."

As an example of polarization, Ornstein cited Medicare. In the fall campaign, President Clinton denounced Republican proposals to fix the program's financial ills and suggested a post-election bipartisan commission. "Republicans were demagogued to death on Medicare and are angry," Ornstein said. "Their leadership now threatens to squelch a commission, force Democrats to come forward with a proposal, and grovel for Republican support."

Ornstein also noted that personal cordiality among ideological foes has diminished on the Hill, further reducing the ability to strike deals. "Gone are the days when [House Speaker] Tip O'Neill

and [former President] Jerry Ford would do battle by day but meet after work for a drink, dinner, or a round of golf. If Speaker Newt Gingrich met House Minority Leader Dick Gephardt for dinner, each would need his own food taster."

Looking at the 1996 campaign, Ornstein criticized media reliance on polls of dubious merit. "A meaningless random-sample telephone poll is given the same weight as a scientific sampling by a reputable organization. I'm afraid that until the polling profession develops standards akin to those of the actuarial profession, bad polling will drive out the good."



Norman Ornstein

Academy Offers Med Mal Lessons

A nationwide cap on noneconomic damages could help reduce medical malpractice costs, Academy spokesperson Jim Hurley told a November 22 Capitol Hill briefing. "Congress should adopt a comprehensive approach to tort reform by adopting a package of effective measures, including a cap on damages," said Hurley, chairperson of the Academy Medical Malpractice Work Group. "Experience in the states shows that caps can reduce medical malpractice costs."

As evidence, Hurley pointed to Ohio, where malpractice costs fell after a 1975 cap on damages but rose dramatically after the cap was overturned in a 1985 court decision.

The Ohio experience also shows why malpractice insurance premiums don't fall automatically after reform. "Insurers cannot be sure that caps will remain in place over the long-term and that prospective claims costs will decrease," Hurley said.

"Elected officials must have realistic expectations about tort reform's impact on premium costs." The Capitol Hill briefing was cosponsored by the Academy, the Alliance for Health Reform, and IM-PACS, a research group associated with Georgetown University. Serving with Hurley on the panel were legal and medical scholars from Harvard Medical School, the University of Virginia, the University of

Michigan, and the Urban Institute. More than 150 congressional staffers, policy researchers, and stakeholders attended the briefing, as well as reporters from the *Washington Post* and *Los Angeles Times*.

The Academy suggestions are summarized in a report to Congress, "Medical Malpractice Tort Reform: Lessons from the States." The Academy report focuses on the malpractice reform experience of three states: Ohio, California, and New York.

Data from California show that after adoption of a reform package including caps, malpractice premium costs declined in proportion to reduced losses and that California premiums declined as a

percentage of the total U.S. medical malpractice premiums. New York provides an example of poorly implemented reforms. The state adopted tort reform measures piecemeal over several years and did not enact a cap on damages. Costs did not decline as a percentage of the U.S. total.

Other work group members are William Burns, Linda Dembiec, Aileen Lyle, and Edward Wroble Jr.

For copies of "Medical Malpractice Tort Reform: Lessons from the States," fax a request to Doreen Moaning at 202-872-1948.



Academy President Jack Turnquist presents the Jarvis Farley Service Award to Mary Frances Jetton, who accepted the honor on behalf of her late husband, Barry Watson. In presenting the award at the Academy Annual Meeting, Turnquist recalled the "time, energy, and good common sense that Barry gave to the Academy and the actuarial profession for more than 30 years."

FROM THE PRESIDENT

LARRY ZIMPLEMAN

Communicating Our Strengths

Nineteen ninety-seven will be another challenging year for the Academy's public policy effort.

Increasingly, elected officials and regulators are turning to the Academy for advice about the financial implications of their public policy decisions. The Academy is geared to answer these requests, which we are receiving at an accelerated rate because of our heightened visibility. In the next year, we will be providing analysis on such major issues as Medicare, tort reform, pension simplification, and Social Security.



Larry Zimpleman

The Academy is entering the third year of its 5-year strategic plan and is on track to meeting the plan goal of increasing the profession's visibility and credibility. We are now in a position to leverage the profession into a more highly visible role. This will be accomplished through the combined efforts of an experienced staff and the volunteers who do the real work of the Academy on committees, task forces, and work groups. The careful work of these dedicated individuals ensures that actuarial credibility is never sacrificed in the name of public relations.

Communicating the contributions of the actuarial profession is another key element of the work of the Academy. Our targeted communications program, initiated by Executive Director Wilson Wyatt in 1995, has conveyed the profession's message more effectively than ever before. During my year as Academy president, I plan to intensify our communications outreach to the profession's many publics.

To members of Congress and other elected officials, we say: Actuaries bring unique analytical skills to the public policy process. Through the Academy, we produce independent and unbiased advice. The reputation and experience of the profession stand behind the Academy's work products.

To insurance regulators: Actuaries are technically skilled professionals who help insurers price and design products and maintain financial solvency. We also can provide input so that regulations achieve the best results for consumers and insurers. Our professionalism is safeguarded by strong standards of qualification, practice, and conduct.

To business leaders: Actuaries' analytical training gives us problem-solving tools that go far beyond our traditional roles in the insurance and risk management industries. We own skills that can help you with your bottom line.

To the American public: Actuaries help keep insurance programs, Social Security, and private pensions sound and running. We help ensure that your health plan stays solvent and that your homeowners' insurance can pay its claims. Our work helps you overcome some of the financial uncertainties of life.

Because the Academy must better publicize its achievements, we will target two additional audiences during my term: our own members and other actuarial organizations in the U.S. and abroad. Enhanced communications with these groups should result in increased understanding and unity of purpose among actuaries.

During my presidency, the Academy will institute new programs to honor our volunteers. Every actuary who donates time to the Academy should know that his or her work is appreciated. I also hope to foster among actuaries a sense of ownership in the Academy and pride in its achievements.

The Academy exists to serve the actuarial profession. A strong Academy program in public policy, professionalism, and communications is vital to the profession's continued growth. With the support of an actively involved membership, we will continue our progress toward the common goal of all actuaries: strengthening our profession for the challenges of the future.



Executive Director Wilson Wyatt and keynote speaker Norman Ornstein at the Academy Annual Meeting.

'Ensuring Continuity of Leadership'

An Interview with David Hartman

The Academy leaders announced at the November 12 Annual Meeting were selected by a Nominating Committee comprising the Academy president, two immediate past presidents, and presidents-elect of the Academy, American Society of Pension Actuaries, Casualty Actuarial Society, Conference of Consulting Actuaries, and Society of Actuaries. This year's committee was chaired by 1994 Academy President David Hartman. The committee's nominees for regular members of the Board were elected by Academy members in attendance at the Boca Raton meeting. The committee also selects the president-elect, secretary-treasurer, vice presidents, and special directors.

In recent years, direct election of Academy leaders by all the membership has been frequently discussed. A survey conducted earlier this year for the Academy Task Force on Membership showed little member support for such a change. However, survey results also demonstrated that many members lack familiarity with the selection process. (See August *Update*.) The task force urged greater openness about the selection of Academy leaders, as well as more information about their background and qualifications. In the spirit of these recommendations, Managing Editor Jeffrey Speicher recently asked Hartman a few questions about his committee's work and the qualities required for Academy officers.

How much input does the Nominating Committee receive from Academy members?

Not enough. Every spring the committee seeks nominations from members through a postcard sent with the *Actuarial Update*. The committee carefully considers each name submitted, but nominations are relatively few. I hope that more Academy members will put forward the names of qualified colleagues. They even nominate themselves.

What qualities does the committee look for in board members?

The committee follows a set of detailed guidelines in its deliberations. The principal qualities we look for are a proven track record of volunteer service to the profession, willingness to serve, and potential for further leadership positions.

Does experience count?

Very much so. Academy committees and task forces are the proving ground for leadership, so we examine the service each nominee has given. The Nominating Committee also considers actuaries who have attained senior positions in industry. Their advice and counsel are welcome on the board.



David Hartman

What other criteria are used?

The guidelines charge us to keep the board broad representative of

the profession. We try to keep a balance among practice areas and between insurance company actuaries and consultants. The committee also ensures that no single employer is over represented.

Does the committee recommend all members of the board?

Each year the committee names enough people to bring the number of regular directors to ten. The four presidents-elect of the other organizations representing actuaries also join the board as special directors. This makes the Academy Board a forum for the leadership of the entire profession.

Do you think this is a good system?

It brings all the organizations together and ensures that we are talking to each other. However, the drawback is limited board seats for people who are not already leaders of the profession.

track record, willingness to serve, and potential for leadership. And because the vice presidents must work closely with the other actuarial organizations, we rely on the leaders of those organizations—some of whom are on the committee—to help find the right individual.

Is the Academy president usually sought from the ranks of senior executives and self-employed consultants?

The president must devote a great deal of time to the Academy and therefore needs a flexible employment situation. Compared to my successor, I made no great sacrifice during my presidency. Chuck Bryan and Jack Turnquist gave up lucrative business opportunities because of their Academy service. Their dedication is outstanding, and our profession is fortunate to have many volunteers of that caliber.

What do you consider the most important duty of the Academy president?

Leadership. I like to define it as the ability, willingness, and courage to establish a vision for an organization, determine and implement a plan of action, and achieve the desired objectives. The Academy needs a leader who can accomplish those tasks.

Finally, in your opinion does the selection process meet the Academy's needs?

It's not broken, so why fix it? However, some minor modifications might be tried. For instance, each practice council might be given responsibility to elect a representative on the board. But the existing system has the great advantage of ensuring continuity of leadership, which is very important in any organization. Even though the president's term of office is only one year, the system enables the Academy to set a course and stick to it. The successful implementation of the Academy's 5-year strategic plan is proof that we're on the right track.

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Academy vice presidents exercise substantial executive responsibilities for their practice areas. What do you look for in candidates for these positions? Again, the committee seeks individuals who meet the criteria of

LETTERS TO THE EDITOR

Managed Care Is Not Medicare Cure-all

In his column, "Heading Off Medicare Insolvency," in the September *Update*, Adam Reese rightly expresses concern over the financial crisis in Part A of Medicare. This problem has attracted public attention because the Medicare program has a dedicated financing system, which clearly links payroll taxes from current workers to Part A medical services for current Medicare beneficiaries. Because payments for benefits now exceed payroll tax income, the public has become alarmed. However, this is only half the problem.

Medicare Part B expenditures are growing even faster than Part A spending, but because most Part B financing comes from general revenues, there is no clearly perceived linkage with a financing source. However, despite the lack of public awareness of Part B's difficulties, the financial problems of both parts of Medicare should be addressed and solved immediately.

As part of his proposed solution, Reese suggests increasing the Medicare payroll tax rate "by the excess of the medical trend over wage growth." Solving the whole financial problem with a tax increase will be

difficult to achieve in the current anti-tax political environment, especially because there would be no foreseeable end to future increases. Further indexing tax rates to medical inflation legitimizes high inflation rates in medical care costs. Reducing the growth in expenditures should be a major part of solving Medicare's financial problems.

Reese also proposes to create incentives for Medicare managed care. Most people would agree that managed care provides services at lower cost than fee-for-service plans. However, it is an open question whether managed care can consistently reduce growth rates in medical expenditures over the long-term. I argue that although overall expenses in managed care are lower than in fee-for-service, expenses in both environments will grow at about the same rate. This indicates that we need a combination of solutions to address Medicare's problems.

In addition, provisions governing Medicare payments to managed care plans would have to be revised significantly to achieve lower costs through increased managed care participation. Most experts believe that, to date, such participation has resulted in a net cost to Medicare, compared to fee-for-service participation.

—GREGORY SAVORD
SAVORD IS AN ACTUARY WITH THE
HEALTH CARE FINANCING ADMINISTRATION IN BALTIMORE.

ASB OUTLOOK

ANNE RANKIN

ASB Adopts Small Health-Plan Standard That Defines Soundness

The concept of actuarial soundness is at the heart of an actuarial standard of practice (ASOP) adopted by the Actuarial Standards Board (ASB) at its October 23 meeting in Washington, D.C. ASOP No. 26, *Compliance with Statutory and Regulatory Requirements for the Actuarial Certification of Small Employer Health Benefit Plans*, was presented to the board by Ted Lyle, chairperson of the ASB Health Committee. Although comments on the exposure draft generated much discussion of the text's definition of actuarial soundness, the standard upholds the substance of the contested term. Appendix 2 of the new standard states, "... since many of the applicable laws, including the NAIC model laws, require the actuary to address *actuarial soundness*, it is appropriate to address the issue within this standard."

The board also approved for exposure another health-related draft standard, *Documentation and Disclosure in Health Benefit Plan Ratemaking*. The committee is requesting comments on whether the proposed standard includes adequate information on documentation and disclosure, and whether the text clearly addresses documentation as opposed to ratemaking. Comment deadline is March 3, 1997.

(For information on ASOP No. 25, *Credibility Procedures Applicable to Accident and Health, Group Term Life, and Property/Casualty Coverages*, which the ASB also adopted in October, see the November *Update*.)

All three texts approved in October are included with this *Update* mailing.

The ASB also reviewed a preliminary draft of a casualty proposed

standard, *Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves*, which is a revision of Financial Reporting Recommendation No. 8. The text was presented by Robert Miccolis, a member of the ASB Subcommittee on Reserving who was instrumental in development of the preliminary draft.

Although the loss reserve standard is not ready for exposure, the subcommittee requested guidance from the board on certain difficult issues. For example, Section 3.10 of the current draft provides a structure for developing an opinion dependent on the actuary's evaluation of risk or material adverse deviations in reserves. While this may appear to "raise the bar" for practicing actuaries, the subcommittee believes that past events, such as asbestos and pollution litigation, have increased actuaries' awareness of risk considerations. The group hopes to expose the standard next spring. In the meantime, regulatory issues will be raised at the December meeting of the actuarial profession's joint committee with the National Association of Insurance Commissioners (NAIC).

On a future project, Walt Rugland of the Academy Life Nonforfeiture Work Group briefed the ASB on life insurance nonforfeiture reform and stated that the board will need to consider framing a standard to guide actuaries in complying with any new model regulation adopted by the NAIC.

The next ASB meeting will be January 13-14 in Washington, D.C. Although planning is the meeting focus, the board also will review for final adoption the proposed standard, *Expense Provisions in Property/Casualty Insurance Ratemaking*.

—ANNE M. RANKIN
STANDARDS EDITOR

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