



Professionalism 2000 Annual Reports

Committee on Qualifications

Actuarial Standards Board

Actuarial Board for Counseling and Discipline

Joint Committee on the Code of Professional Conduct

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Preface

To Members
of All
Organizations
Representing
Actuaries
in the United
States

This is the fifth combined annual report of the Actuarial Board for Counseling and Discipline, the Actuarial Standards Board, the American Academy of Actuaries Committee on Qualifications, and the Joint Committee on the Code of Professional Conduct. Its purpose is to inform the members of the five U.S.-based organizations representing actuaries (American Academy of Actuaries, American Society of Pension Actuaries, Casualty Actuarial Society, Conference of Consulting Actuaries, and Society of Actuaries) about the activities of these groups and their importance to actuarial professionalism.

In the United States, the Actuarial Standards Board and the Actuarial Board for Counseling and Discipline have been established as independent organizations to serve the actuarial profession in the areas of standard-setting and investigation, counseling, and discipline. They are responsible to the five U.S.-based organizations representing actuaries. Each of these boards receives administrative support from the staff of the American Academy of Actuaries, the cost of which is covered by American Academy of Actuaries dues plus additional support from the other U.S.-based organizations to cover the cost of their members who are not members of the American Academy of Actuaries.

The actuarial profession in the United States has delegated to the Academy, through the Academy's Committee on Qualifications, responsibility for developing and maintaining standards of qualification to practice as an actuary.

The U.S.-based organizations have agreed to maintain a common Code of Professional Conduct, including reference to appropriate qualification standards and standards of practice, and counseling and disciplinary practices designed to be consistent between the organizations. That Code is maintained by the Joint Committee on the Code of Professional Conduct, a committee of representatives of the U.S.-based organizations that receives administrative support from the staff of the Academy.

The activities of the Actuarial Board for Counseling and Discipline, Actuarial Standards Board, Committee on Qualifications and Joint Committee on the Code of Professional Conduct are coordinated through the Academy's Council on Professionalism, which is dedicated to encouraging the members of all U.S.-based actuarial organizations to achieve and maintain a high level of professionalism in their ongoing practice.

There are also committees that address professionalism issues within each of the organizations representing actuaries in the United States. The work of these groups supports the efforts of the Actuarial Board for Counseling and Discipline, Actuarial Standards Board, and Academy Committee on Qualifications and strengthens the professionalism of all actuaries.

***Letter from the
American Academy of
Actuaries
Vice President
for Professionalism***



Henry K. Knowlton

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s the Preface indicates, this is the fifth annual combined Professionalism Report describing the activities of the Academy Committee on Qualifications, the Actuarial Standards Board, the Actuarial Board for Counseling and Discipline, and the Joint Committee on the Code of Professional Conduct.

As you will see from their reports, the year 2000 was a busy year for each of these groups, and also for other Academy committees involved in professionalism activities. One major accomplishment was the introduction of a new seminar on life and health qualification intended to provide U.S.-specific education on valuation requirements that are no longer included in the Society of Actuaries' Fellowship examinations. The development of the seminar was a significant undertaking, and special thanks are owed to the Academy's Life and Health Qualification Seminar Task Force and its chairperson, Robert B. Likins.

Another significant achievement was the adoption by the American Academy of Actuaries, the American Society of Pension Actuaries, the Casualty Actuarial Society, the Conference of Consulting Actuaries, and the Society of Actuaries of a single revised Code of Professional Conduct. The revised Code was developed by the Joint Committee on the Code of Professional Conduct, which will continue as a permanent joint committee to avoid the proliferation of the small differences that had developed previously between the Codes of the U.S.-based organizations.

I ask you to join me in thanking the chairpersons and members of the boards and committees included in this report, as well as the chairpersons and members of other committees represented on the Council of Professionalism. These include the Committee on International Issues, the Committee on Professional Responsibility, and the Committee on Actuarial Public Service. Through their efforts, actuaries throughout the United States are encouraged to achieve and maintain a high level of professionalism when providing services, an outcome that can only benefit our clients and employers and the public.

A handwritten signature in black ink that reads "Henry K. Knowlton". The signature is fluid and cursive, with "Henry" on top, "K." in the middle, and "Knowlton" on the bottom line.

*Henry K. Knowlton
Vice President for Professionalism
American Academy of Actuaries*

Committee on Qualifications Charge

The Committee on Qualifications of the American Academy of Actuaries drafts and recommends standards of basic education, experience and continuing education for actuaries practicing in the United States. Once approved by the Academy Board of Directors, these standards are codified as Qualification Standards for Prescribed Statements of Actuarial Opinion.

The scope of the Qualification Standards is not limited to members of the Academy. Under Precept 2 of the actuarial profession's Code of Professional Conduct, all actuaries who are members of a U.S.-based organization representing actuaries — the Academy, American Society of Pension Actuaries, Casualty Actuarial Society, Conference of Consulting Actuaries, and Society of Actuaries — must meet the Qualification Standards when practicing in the United States. Thus, the work of the Committee on Qualifications is important to members of the profession nationwide.

The Committee on Qualifications also is charged to provide members with confidential guidance on meeting the Qualification Standards. The committee receives many inquiries each year from actuaries who have questions about the application of qualification requirements to their own practice. Most inquiries concern continuing education requirements and typically are resolved informally through telephone conversations with the inquiring actuaries. However, in some instances the entire committee meets to discuss an inquiry and prepare a written reply.

The Committee on Qualifications is composed of nine members, at least one of whom is an active practitioner in each of the profession's traditional practice areas – casualty, health, life and pension.

Committee on Qualifications

*Letter from the
Chairperson*



Charles L. McClenahan

2000 Committee Members

William J. Bugg Jr.

John B. Dinius

James L. Lewis Jr.

Mary Frances Miller

Kathleen A. Riley

Carl Shalit

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he functions of the Committee on Qualifications are to recommend qualification standards for actuaries practicing in the United States; to promulgate the approved qualification standards; and to respond to requests for guidance relating to the application of those standards. The accompanying annual report briefly summarizes the accomplishments of the Committee on Qualifications during 2000. Make no mistake—this is important work that directly impacts the working lives of professional actuaries in the United States.

But sometimes we tend to lose sight of how this work gets done, and who it is that does it. In 1999 the Committee on Qualifications recommended, and the Academy Board approved, the development of a special-purpose seminar to fill an educational gap created by the removal of certain U.S.-specific material from the Society of Actuaries' syllabus. While this was a reasonable and necessary action, in retrospect I believe we acted a bit like Mickey Rooney and Judy Garland. "Let's put on a show!" we said, hopelessly naive about musical scoring, lighting, set design, and choreography.

The fact that the "show" was not only presented, but was successful is, in my opinion, due to the efforts of Bob Likins, his task force, and the Academy staff. If the committee had understood what was involved, I doubt that we would have considered the development of a seminar for 2000 remotely possible. The volunteers, who make this profession work, and the Academy, which provides guidance more effectively than can any committee, have made our folly appear wise. To those who worked so hard and accomplished so much, thank you.

And thanks also to the committee members who infuse the role of the committee with their dedication, good spirits, and sense of humor.

A handwritten signature in blue ink that reads "CLL MCL".

Charles L. McClenahan

Chairperson

Committee on Qualifications

2000 Annual Report

The Committee on Qualifications deals with issues relating to the basic education, experience, and continuing education levels that represent minimum requirements necessary to qualify members to perform professional services. In support of this function, the committee recommends to the Academy Board of Directors minimum qualification standards (including continuing education requirements), develops guidelines for the administration of those standards, and counsels members on questions relating to individual qualifications.

Three major tasks represented the primary focus of the Committee on Qualifications during 2000: (1) revision of the General Qualification Standard; (2) coordination with the Academy task force responsible for the development and implementation of the seminar on life and health qualifications; and (3) initiation of a broad review of the Qualification Standards for Prescribed Statements of Actuarial Opinion (Qualification Standards).

The revision of the General Qualification Standard was engendered by the revision of the Society of Actuaries' examination syllabus that eliminated most U.S.-specific material. While the committee agreed that an ASA educated under the revised syllabus typically would meet the General Qualification Standard, minor changes to the basic education requirement section were needed to make that clear. The committee also took advantage of this required revision to address actuarial education obtained through university-based programs outside the United States and to clarify the requirement that an actuary issuing a Prescribed Statement of Actuarial Opinion (PSAO) must be familiar with applicable laws and regulations.

In order to develop and implement its Seminar on Life and Health Qualifications under almost impossible time constraints, the Academy recruited the immediate past chairperson of the Committee on Qualifications, Bob Likins. Mr. Likins and his 12 member task force spent most of 2000 developing the seminar, writing the curriculum, selecting the readings, and recruiting the faculty. Committee on Qualifications Vice-Chairperson Jim Lewis ably represented the committee on the task force.

As currently constituted, the Qualification Standards apply to an actuary who intends to issue a PSAO while Precept 2 of the Code of Professional Conduct requires that an actuary who "renders advice, recommendations, findings, or opinions based upon actuarial considerations" be qualified to do so. During 2000, the Committee on



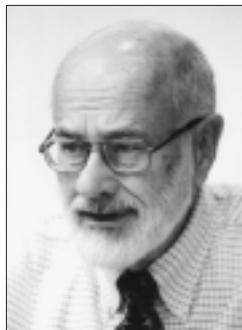
*Committee on Qualifications member
William J. Bugg, Jr.*



*Committee on Qualifications member
John B. Dinius*



*Committee on Qualifications member
Mary Frances Miller*



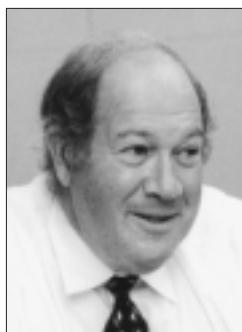
*Committee on
Qualifications member
James Lewis*

Qualifications began work on a revision of the Qualification Standards to provide guidance to actuaries issuing statements of actuarial opinions that are not necessarily PSAsOs. We anticipate that this revision will represent the primary activity of the committee during 2001.

In addition to these three tasks, during the past year the committee produced qualifications-related articles for The Actuarial Update, reviewed requests for the recognition of organized activities and for approved provider status for continuing education activities, and responded to confidential requests from members for guidance concerning compliance with the Qualification Standards.



*Committee on
Qualifications member
Kathleen A. Riley*



*Committee on
Qualifications member
Carl Shalit*

Members of the Committee on Qualifications



Standing left to right back: Mary Frances Miller, Charles L. McClenahan, Carl Shalit, 2001 member Frank P. Stone

Standing left to right front: William J. Bugg, Jr., Kathleen A. Riley, 2001 member Roger Shultz, James L. Lewis, Jr.

Member not shown in photo: John B. Dinius

Actuarial Standards Board Charge

The Actuarial Standards Board (ASB) was established in 1988 as an independent entity managed with staff support of the American Academy of Actuaries. Its purpose is to direct and manage the development actuarial standards of practice, to expose and promulgate actuarial standards of practice in all areas of actuarial practice and to provide continuous review of existing standards of practice, determining whether there is need for amendment, alteration, expansion or elimination.

The ASB has the authority to prescribe its own operating procedures and to establish and appoint individuals to committees, subcommittees and task force it may deem necessary in carrying out its assigned functions.

Actuarial Standards Board

Letter from the Chairperson



Alan J. Stonewall

2000 ASB Board Members

Phillip N. Ben-Zvi,
Vice Chairperson
James R. Swenson,
Vice Chairperson
David G. Hartman
Ken W. Hartwell
William C. Koenig
Guy King
Heidi Rackley
James R. Swenson
Robert E. Wilcox

The Actuarial Standards Board (ASB) serves the actuarial community and its publics by codifying generally accepted actuarial practice through the issuance of Actuarial Standards of Practice (ASOPs). The principle purpose of an ASOP is to provide guidance to actuaries who practice in the area of practice covered by the ASOP. In 2000, the ASB issued seven new standards and exposure drafts of four proposed standards that fall into that category.

Occasionally, the ASB will venture into new areas to provide needed guidance where generally accepted practice is less clear. This occurred twice in 2000. The discussion draft on actuarial communications reflects the ASB's proposed guidance to support actuaries in meeting their obligations under this recently clarified aspect of the Code of Professional Conduct. The exposure draft regarding pension plan benefit illustrations is a second example. In both instances, the ASB looks forward to hearing from the actuarial profession as to whether the proposed guidance should be accepted in its presented form.

I would like to extend my thanks to the board members, to the chairpersons and other members of the operating committees, and to our supportive staff for their time and dedication to the standards-setting process, and a special thank you to Phil Ben-Zvi, who completed his six years of board service at the end of 2000.

A handwritten signature in black ink that appears to read "Alan J. Stonewall".

Alan J. Stonewall
Chairperson
Actuarial Standards Board

Actuarial Standards Board

The Actuarial Standards Board (ASB) adopted seven standards this year and approved release of five exposure drafts and one discussion draft. The newly adopted standards and exposure drafts collectively cover all four traditional actuarial practice areas (casualty, life, health, and pension), and the discussion draft covers all areas of actuarial practice. The ASB's activities for 2000 are discussed below by practice area.

Casualty Committee

The Casualty Committee oversaw two subcommittees and one task force, reviewing and revising the work of these groups as necessary before submission to the ASB.

During 2000, this committee completed the following tasks:

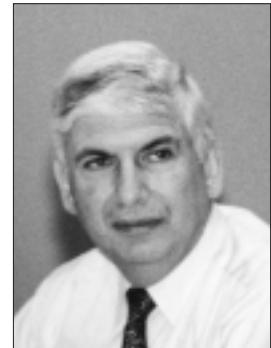
The Subcommittee on Reserving completed a new standard titled, Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves. The standard was developed through an exposure process including three exposure drafts and a hearing conducted by the ASB in November of 1999. The new standard became effective October 15, 2000.

The Subcommittee on Ratemaking completed a standard titled, Treatment of Catastrophe Losses in Property/Casualty Insurance Ratemaking. The standard provides important guidance to practitioners in addressing the infrequent but potentially significant losses that can be generated by catastrophic events. The new standard took effect December 15, 2000.

Finally, the Task Force on Complex Models completed a new standard entitled Using Models Outside the Actuary's Area of Expertise (Property and Casualty). The new standard took effect December 15, 2000. The task force was dismissed with thanks.

General Committee

The General Committee reviewed comments received on the first exposure draft of its proposed standard, Actuarial Communications. The proposed standard, which recasts Interpretative Opinion No. 3, offers actuaries in all practice areas guidance that complements and enhances the Code of Professional Conduct's guidance on actuarial communications. Throughout 2000, the Joint Committee on the Code of Professional Conduct was working to produce a revised Code for adoption by all five of the U.S.-based organizations representing actuaries. Recognizing the importance of coordinating the proposed standard with the Code, the General Committee and the ASB revised



*ASB Vice Chairperson
Phillip Ben-Zvi*



*ASB Vice Chairperson
James R. Swenson*



*ASB Member
David G. Hartman*

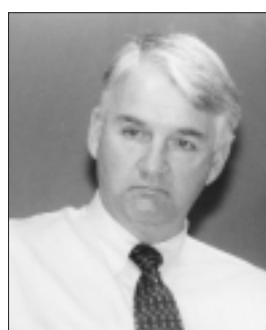
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ASB Member
Ken Hartwell



ASB Member
William Koenig



ASB member
Guy King

the first exposure draft of the proposed standard in response to comments received, and posted the revision on the ASB Web site as a discussion draft pending completion of the revised Code. The revised Code was adopted by the U.S.-based organizations effective January 1, 2001. The ASB plans to release a second exposure draft of the Actuarial Communications standard in the first half of 2001.

Health Committee

The committee completed a revision of Actuarial Standard of Practice (ASOP) No. 5, Incurred Health and Disability Claims. The revised standard clarifies its treatment of a number of issues, including the exclusion of active life reserves, reinsurance, coordination of benefits, follow-up studies, and "long-tail" products. The revised standard took effect May 1, 2000.

Life Committee

The committee completed work on a revision of ASOP No. 10, *Methods and Assumptions for Use in Life Insurance Company Financial Statements Prepared in Accordance with GAAP*. The revised standard took effect October 15, 2000. The committee also completed a new standard titled, *Allocation of Policyholder Consideration in Mutual Life Insurance Company Demutualizations*. The new standard provides specific guidance to actuaries on factors to consider when determining the allocation of consideration to policyholders when a mutual life insurance or holding company demutualizes. The new standard was adopted effective December 15, 2000.

The committee also released a second exposure draft of a proposed new standard titled, *Compliance with the NAIC Valuation of Life Insurance Policies Model Regulation with Respect to Deficiency Reserve Mortality*. The proposed standard was designed to provide actuaries with guidance on how to comply with the National Association of Insurance Commissioners' Model Regulation XXX. The comment period on the exposure draft of the proposed standard was October 15, 2000. In December, the ASB adopted the new standard with an effective date of May 1, 2001.

The committee also produced two additional exposure drafts. The first was a proposed revision of ASOP No. 7 titled, *Analysis of Life, Health, or Property/Casualty Insurer Cash Flows*. The proposed revision was exposed to the membership with a comment deadline of March 31, 2001. The second was a proposed revision of ASOP No. 22 titled, *Statements of Opinion Based on Asset Adequacy Analysis by Actuaries for Life or Health Insurers*. The proposed standard was also exposed to the membership with a comment deadline of March 31, 2001.



ASB Member
Heidi Rackley



ASB member
Robert E. Wilcox

Pension Committee

The committee issued an important proposed new standard titled, Projected Benefit Illustrations in Connection with Retirement Plan Amendments. The exposure draft of the proposed standard was unusual in two respects.

First, the exposure draft introduces the concept of an “actuarial opinion of compliance” that is, an opinion issued by an actuary that a benefit illustration meets the requirements of the standard. Although sponsors are not required to get an actuarial opinion of compliance, actuaries issuing such opinions would be required to satisfy the standard, thereby providing participants with a greater assurance that the benefit statement provides “comprehensive” and “fair” disclosure as those terms are defined in the proposed standard.

Second, the exposure draft contains two different versions of one section, inviting comment on which versions approach was preferable. The proposed standard was exposed for comment with a comment deadline of November 30, 2000, and generated considerable interest.

Retiree Group Benefits Task Force

The task force developed a proposed revision of ASOP No. 6 with a new title, *Measuring Retiree Group Benefit Obligations*. The proposed revision was released for comment with a comment deadline of March 31, 2001.

Actuarial Standards Board Members

The nine-person Actuarial Standards Board broadly represents the various practice areas within the actuarial profession. ASB members are appointed to three-year terms, subject to one renewal, by a Selection Committee made of the Presidents and Presidents-Elect of the American Academy of Actuaries, the American Society of Pension Actuaries, the Casualty Actuarial Society, the Conference of Consulting Actuaries, and the Society of Actuaries.

The Selection Committee, which annually appoints the ASB chairperson, named Alan J. Stonewall as chairperson for a second year in 2001. William C. Koenig and Heidi Rackley are starting their second terms on the ASB this year. Phillip N. Ben-Zvi's second term ended in 2000. He was succeeded by Michael LaMonica.

David G. Hartman	2001*
Ken W. Hartwell	2001
Roland E. (Guy) King (<i>Vice Chairperson</i>)	2002*
William C. Koenig (<i>Vice Chairperson</i>)	2003*
Michael LaMonica	2003
Heidi Rackley	2003*
Alan J. Stonewall (<i>Chairperson</i>)	2002*
James R. Swenson	2001*
Robert E. Wilcox	2002

Terms expire on December 31 of the year indicated. An asterisk indicates a member who is serving a second term.

Financial Summary

Financial activities pertaining to the Actuarial Standards Board are accounted for separately within the American Academy of Actuaries system of accounts. The ASB submits a budget request to the Academy Secretary-Treasurer, listing all planned income sources and potential expenses. The Academy Board of Directors considers this request when adopting the Academy's annual budget and makes provision within the budget for ASB operating expenses.

The ASB has discretion with regard to the expenditure of all funds allocated to it, subject only to accounting and audit requirements mutually determined by the Secretary-Treasurer and the ASB.

Actuarial Standards Board Statement of Revenue and Expenses Year Ended December 31, 2000¹

Revenue	
Standards Handbooks and Binders	\$ 11,560
Service Fees ²	94,164
Total Revenue	\$105,724
Expenses	
Staff Salaries ³	\$147,572
Staff Benefits	33,941
Office Operating Costs	57,553
Printing	172,877
Postage and Delivery Services	64,849
Staff Travel	4,941
Committee Meetings	34,739
ASB Travel Reimbursement	47,861
Other	16,929
Total Expenses	\$581,262

¹ The above figures represent unaudited financial results associated with the ASB. Copies of the audited financial statements of the American Academy of Actuaries are available upon request from the Academy's office in Washington, D.C. Many members of the actuarial profession have contributed significant amounts of time to the activities of the ASB without compensation. This financial summary does not reflect the value of those contributed services.

² In addition to funding from the Academy, operating costs for the ASB are supported in part by payments from the American Society of Pension Actuaries, Casualty Actuarial Society, Conference of Consulting Actuaries and Society of Actuaries

³ Includes salaries of full-time staff members and charges for actual time spent on the ASB program by other Academy employees.

Members of the Actuarial Standards Board



Standing left to right back: William Koenig, Heidi Rackley, Ken W. Hartwell, Robert E. Wilcox

*Standing left to right front: Guy King, David G. Hartman, Phillip N. Ben-Zvi, Alan J. Stonewall,
James R. Swenson*

Actuarial Board for Counseling and Discipline Mission

The Actuarial Board for Counseling and Discipline was established in 1992 by the organizations representing actuaries in the United States. Its threefold mission is to: provide counsel and respond to requests for guidance from actuaries about issues they encounter in day-to-day practice; consider alleged violations of the actuarial profession's Code of Professional Conduct, offer remedial counseling, and, when necessary, recommend disciplinary measures to the member organizations; serve as mediator in the resolution of disputes involving actuaries.

Actuarial Board for Counseling and Discipline

*Letter from the
Chairperson*



Kenneth W. Porter

2000 ABCD Members

John M. Bertko,
Vice Chairperson
Robert W. Sturgis,
Vice Chairperson
William J. Bugg, Jr.
Sue Ann Collins
David P. Flynn
Ruth F. Frew
Frank S. Irish
Howard M. Phillips

The Actuarial Board for Counseling and Discipline (ABCD) operates pursuant to authority delegated by the American Academy of Actuaries, the American Society of Pension Actuaries, the Casualty Actuarial Society, the Conference of Consulting Actuaries, the Society of Actuaries, and the Canadian Institute of Actuaries (with respect to work by the latter's members in the United States). The ABCD is composed of practitioners representing the five U.S.-based organizations, and represents a cross section of practice areas.

The ABCD serves both the profession and public first and foremost by promoting professionalism in a way that assists actuaries in their efforts to provide actuarial services in a highly professional and ethical manner. The ABCD provides guidance to members who request it. When this guidance is provided in advance of an event, it can frequently help the actuary appropriately handle situations and thereby reduce the likelihood of violating the Codes of Professional Conduct. The ABCD also actively participates in professional meetings to help the profession better understand the ABCD's processes.

The ABCD reviews complaints against individual actuaries, and conducts factual reviews as appropriate to the situation. In many situations, the ABCD is able to resolve the issues in a way that is designed to improve the actuary's professionalism. In those less frequent situations that appear to rise to the level of a significant violation of the Code of Professional Conduct, the ABCD will make recommendations to the appropriate membership organizations for their review and possible disciplinary action. In no event does the ABCD directly impose professional discipline.

It has been my distinct pleasure to work with incredibly dedicated actuaries during my six-year tenure on the ABCD. The selfless dedication of these individuals is a "hidden asset" of every member of the actuarial profession. I particularly thank

those who served on the ABCD during 2000 for their significant contributions, and their willingness to attend a large number of meetings. Vice Chairpersons John Bertko and Bob Sturgis were exceptionally helpful in lightening my load.

Finally, the entire ABCD applauds the individual actuaries who voluntarily served as investigators, consultants, and advisors during 2000. Without their help, the ABCD would not be able to fulfill its mission.

A handwritten signature in black ink, appearing to read "Kenneth W. Porter".

Kenneth W. Porter

Chairperson, Actuarial Board for Counseling and Discipline

Actuarial Board for Counseling and Discipline

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he profession created the Actuarial Board for Counseling and Discipline (ABCD) to serve the profession and the public. The day-to-day work of the ABCD is composed of such service.

After nearly a decade of ABCD activities, the actuarial profession approved revisions to the Bylaws governing ABCD operations. These revised Bylaws and the conforming changes to the ABCD Rules of Procedure became effective on January 1, 1999. These changes are designed to facilitate the ABCD's mission of improving professionalism.

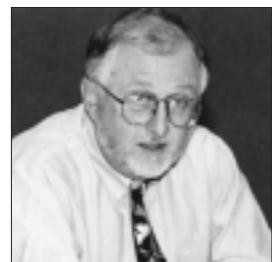
Without question, the single greatest challenge to the ABCD is the recruitment of investigators. The entire process depends on the willingness of individual actuaries to donate their time when called upon by the ABCD. The old rules imposed an unnecessary burden on investigators by requiring that, in addition to locating and reporting facts, they make a specific recommendation to the ABCD. This latter obligation proved to be very intimidating to certain investigators who had never been involved in similar professionalism matters. The new rules make it clear that the investigator is primarily responsible for locating and reporting facts.

During 2000, the ABCD continued its efforts to improve communications with the profession. The ABCD presented, and improved upon, "mock hearings" that have been well received by the profession. Mock hearings illustrate the ABCD hearing process in a nonthreatening way. Such mock hearings were held at the Enrolled Actuaries' Meeting, at the annual meeting of the Conference of Consulting Actuaries, and at other seminars and meetings of actuarial clubs in Nebraska, Philadelphia, Minneapolis, and Baltimore. A new mock hearing was developed in the process for presentation at the 2001 Enrolled Actuaries Meeting. In addition to these mock hearings, individual members of the ABCD participated in other professionalism sessions at several professional association meetings.

The ABCD expanded its reporting to the leadership of the sponsoring actuarial organizations by providing more meaningful practice-area information. It is particularly challenging for the ABCD to maintain a balance between (a) providing useful information to the profession's leadership for purposes of prudent oversight



*ABCD Vice Chairperson
John M. Bertko*



*ABCD Vice Chairperson
Robert Sturgis*

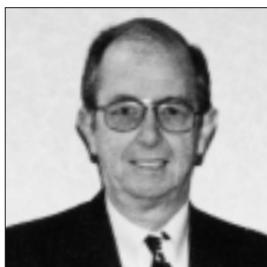


*Member of the ABCD
William J. Bugg Jr.*



*Member of the ABCD
Sue Ann Collins*

2000 Annual Report



Member of the ABCD
David P. Flynn



Member of the ABCD
Ruth Frew



Member of the ABCD
Frank S. Irish



Member of the ABCD
Howard Phillips

of the ABCD and its activities, and (b) complying with the requirement that the ABCD protect the confidentiality of individuals who seek its guidance or whose work or actions the ABCD investigates. The Bylaws mandate careful observance of confidentiality requirements, even as they require the ABCD to provide case-specific information to the disciplinary committees of sponsoring membership organizations when action against a member is recommended.

The ABCD was thrust onto the national stage during 1999 and 2000, as members of the U.S. Congress, the U.S. Department of Labor, and others pressed publicly for exposure of pension actuaries involved in cash balance plan conversions. The ABCD is working to fulfill its obligation to the public and its membership by taking appropriate action in accordance with its Bylaws and Rules of Procedure. The Bylaws permit the ABCD to resolve cases by dismissal, counseling, or a recommendation of discipline to a sponsoring professional organization. While specific ABCD investigations and determinations must be kept confidential, the ABCD is committed to thorough and fair handling of all cases.

Statistics appended to this report provide a partial picture of the ABCD's work in 2000.

Cases Considered During 2000

Type of Case	Pending from 1999 and Earlier	Received in 2000	Total
Conduct	15	18	33
Practice	3	3	6
Conduct and Practice	5	1	6
Requests for Guidance	1	36	37
Total	24	58	82
Cases by Practice Area	Pending from 1999 and Earlier	Received in 2000	Total
Casualty	4	9	13
Health	3	13	16
Life	6	8	14
Pension	10	28	38
Non-traditional	1	0	1
Total	24	58	82

Action by Individual ABCD members

Replied to requests for guidance (of 37 total)	36
Mediated	0

Disposition by Chairperson and Vice Chairpersons

Dismissed	4
Dismissed with guidance	8
Referred to Investigators in 2000 (6)	

Disposition by Whole ABCD

Dismissed	1
Counseled after Hearing	2
Recommended Private Reprimand	1
Recommended Public Reprimand	2
Recommended Suspension	1

Cases in Progress

Pending investigation (including cases initially referred to investigation in 2000)	11
Pending receipt of more information (from complainant, subject, other)	12
Referred to 2001 hearings	3
Request for Guidance pending	1
Total cases in progress as of 12/31/00	27

Since its inception in 1992, the ABCD has completed its cases as follows:

Dispositions	1992	1993	1994	1995	1996	1997	1998	1999	2000	Total
Dismissed	12	24	9	11	8	11	13	10	5	103
Dismissed with guidance	6	10	3	—	5	1	5	2	8	40
Counseled	—	2	8	1	6	2	5	—	2	26
Mediated	3	1	1	—	—	—	—	1	—	6
Recommended private reprimand	—	—	—	—	—	—	—	—	1	1
Recommended public discipline	—	1	2	—	3	—	1	—	3	10
Replied to requests for guidance	8	8	8	10	28	31	22	31	36	182
Total	29	46	31	22	50	45	46	44	55	368

Financial Summary

Year Ended December 31, 2000¹

Revenue	
Interest	\$8,575
Service Fees ²	41,786
Total Revenue	\$50,361
Expenses	
Staff Salaries ³	\$97,345
Staff Benefits	22,389
Office Operating Costs	37,965
Printing	11,700
Postage and Delivery Services	13,167
Staff Travel	9,030
Committee Meetings	16,109
ABCD Travel Reimbursement	38,213
Other	2,043
Total	\$247,961

¹The above figures are unaudited costs associated with the ABCD. Copies of the audited financial statements of the American Academy of Actuaries are available upon request from the Academy's office in Washington, D.C. Many members of the actuarial profession have contributed significant amounts of volunteer time to the activities of the ABCD. This financial summary does not reflect the value of those contributed services.

²In addition to funding from the Academy, operating costs for the ABCD are supported in part by payments from the American Society of Pension Actuaries, Casualty Actuarial Society, Conference of Consulting Actuaries and Society of Actuaries.

³ Includes salaries of full-time staff members and charges for actual time spent on the ABCD program by other Academy employees.

Members of the Actuarial Board for Counseling and Discipline



*Standing left to right: David P. Flynn, William J. Bugg, Jr., Frank S. Irish,
Sue Ann Collins, Howard M. Phillips*

Seated left to right: John M. Bertko, Kenneth W. Porter, Robert W. Sturgis

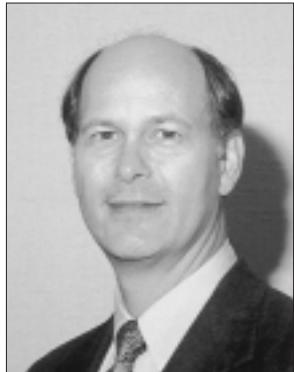
Member missing in photo: Ruth F. Frew

Joint Committee on the Code of Professional Conduct Preamble

This committee monitors the Code of Professional Conduct of the U.S.-based organizations representing actuaries and recommends necessary amendments to the Code to all of the U.S.-based organizations.

Joint Committee on the

*Letter from the
2001 Chairperson*



William J. Falk

**2000
Joint Committee
Members**

Jack M. Turnquist,
Chairperson
Morris W. Chambers
William J. Falk
Michael Fusco
Sam Guterman
Luis Huerta
Kenneth A. Kent
Howard M. Phillips

T

he Joint Committee on the Code of Professional Conduct had a particularly busy and productive year in 2000. The Committee has been working since its re-establishment in 1997 to develop a revised Code of Professional Conduct for adoption by all five of the U.S.-based organizations representing actuaries. In 1999, the Committee released a first exposure draft of proposed revisions to the Code that generated significant commentary from members of the profession.

After reviewing and considering all of the comments received on the first exposure draft, the Committee released a second exposure draft in March of 2000. Comments were accepted through mid-July. The Committee carefully considered them as it worked to develop a proposed final revised Code. The Committee submitted its proposal to the boards of the five U.S.-based organizations, and the revised Code was adopted by all five organizations effective January 1, 2001.

The new Code, although substantially similar in many respects to the prior Codes of Conduct of the U.S.-based organizations, clarifies actuaries' ethical responsibilities in several respects. A new precept on actuarial communications has been added. Various aspects of international practice are addressed in greater detail. An actuary's obligations when faced with an apparent material breach of the Code have been clarified. Every actuary's responsibility to cooperate with an inquiry from the Actuarial Board for Counseling and Discipline has been more clearly stated. Perhaps most important, Precepts 1 and 2 of the old Codes have been combined into a single first Precept in the new Code, emphasizing that professional competence and integrity are the most fundamental professional requirements.

In the year ahead, the Committee does not anticipate proposing any further changes to the Code. However, we do intend to monitor members' responses to the Code and to

Code of Professional Conduct

work with other groups within the Council on Professionalism to publicize the Code's requirements.

Finally, I would like to express the Committee's deep gratitude to our former Chairperson, Jack M. Turnquist, whose talents and dedication were essential to the development and adoption of the revised Code. His contributions were very much appreciated.

Sincerely,

A handwritten signature in black ink, appearing to read "William J. Falk".

William J. Falk

Chairperson

Joint Committee on the Code of Professional Conduct

2001 Joint Committee on the Code of Professional Conduct

Code of Professional Conduct

T

he purpose of this Code of Professional Conduct (“Code”) is to require Actuaries to adhere to the high standards of conduct, practice, and qualifications of the actuarial profession, thereby supporting the actuarial profession in fulfilling its responsibility to the public. An Actuary shall comply with the Code. An Actuary who commits a material violation of the provisions of the Code shall be subject to the profession’s counseling and discipline procedures.

The Precepts of the Code identify the professional and ethical standards with which an Actuary must comply in order to fulfill the Actuary’s responsibility to the public and to the actuarial profession. The Annotations provide additional explanatory, educational, and advisory material on how the Precepts are to be interpreted and applied.

In addition to this Code, an Actuary is subject to applicable rules of professional conduct or ethical standards that have been promulgated by a Recognized Actuarial Organization for the jurisdictions in which the Actuary renders Actuarial Services. Actuarial Services are considered to be rendered in the jurisdictions in which the Actuary intends them to be used unless specified otherwise by an agreement between a Recognized Actuarial Organization for any such jurisdiction and the organizations that have adopted the Code.

Laws may also impose obligations upon an Actuary. Where requirements of Law conflict with the Code, the requirements of Law shall take precedence.

An Actuary must be familiar with, and keep current with, not only the Code, but also applicable Law and rules of professional conduct for the jurisdictions in which the Actuary renders Actuarial Services. An Actuary is responsible for securing translations of such Laws or rules of conduct as may be necessary.

Definitions:

As used throughout the Code, the following terms are capitalized and have the meanings indicated:

Actuarial Communication: A written, electronic, or oral communication issued by an Actuary with respect to Actuarial Services.

Actuarial Services: Professional Services provided to a Principal by an individual acting in the capacity of an actuary. Such services include the rendering of advice, recommendations, findings, or opinions based upon actuarial considerations.

Actuary: An individual who has been admitted to a class of membership to which the Code

Effective January 1, 2001

applies by action of any organization having adopted the Code. When the term "actuary" is used without being capitalized, it refers to any individual practicing as an actuary, regardless of organizational membership or classification.

Confidential Information: Information not in the public domain of which an Actuary becomes aware as a result of providing Actuarial Services to a Principal. It includes information of a proprietary nature and information that is legally restricted from circulation.

Law: Statutes, regulations, judicial decisions, and other statements having legally binding authority.

Principal: A client or employer of the Actuary.

Recognized Actuarial Organization: An organization that has been accepted for full membership in the International Actuarial Association or a standards setting, counseling, or discipline body to which authority has been delegated by such an organization.

Professional Integrity

Precept 1. An Actuary shall act honestly, with integrity and competence, and in a manner to fulfill the profession's responsibility to the public and to uphold the reputation of the actuarial profession.

Annotation 1-1. An Actuary shall perform Actuarial Services with skill and care.

Annotation 1-2. An Actuary shall not provide Actuarial Services for any Principal if the Actuary has reason to believe that such services may be used to violate or evade the Law or in a manner that would be detrimental to the reputation of the actuarial profession.

Annotation 1-3. An Actuary shall not use a relationship with a third party or with a present or prospective Principal to attempt to obtain illegal or materially improper treatment from one such party on behalf of the other party.

Annotation 1-4. An Actuary shall not engage in any professional conduct involving dishonesty, fraud, deceit, or misrepresentation or commit any act that reflects adversely on the actuarial profession.

Qualification Standards

Precept 2. An Actuary shall perform Actuarial Services only when the Actuary is qualified to do so on the basis of basic and continuing education and experience and only when the Actuary satisfies applicable qualification standards.

Annotation 2-1. It is the professional responsibility of an Actuary to observe applicable qualification standards that have been promulgated by a Recognized Actuarial Organization for the jurisdictions in which the Actuary renders Actuarial Services and to keep current regarding changes in these standards.

Annotation 2-2. The absence of applicable qualification standards for a particular type of assignment or for the jurisdictions in which an Actuary renders Actuarial Services does not relieve the Actuary of the responsibility to perform such Actuarial Services only when qualified to do so in accordance with this Precept.

Standards of Practice

Precept 3. An Actuary shall ensure that Actuarial Services performed by or under the direction of the Actuary satisfy applicable standards of practice.

Annotation 3-1. It is the professional responsibility of an Actuary to observe applicable standards of practice that have been promulgated by a Recognized Actuarial Organization for the jurisdictions in which the Actuary renders Actuarial Services, and to keep current regarding changes in these standards.

Annotation 3-2. Where a question arises with regard to the applicability of a standard of practice, or where no applicable standard exists, an Actuary shall utilize professional judgment, taking into account generally accepted actuarial principles and practices.

Annotation 3-3. When an Actuary uses procedures that depart materially from those set forth in an applicable standard of practice, the Actuary must be prepared to justify the use of such procedures.

Communications and Disclosure

Precept 4. An Actuary who issues an Actuarial Communication shall take appropriate steps to ensure that the Actuarial Communication is clear and appropriate to the circumstances and its intended audience and satisfies applicable standards of practice.

Annotation 4-1. An Actuary who issues an Actuarial Communication shall ensure that the Actuarial Communication clearly identifies the Actuary as being responsible for it.

Annotation 4-2. An Actuary who issues an Actuarial Communication should indicate the extent to which the Actuary or other sources are available to provide supplementary information and explanation.

Precept 5. An Actuary who issues an Actuarial Communication shall, as appropriate, identify the Principal(s) for whom the Actuarial Communication is issued and describe the capacity in which the Actuary serves.

Precept 6. An Actuary shall make appropriate and timely disclosure to a present or prospective Principal of the sources of all direct and indirect material compensation that the Actuary or the Actuary's firm has received, or may receive, from another party in relation to an assignment for which the Actuary has provided, or will provide, Actuarial Services for that Principal. The disclosure of sources of material compensation that the Actuary's firm has received, or may receive, is limited to those sources known to, or reasonably ascertainable by, the Actuary.

Annotation 6-1. An Actuary who is not financially and organizationally independent concerning any matter related to the performance of Actuarial Services should disclose to the Principal any pertinent relationship that is not apparent.

Annotation 6-2. An Actuary employed by a firm that operates in multiple locations is subject to the requirement of disclosure of sources of compensation that the Actuary's firm may receive in relation to Actuarial Services with respect to a specific assignment for that Principal, regardless of the location in which such compensation is received.

Conflict of Interest

Precept 7. An Actuary shall not knowingly perform Actuarial Services involving an actual or potential conflict of interest unless:

- (a) the Actuary's ability to act fairly is unimpaired;
- (b) there has been disclosure of the conflict to all present and known prospective Principals whose interests would be affected by the conflict; and
- (c) all such Principals have expressly agreed to the performance of the Actuarial Services by the Actuary.

Control of Work Product

Precept 8. An Actuary who performs Actuarial Services shall take reasonable steps to ensure that such services are not used to mislead other parties.

Annotation 8-1. An Actuarial Communication prepared by an Actuary may be used by another party in a way that may influence the actions of a third party. The Actuary should recognize the risks of misquotation, misinterpretation, or other misuse of the Actuarial Communication and should therefore take reasonable steps to present the Actuarial Communication clearly and fairly and to include, as appropriate, limitations on the distribution and utilization of the Actuarial Communication.

Confidentiality

Precept 9. An Actuary shall not disclose to another party any Confidential Information unless authorized to do so by the Principal or required to do so by Law.

Courtesy and Cooperation

Precept 10. An Actuary shall perform Actuarial Services with courtesy and professional respect and shall cooperate with others in the Principal's interest.

Annotation 10-1. Differences of opinion among actuaries may arise, particularly in choices of assumptions and methods. Discussions of such differences between an Actuary and another actuary, or in observations made by an Actuary to a Principal on the work of another actuary, should be conducted objectively and with courtesy and respect.

Annotation 10-2. A Principal has an indisputable right to choose a professional advisor. An Actuary may provide service to any Principal who requests it, even though such Principal is being or has been served by another actuary in the same matter.

Annotation 10-3. An Actuary in the course of an engagement or employment may encounter a situation such that the best interest of the Principal would be served by the Actuary's setting out an alternative opinion to one expressed by another actuary, together with an explanation of the factors that lend support to the alternative opinion. Nothing in the Code should be construed as preventing the Actuary from expressing such an alternative opinion to the Principal.

Annotation 10-4. An Actuary may be requested to advise a Principal for whom the Actuary knows or has reasonable grounds to believe that another actuary has provided, or is providing, Actuarial Services with respect to the same matter. In such event, the Actuary may choose to consult with such other actuary both to prepare adequately for the assignment and to make an informed judgment as to whether there are circumstances involving a potential violation of the

Code that might affect acceptance of the assignment. The Actuary should request the Principal's consent prior to such consultation.

Annotation 10-5. When a Principal has given consent for a new or additional actuary to consult with an Actuary with respect to a matter for which the Actuary is providing or has provided Actuarial Services, the Actuary shall cooperate in furnishing relevant information, subject to receiving reasonable compensation for the work required to assemble and transmit pertinent data and documents. The Actuary shall not refuse to consult or cooperate with the prospective new or additional actuary based upon unresolved compensation issues with the Principal unless such refusal is in accordance with a pre-existing agreement with the Principal. The Actuary need not provide any items of a proprietary nature, such as internal communications or computer programs.

Advertising

Precept 11. An Actuary shall not engage in any advertising or business solicitation activities with respect to Actuarial Services that the Actuary knows or should know are false or misleading.

Annotation 11-1. Advertising and business solicitation activities encompass all communications by whatever medium, including oral communications, that may directly or indirectly influence any person or organization in deciding whether there is a need for Actuarial Services or in selecting a specific Actuary or firm to perform Actuarial Services.

Titles and Designations

Precept 12. An Actuary shall make use of membership titles and designations of a Recognized Actuarial Organization only in a manner that conforms to the practices authorized by that organization.

Annotation 12-1. "Title" refers to any title conferred by a Recognized Actuarial Organization related to a specific position within that organization. "Designation" refers to a specific reference to membership status within such organization.

Violations of the Code of Professional Conduct

Precept 13. An Actuary with knowledge of an apparent, unresolved, material violation of the Code by another Actuary should consider discussing the situation with the other Actuary and attempt to resolve the apparent violation. If such discussion is not attempted or is not successful, the Actuary shall disclose such violation to the appropriate counseling and discipline body of the profession, except where the disclosure would be contrary to Law or would divulge Confidential Information.

Annotation 13-1. A violation of the Code is deemed to be material if it is important or affects the outcome of a situation, as opposed to a violation that is trivial, does not affect an outcome, or is one merely of form.

Annotation 13-2. An Actuary is not expected to discuss an apparent, unresolved material violation of the Code with the other Actuary if either Actuary is prohibited by Law from doing so or is acting in an adversarial environment involving the other Actuary.

Precept 14. An Actuary shall respond promptly, truthfully, and fully to any request for information by, and cooperate fully with, an appropriate counseling and disciplinary body of the profession in connection with any disciplinary, counseling or other proceeding of such body relating to the Code. The Actuary's responsibility to respond shall be subject to applicable restrictions on Confidential Information and those imposed by Law.



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