

AMERICAN ACADEMY OF ACTUARIES

2006 RECORD

*Academy
Year in
Review*

Bringing Clarity
to the Debate

Bringing Clarity to the Debate

All things being equal, Academy volunteers prefer to assist in the formulation of public policy by providing independent and objective analysis rather than by taking a position. But sometimes all things aren't equal. In those situations, Academy volunteers weigh in with reasoned arguments in support of specific action that needs to be taken.



Academy leaders, including, from left, Tom Campbell, Patricia Teufel, Robert Miccolis, Stephen Goss, and Dan McCarthy, brainstorm the Academy's new strategic plan.



From right, Cori Uccello and Ron Gebhardtshauer field questions from congressional staffers and journalists after a Capitol Hill briefing on trustees reports for Medicare and Social Security.

DURING THE PAST 12 MONTHS, the Academy (through the work of its volunteers) has taken a more active stance in a number of key areas. Whether in public statements and testimony or informal advice to policy-makers, the Academy has made its position clear on a number of issues:

- Without some sort of federal backstop such as the Terrorism Risk Insurance Act (TRIA), much of the property and casualty insurance market could be financially incapacitated after a large-scale chemical, nuclear, biological, or radiological attack.

- Any national retirement policy framework must embrace and promote defined benefit pension plans. The passage of pension funding reform was an important first step in that direction, but more needs to be done.

- Medicare faces urgent solvency problems that need to be addressed sooner rather than later.

- Constant evolution in the insurance marketplace requires a more principles-based model for insurance regulation instead of the old reliance on formulas.

Through their activity on these and other issues, Academy volunteers successfully advanced the ongoing development of well-reasoned, intelligent solutions on issues of importance to the profession. Not coincidentally, the Academy's profile continued to rise in legislative, public policy, academic, and media circles.

POLICY OUTREACH

THE ACADEMY USES A NUMBER of methods to accomplish its goals. In the past 12 months, the Academy published 10 issue briefs in the casualty, health, and pension areas and three professionalism discussion papers. Academy committees and work groups made more than 55 reports and presentations to the National Association of Insurance Commissioners (NAIC) and participated in countless hours of conference calls. Similarly, the Academy posted 44 letters commenting on legislative and regulatory matters.

The Academy used a more informal setting to bring its message to Capitol

Hill staffers by sponsoring four luncheon briefings: one on funding issues facing Medicare and Social Security, one on Social Security reform, one on rising health care costs, and one in conjunction with the Society of Actuaries (SOA) on retirement risk.

The annual Capitol Hill visits conducted by Academy Health and Pension practice council volunteers expanded this year to include meetings with policy-makers at the White House, Treasury Department, Labor Department, Internal Revenue Service, Government Accountability Office, Congressional Research Service, Congressional Budget Office, Pension Benefit Guaranty Corp., and National Academy of Social Insurance as well as various congressional offices. Separately, members of the Academy's Risk Management and Financial Reporting Council met with the American Institute of Certified Public Accountants and the Financial Accounting Standards Board, and members of the Council on Professionalism met with the Joint Board for the Enrollment of Actuaries.



Ron Gebhardtshauer discusses pension reform on the "Nightly Business Report."



John Kollar practices a satellite connection interview as part of his media training.



Academy President Peter Perkins, center, and Stephen Goss, right, enjoy a moment with U.S. Comptroller General David Walker at the 2006 Spring Meeting.

PUBLIC INTERFACE

AS DEBATE ON PENSION REFORM intensified over the course of the year, Academy Senior Pension Fellow Ron Gebhardtshauer was the go-to resource on pension issues, appearing several times on PBS' "Nightly Business Report," on National Public Radio's "Morning Edition" and "All Things Considered," and on BBC's World Service radio program "World Business Review." In the past 12 months, Gebhardtshauer was quoted in a number of

outlets, including *The Wall Street Journal*, *USA Today*, *The Washington Post*, and *The Los Angeles Times*.

Other Academy spokespersons also were active. Academy Pension Vice President Donald Segal was interviewed on CNBC's "Closing Bell" and was quoted in *The Washington Post*. The comments of Michael McCarter, chairperson of the Academy's Terrorism Risk Insurance Subgroup, were carried on the Reuters wire and reported in an article in *BestWeek*. And Academy Mass Torts Subcommittee Chairperson Jennifer Biggs was quoted in a July *Financial Times* article on federal solutions to the asbestos crisis. On the life side, the Academy's principles-based project garnered continuing coverage in trade publications such as *National Under-*



U.S. Comptroller General David Walker addresses spring meeting participants.

writer and on *BestWire* and was the subject of an article in *The Wall Street Journal* in May. To help with the growing number of media inquiries, the Academy offered three media training sessions in 2006. The Academy's official spokesperson program now has trained 42 volunteers, including representatives from the Casualty Actuarial Society and the SOA.

SERVICE TO THE PROFESSION

BRANCHING OUT INTO NEW MEDIA, the Academy offered 15 webcasts on life, pension, and professionalism issues for actuaries, regulators, and other policymakers in the past 12 months.

The Academy's 2006 Spring Meeting in May offered sessions on issues ranging from health savings accounts, insuring against terrorism risk, and the changing professionalism landscape for pension actuaries to developments in the principles-based project. The meeting also featured an open hearing on the Actuarial Standards Board's standards-setting process and a keynote address by David Walker, comptroller general of the United States and head of the Government Accountability Office. At the same meeting, the Academy honored Richard Foster, chief actuary for the Centers for Medicare and Medicaid Services (CMS), with the 2006 Robert J. Myers Public Service Award.

The Academy's April C-3 Phase 2 Seminar and September Valuation Actuary Symposium, its Loss Reserve Opinion

Academy President Peter Perkins, right, congratulates Richard Foster on his Myers Award.





Incoming Academy President Steven Lehmann, left, presents Frank Irish with the Jarvis Farley Service Award.



Steven Lehmann, left, succeeds Peter Perkins as Academy president at the annual meeting.

Seminar in October, and the popular Life and Health Qualifications Seminar in November provided focused educational opportunities in different practice areas, as did seminars the Academy co-sponsored with sister organizations, such as the Enrolled Actuaries Meeting and the Defined Benefit Symposium in March, and the Casualty Loss Reserve Seminar in September.

Also in September, the Academy held a leadership meeting to brainstorm on the Academy's next strategic plan. To help frame deliberations, the Academy released preliminary results of an August membership survey. Attendees also heard Fred Kilbourne, chairperson of the Critical Review of the U.S. Actuarial Profession (CRUSAP) task force, present findings from CRUSAP's yearlong analysis of the

American actuarial profession. CRUSAP, an independent task force funded by the Academy, was established in May 2005 to identify risks and opportunities facing the American actuarial profession and make recommendations for addressing them. A final version of its report and recommendations to the profession will be completed by the end of 2006.

The leadership meeting was wrapped around the Academy's annual meeting luncheon, which featured the presentation of the 2006 Jarvis Farley Service Award to Frank Irish and marked the transition of Academy leadership with Steven Lehmann succeeding Peter Perkins as Academy president. The keynote speaker was Linda Springer, an actuary who is director of the U.S. Office of Personnel Management.

**2005-2006
ACADEMY OFFICERS**

PRESIDENT

Peter Perkins

PRESIDENT-ELECT

Steven Lehmann

SECRETARY-TREASURER

John Parks

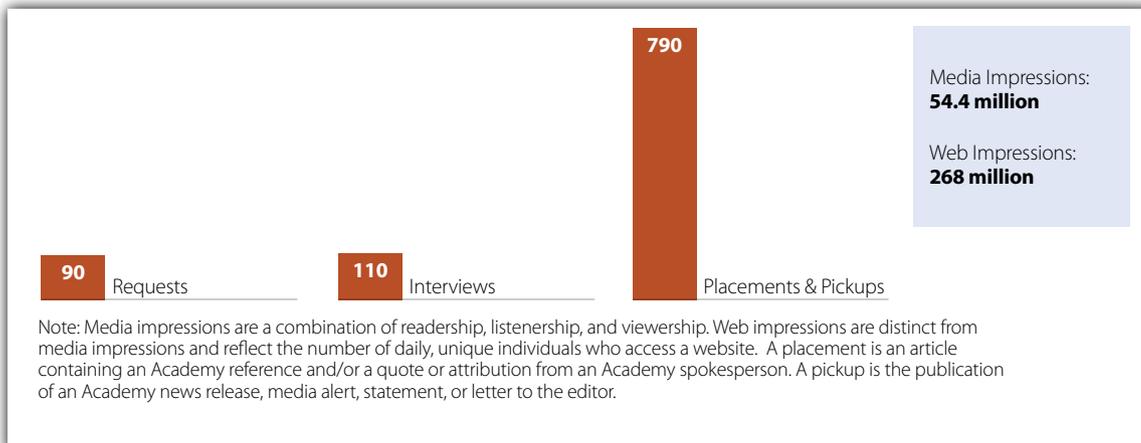
VICE PRESIDENTS

- Michael Abroe**
- Mary D. Miller**
- David Sandberg**
- Geoffrey Sandler**
- Donald Segal**
- Timothy Tongson**



Linda Springer speaks at the Academy annual meeting.

MEDIA RELATIONS ACTIVITY REPORT-OCT. 1, 2005, TO SEPT. 30, 2006



Casualty Practice Council

WHEN CONGRESS VOTED in December 2005 to extend the Terrorism Risk Insurance Act (TRIA) by two years, it was a significant moment in the Academy's effort to find a long-term solution for terrorism insurance. But it was by no means an endpoint.

Over the course of several months last fall, the Academy's Terrorism Risk Insurance Subgroup provided congressional staff with comprehensive analysis of draft versions of TRIA extension proposals. Concerned that differences in separate House and Senate bills couldn't be reconciled in the rush of business before TRIA expired on Dec. 31, 2005, the Academy issued a statement calling for permanent federal legislation in order to make terrorism coverage widely and readily available. The Academy's statement came just in time for a significant flurry of congressional maneuvering around TRIA's future.

After passage of the TRIA extension, the Academy followed up with testimony at a March 29 hearing on terrorism sponsored by the National Association of Insurance Commissioners (NAIC). In April, the subgroup commented at length to the President's Working Group on Financial Markets for a study of terrorism risk insurance. Those comments were repeatedly referred to in the study, which was released in October 2006. And in June, subgroup members met with the Government Accountability Office (GAO) to discuss terrorism risk insurance in advance of a GAO report that was issued in October. The GAO report also referenced Academy work extensively.

While TRIA was a high-profile issue, the Academy also kept pace on numerous other projects of importance to casualty actuaries:

- In October 2005, the Academy issued a statement critical of a report on medical malpractice insurance emanating from the Center for Justice and Democracy, which had been sent to many state attorneys general. In May, the Academy sent a letter to Congress on the actuarial consequences of two medical malpractice liability reform bills;
- Shortly before the Senate took up asbestos litigation as the first major item on its 2006 agenda, the Academy released a timely new issue brief on the topic;

- Academy representatives met in August with the GAO to discuss various types of weather-related risk and insuring against the risk of a mega-catastrophe.

Finally, for two years in a row, the

Academy's seminar on P/C loss reserve opinions generated such interest that it was expanded to two days. Better yet, the seminar consistently received top reviews from attendees who applauded its value for working appointed actuaries.



Michael McCarter testifies at NAIC hearing on terrorism.

PUBLIC STATEMENTS

10/05 [comments](#) to state and federal policymakers on the Center for Justice and Democracy's report on medical malpractice

11/05 [practice note](#) on P/C risk transfer analysis for reinsurance

12/05 [practice note](#) on P/C loss reserve opinions

12/05 [analysis](#) of proposals to extend TRIA

12/05 comments to the Bermuda Monetary Authority about draft guidance on the role of the loss reserve specialist

2/06 [issue brief](#), *Current Issues in Asbestos Litigation*

3/06 [statement](#) to NAIC on terrorism risk insurance

4/06 [comments](#) to President's Working Group on Financial Markets on terrorism risk insurance

5/06 [letter](#) to Congress on the actuarial consequences of two medical malpractice liability reform bills

6/06 [letter](#) to NAIC on proposed risk-focused regulatory framework for casualty insurers

7/06 [letter](#) to NAIC on proposed workers' compensation large-deductible recommendations

7/06 [letter](#) to NAIC and NCOIL responding to a joint paper on the NAIC's proposal for national catastrophe insurance

8/06 [comments](#) to FASB on bifurcation of insurance and reinsurance contracts

9/06 [letter](#) to NAIC on prepaid extended reporting endorsements in medical malpractice insurance

EVENTS

3/06 Michael McCarter testimony at an NAIC hearing on terrorism

9/06 Casualty loss reserve seminar

10/06 Seminar on P/C loss reserve opinions

For more information, visit www.actuary.org/casual.asp. Underlined documents are on the Academy website.

Health Practice Council

ONE OF THE MAJOR ISSUES that resurfaced this year was expanding health coverage in the small-group market. Sen. Michael Enzi (R-Wyo.) introduced a bill to establish small-business health plans, and the Academy jumped in to help congressional aides better understand the nuances of the small-group health insurance market. While the bill wasn't perfect and it ultimately failed, the Academy gained media attention by saying that the legislation was an improvement on previous association health plan bills.

The Academy supplemented its efforts on the Enzi legislation with the release of new issue briefs on other emerging health policy topics, including an updated version of an earlier issue brief on characteristics of the uninsured and one on medical insurance pools. In November 2005, the Academy hosted an educational Capitol Hill briefing on rising health care costs that moved from the big picture—an overview of historical and current U.S. health care trends—to a closer look at the specific factors that are driving those costs.

Although there were no new major Medicare initiatives to sort through this year, implementation issues related to the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) and continuing questions about the program's solvency remained priorities.

To help congressional staff and other policymakers make sense of the solvency challenges facing both Medicare and Social Security, the Academy sponsored a Capitol Hill briefing on the 2005 trustees reports and updated an earlier issue brief, *Medicare's Financial Condition: Beyond Actuarial Balance*. In October 2005, the Academy made its first foray into quality-of-care issues with the publication of an issue brief on pay-for-performance programs, particularly within the Medicare program. The Academy also developed several practice notes for health actuaries working in the new landscape created by MMA, including one on the actuarial equivalence of prescription drug plans and another on Medicare supplement reserves and liabilities. In April, the Academy sent a letter to the Government Accounting Standards Board comment-



From left, Patrick Collins, Darrell Knapp, and David Shea meet with Treasury officials as part of Health Practice Council Capitol Hill visits.

ing on a proposed technical bulletin on the Medicare Part D drug program. And the Academy continued to work closely with the National Association of Insurance Commissioners as it develops proposed Medicare Part D risk factors, instructions, and formulas.

Despite all this activity, the Academy didn't neglect other aspects of health policy. In addition to producing the Medicare-related practice notes, the Academy continued its efforts to update all 1996 practice notes. Revised practice notes released in the past 12 months included ones on long-term disability income insurance, on small-group medi-

cal insurance reserves and liabilities, and on statutory reserves for individual disability income insurance.

Finally, in late September, the Academy released a fact sheet, written in language accessible to a broad audience, on the dangers of secondhand smoke. The fact sheet garnered considerable press interest, particularly in states where proposed smoking bans were on the November ballot, and it prompted an official at the Centers for Disease Control and Prevention to contact the author, Academy Senior Health Fellow Cori Uccello, to discuss the economic implications of chronic disease.

PUBLIC STATEMENTS

10/05 issue brief, *Pay-for-Performance: Rewarding Improvements in the Quality of Health Care*

10/05 practice note, *Small-Group Medical Insurance Reserves and Liabilities*

12/05 report to NAIC on proposed new RBC risk factors for Medicare Part D coverage

12/05 final draft to NAIC of LTC experience reporting forms, instructions, and examples

12/05 updated issue brief, *Health Coverage Issues: The Uninsured and the Insured*

3/06 practice note, *Statutory Reserves for Individual Disability Income Insurance*

3/06 practice note, *Medicare Supplement*

3/06 practice note, *Actuarial Equivalence for Plan Sponsors Accepting a Retiree Drug Subsidy Under the Medicare Drug Benefit*

4/06 letter to GASB on proposed technical bulletin on Medicare Part D retiree drug subsidy

5/06 letter to Senate leaders analyzing small-business health insurance legislation

5/06 updated issue brief, *Medicare's Financial Condition: Beyond Actuarial Balance*

5/06 letter to FASB on proposed changes in financial accounting standards for OPEBs

6/06 presentation to NAIC on principles-based long-term-care valuation

8/06 letter to Citizens' Health Care Working Group on its interim recommendations for improving health care

8/06 practice note, *Group Long-Term Disability Income Insurance*

8/06 letter to NAIC on Medicare supplement transition issues

8/06 letter to FASB on bifurcation

8/06 issue brief, *Wading Through Medical Insurance Pools: A Primer*

9/06 fact sheet on the consequences of second-hand smoke

EVENTS

11/05 Capitol Hill briefing on rising health care costs

3/06 Capitol Hill visits to congressional offices, the Treasury and Labor departments, the CRS, and the CBO

5/06 Capitol Hill briefing on Medicare and Social Security

6/06 participation in FASB roundtables on accounting for pension and other post-retirement benefits

For more information, visit www.actuary.org/health.asp. Underlined documents are on the Academy website.

Life Practice Council

THE ACADEMY'S WORK on risk-based capital (RBC) C-3 Phase 2 instructions achieved a significant milestone when its recommendations were adopted by the National Association of Insurance Commissioners (NAIC) in October 2005. But the Academy's work on encouraging a principles-based approach to regulation has just begun.

Throughout the course of the past 12 months, the Academy's principles-based initiative moved forward on a variety of fronts. Consider:

- Members of the Life Financial Soundness/Risk Management Committee are working on a new approach to the Standard Valuation Law with reserving and solvency methods that are principles based.

- The Variable Annuity Reserve Work Group has developed a reserve methodology for variable annuity products that uses the C-3 Phase 2 approach.

- The Life Reserves Work Group continues its work developing a principles-based approach to determining reserves for all life products, including a model regulation and two possible actuarial guidelines for the valuation of reserves.

- The Annuity Reserves Work Group is developing principles-based reserve requirements for all nonvariable annuity products.

- The Experience Subcommittee is working with the Joint SOA/Academy Preferred Mortality Project Oversight Group on the development of a new valuation table process to support a principles-based framework.

- The Governance Group has completed a recommended actuarial guideline for the independent review requirements of principles-based reserves.

- The Valuation Law and Manual Team is developing content and structure for an NAIC Valuation Manual to facilitate the uniform application and updating of reserve standards.

And that's just in the area of reserves.

In January, the Academy unveiled enhanced pre-packaged scenarios and an updated interest-rate generator for capital adequacy. Work has also begun on developing C-3 RBC requirements for life products; on crafting consistent principles-based reserve and capital recommendations to ensure that different segments of insurance business



have a common platform for projecting economic scenarios and creating a consistent stochastic methodology for calculating RBC and reserves; and on creating capital requirements for

nonvariable annuity products.

To keep actuaries and regulators up to speed on this dizzying array of activities, the Academy began in January to hold regular webcasts on principles-

PUBLIC STATEMENTS

10/05 practice note on various reinsurance reserve credit issues

10/05 letter to NAIC on actuarial guideline ABC

11/05 letter to FASB on FAS 141

12/05 report to NAIC on work of Variable Annuity Reserves Work Group

12/05 presentation to NAIC by the Life Reserves Work Group (LRWG) on 20-year-term modeling results

12/05 handout on life reserve estimates to accompany LRWG presentation to NAIC

12/05 letter to SEC on the treatment of equity-indexed annuities

12/05 memo from LRWG to New York Insurance Department about discount rates

12/05 presentation to NAIC by SVL2 Steering Committee

12/05 update to NAIC on work of the LRWG

12/05 draft model regulation on life reserves

12/05 draft actuarial guideline on life reserve valuation assumptions

12/05 draft actuarial guideline on life reserve documentation and disclosure requirements

12/05 draft actuarial guideline on life reserve assumption margins

3/06 report to NAIC on modified coinsurance

3/06 report to NAIC on principles-based valuation for standard life products

3/06 presentation to NAIC on the work of the Regulatory Interface, Governance, and Peer Review Work Group

3/06 comments to NAIC on a New York principles-based reserve memo

3/06 report to NAIC on modeling principles-based reserves for 20-year level-premium term insurance

3/06 presentation to NAIC of 20-year term margin examples and accompanying spreadsheet

3/06 report to NAIC on considerations in applying principles-based reserving to in-force blocks

3/06 report to NAIC on life reserves aggregate margins

3/06 comments to NAIC on changes made to actuarial guideline VACARVM

3/06 survey for the NAIC on use of C-3 Phase 2

3/06 updated [version](#) of enhanced C-3 Phase 1 RBC interest-rate generator

3/06 project [timeline](#) by Academy/SOA Preferred Mortality Project Oversight Group

3/06 report to NAIC defining the principles in the principles-based approach

3/06 update to NAIC on the Academy's current principles-based work

4/06 report to NAIC on principles-based reserves for universal life with secondary guarantees

5/06 comments to NAIC on total adjusted credit provisions in proposed life RBC instructions

5/06 comments to NAIC on proposed life RBC instructions

6/06 presentation to NAIC on the SVL2 presentation to LHATF on the principles-based project

6/06 updated draft actuarial guideline on principles-based life reserving

6/06 updated [draft](#) actuarial guideline on life reserve assumption margins

6/06 updated [draft](#) actuarial guideline on life reserving disclosure

6/06 report to NAIC on areas where additional actuarial judgment guidance is needed in principles-based reserving

6/06 update to NAIC on Academy-SOA preferred mortality study project

6/06 report to NAIC on results of survey about proposed actuarial guideline VACARVM

6/06 interim [report](#) to NAIC on the ACLI's proposed preferred mortality table

6/06 presentation to NAIC by LRWG on updated draft model regulation

6/06 questions for NAIC Principles-Based Regulation Working Group

6/06 report to NAIC on variable annuity revenue-sharing agreements for mutual fund services

6/06 summary of results from C-3 Phase 2 survey

6/06 presentation to NAIC on applying the principles-based approach to valuation and capital requirements

6/06 report to NAIC on GPVAD vs. GPV approach to life reserving

6/06 report on a principles-based methodology for calculating reserves for immediate and nonvariable deferred annuities

6/06 recommendations to NAIC on principles-based valuation review



based developments, along with several related seminars. In the spring, the Academy also launched a special page on its website devoted to the principles-based project.

Leaders of the Life Practice Council's principles-based initiative convene at the summer NAIC meeting.

6/06 [report](#) to NAIC on considerations in determining whether to apply principles-based reserving to in-force contracts

7/06 [update](#) to NAIC on C-3 Phase 3

7/06 [update](#) to NAIC for conference call on principles-based review

8/06 [comments](#) to NAIC on proposed changes in model regulation for principles-based life reserving

8/06 Academy/ SOA [review](#) for NAIC of ACLI's proposed interim preferred mortality table

8/06 [report](#) to NAIC on VACARVM

8/06 [update](#) for NAIC on principles-based project

9/06 [report](#) to LHATF and to Life RBC Working Group from the Standards for Stochastic Methods Work Group

9/06 updated [overview](#) for NAIC of principles-based project

9/06 [presentation](#) to NAIC on regulatory modernization

9/06 [presentation](#) to NAIC on C-3 RBC economic scenarios

9/06 [update](#) for NAIC on C-3 Phase 3 RBC activities

9/06 [report](#) to NAIC on the work of the LRWG

9/06 [report](#) to NAIC on principles-based reserves for nonvariable annuities

9/06 updated [glossary](#) for NAIC of principles-based terms

9/06 updated [summary](#) for NAIC of principles for the principles-based approach

9/06 [presentation](#) for NAIC on principles-based peer review issues

9/06 [update](#) for NAIC on the preferred mortality project

9/06 [report](#) and slide [presentation](#) to NAIC by the Standards for Stochastic Methods Work Group

9/06 [practice note](#) on C-3 Phase 2 RBC requirements for variable annuities

9/06 [paper](#) for testimony at NAIC committee hearing on considering travel destination in life underwriting

9/06 updated [draft](#) actuarial guideline on reserve documentation and disclosure

9/06 updated [draft](#) actuarial guideline on life valuation assumptions

9/06 updated [draft](#) model regulation on principles-based life reserving

9/06 [summary of changes](#) to draft model regulation and actuarial guidelines

9/06 draft [model regulation](#) on principles-based peer review

9/06 [report](#) to NAIC on short-term changes needed in standard nonforfeiture law

EVENTS

1/06 webcast on principles-based initiative

3/06 webcast on principles-based initiative

4/06 C-3 Phase 2 seminar

6/06 webcast on principles-based initiative

7/06 webcast on principles-based assumptions

8/06 webcast for regulators on principles-based initiative

9/06 testimony at NAIC committee hearing on considering travel destination in life underwriting

9/06 Valuation Case Study seminar

9/06 webcast on principles-based initiative

For more information, visit www.actuary.org/life.asp. Underlined documents are on the Academy website.

Pension Practice Council

AFTER MONTHS OF NEGOTIATION, compromise, and political maneuvering, the House and Senate passed the Pension Protection Act of 2006 in August. When President Bush signed the measure into law shortly thereafter, it marked a milestone in Academy pension reform efforts that had ramped up considerably in the past year.

In the fall of 2005, while differing pension reform bills were making their way through Congress, the Academy's Pension Committee prepared an analysis of provisions in the various bills. Responding to requests from congressional staffers, that analysis was updated in February, and Senior Pension Fellow Ron Gebhardt'sbauer provided continuing behind-the-scenes technical assistance to lawmakers and congressional staff throughout the spring and summer. Following passage of the law in August, the Academy hosted a meeting of actuaries and other employee benefits experts to discuss guidance issues for input to federal agencies working on its implementation. The Academy also joined with the American Society of Pension Professionals and Actuaries, the Conference of Consulting Actuaries, and the Society of Actuaries to sponsor a series of educational webcasts for pension professionals on different aspects of the new law.

While pension reform consumed much of the attention this year, the Academy didn't neglect other issues of

From left, Academy staffer Andrew Simonelli confers with Brian O'Konski, Lisa Larsen, and Ed Burrows during Pension Practice Council Capitol Hill visits.



importance. In May, the Academy was one of the first stakeholders to protest a Department of Energy decision to eliminate reimbursements to contractors for the cost of providing defined benefit (DB) pension plans for new employees. A month later, the DOE reversed its policy for at least a year in order to study the matter further. The Academy engaged in ongoing discussions with the Government Accounting Office about its November report on cash balance plans and with the Financial Accounting Standards Board about its projects to reconsider accounting for pensions and other post-employment benefits. The Academy also continued to press the

Internal Revenue Service for guidance on Circular 230 revisions.

During the year, the Academy offered a Capitol Hill briefing on basic elements of Social Security in April and a May briefing on the 2006 trustees reports on Medicare and Social Security. In June, the Academy co-sponsored a Capitol Hill briefing with the SOA to present findings from a survey of how people understand and manage retirement risk. The Academy also published issue briefs this year on longevity and retirement policy, on the use of stochastic models in analyzing Social Security solvency, and on the importance of DB plans in national retirement policy.

Risk Management and Financial Reporting Council

IN ADDITION TO MONITORING risk management and financial reporting issues affecting multiple practice areas, the Academy's Risk Management and Financial Reporting Council also devoted a lot of time this year to keeping tabs on emerging international regulatory initiatives and domestic efforts to establish some form of federal insurance regulation.

In March, the Academy sent a letter to the International Actuarial Association (IAA) commenting on a preliminary exposure draft of a practice guideline on the disclosure of insurance risk information under international financial reporting standards. In July, the Academy commented to the IAA on draft documents released by the International Association of Insurance Supervisors on asset liability and insurer solvency.

In the area of federal regulation of insurance, the Academy commented in July to the Senate Banking Committee recommending that any new federal insurance bill include a provision creating an Office of the Actuary. The Academy's letter was timed to coincide with an opening hearing on the National Insurance Act of 2006, which would create an optional federal charter regulatory system for life and property/casualty insurance by allowing insurers to choose regulation at either the state or the federal level. In its letter, the Academy urged the creation of an Office of Chief Actuary to supervise the actuarial and solvency requirements of federally regulated insurance companies. In a similar vein, the Academy wrote to the chairmen and ranking members of the House Committee on Financial Services and the House Judiciary Committee to suggest that a bill to streamline regulation of multi-state surplus lines insurance be revised to include actuaries in the definition of qualified risk manager.

The Financial Reporting Committee continued its pattern of meeting annually with various accounting and auditing stakeholders. At a meeting with representatives of the Financial Accounting Standards Board (FASB) in October,

PUBLIC STATEMENTS

10/05 [letter](#) to IRS requesting technical advice on Circular 230

10/05 updated [issue brief](#), *Social Security Benefits: Changes to the Benefit Formula and Taxation*

10/05 [issue brief](#), *A Guide to the Use of Stochastic Models in Analyzing Social Security*

11/05 [letter](#) to GAO commenting on its report on cash balance plans

11/05 [analysis](#) of multi-employer issues in pension funding reform legislation

12/05 [letter](#) to the editor of the *Financial Times* on the role of actuaries in pension accounting

2/06 [letter](#) to the editor of the *Economist* about the U.S. actuarial profession

2/06 [letter](#) to FASB commenting on its project to reconsider accounting for pension and other benefits

3/06 [letter](#) to Moody's on its proposed rating methodology for companies with multi-employer DB plans

3/06 updated [analysis](#) of pension funding reform bills

4/06 [issue brief](#), *Longevity and Retirement Policy: Modernizing America's Retirement Programs to Keep Pace with Longevity*

4/06 [letter](#) to GASB on its proposed technical bulletin on Medicare Part D

4/06 [letter](#) to SEC on a proposed executive compensation disclosure rule

5/06 updated [issue brief](#), *An Actuarial Perspective on the 2006 Social Security Trustees Report*

5/06 [analysis](#), *Keeping Employers Responsible for Their (and Only Their) Pension Promises*

5/06 [letter](#) to GAO about its cash balance report

5/06 [letter](#) to IRS about its annual business plan

5/06 [letter](#) to secretary of energy about DOE policy on reimbursing contractors' pension plans

5/06 [letter](#) to FASB on proposed changes in financial accounting standards for pensions

7/06 [issue brief](#), *The Value of Defined Benefit Plans*

8/06 revised [letter](#) to IRS seeking technical guidance on Circular 230

8/06 [letter](#) to editor of *The Wall Street Journal* pointing out inaccuracies in article about pension reform changes

8/06 [letter](#) to editor of *Wall Street Journal* contesting an editorial concluding that public-sector workers are better served by DC plans

9/06 [letter](#) to various agencies on revisions to Schedule B

EVENTS

1/06 meeting with GAO

2/06 Capitol Hill visits to the White House, congressional offices, Treasury and Labor departments, the IRS, GAO, CRS, PBGC, and NASI

4/06 Capitol Hill briefing on Social Security

5/06 Capitol Hill briefing on Social Security and Medicare trustees reports

6/06 participation in FASB roundtables on accounting for pensions and other post-retirement benefits

6/06 Capitol Hill briefing with SOA on retirement risk

9/06 series of weekly webcasts on pension reform (in conjunction with ASPPA, CCA, and SOA)

For more information, visit www.actuary.org/pension.asp. Underlined documents are on the Academy website

PUBLIC STATEMENTS

10/05 presentation at a FASB forum on phase 2 of the IASB's insurance contracts project

10/05 [letter](#) to NAIC on revisions to the *Financial Condition Examiners Handbook*

1/06 [comments](#) to FASB on the treatment of liabilities and assets with uncertainties in financial reporting

3/06 [letter](#) to IAA on proposed practice guideline on insurance risk disclosure

7/06 [letter](#) to Senate Banking Committee recommending that any federal insurance legislation include a provision creating an Office of the Actuary

7/06 [letter](#) to the IAA about draft IAIS documents on asset-liability management

7/06 [letter](#) to the IAA about draft IAIS documents on insurer solvency assessment

8/06 [letter](#) to FASB on insurance bifurcation and risk transfer accounting issues

9/06 [letter](#) to Congress on the legislative definition of a qualified risk manager

EVENTS

10/05 participation in FASB Insurance Industry Forum

4/06 meeting with AICPA

For more information, visit www.actuary.org/financial.asp. Underlined documents are on the Academy website.

the Academy led the discussion on phase 2 of the International Accounting Standards Board's (IASB) insurance contracts project and participated in roundtables about accounting for risk transfer in reinsurance contracts, FASB's fair value option, and FASB/IASB joint exposure drafts on business combinations proposals. In an April meeting with the American Institute of Certified Public Accountants (AICPA), Academy representatives discussed the Academy's principles-based approach to valuation and capital requirements for life and health products, risk transfer in casualty reinsurance, disclosure surrounding actuarial estimates, revenue recognition for Medicare Part D, the AICPA's accounting standard on internal replacements, and current developments in the international accounting arena.



Curtis Huntington, left, and Godfrey Perrott at a fall 2005 meeting of the Council on Professionalism

Council on Professionalism

IN THE PAST YEAR, the Academy greatly expanded its presence in cyberspace as part of continuing efforts to encourage and strengthen U.S. actuarial professionalism.

Almost 300 actuaries participated in the Council on Professionalism's free November 2005 webcast that focused on effective communication with clients, employers, regulators, and others (as well as the implications of not communicating effectively).

Building on that success, the Academy joined with the Conference of Consulting Actuaries in 2006 to offer a series of webcasts on a variety of professionalism topics, including a February webcast on the Code of Professional Conduct, a March webcast on the Morris Report on the U.K. actuarial profession, a May webcast on letters of engagement, a June webcast on activities of the Joint Board for the Enrollment of Actuaries, and a July webcast on professionalism peer review.

At the same time, the Academy didn't neglect more traditional methods to reach out to actuaries on professionalism. One of its older educational initiatives, the annual Life and Health Qualifications Seminar, continued to be a popular option, with the November 2005 seminar attracting a record 78 attendees. The Academy also published discussion papers on peer review, materiality, and the actuary's role in model selection and applications. Similarly, in January, the Academy published a second exposure draft of proposed changes to the Qualification Standards for Prescribed Statements of Actuarial Opinion, which apply to all practice areas. The draft was developed

in response to comments received on the first exposure draft and took a very different approach to continuing education. Instead of calling for actuaries to take 24 hours of continuing education over a rolling two-year period, for instance, the exposure draft would require actuaries to obtain a significantly greater number of hours but would also offer far more flexibility in determining what activities qualify as continuing education. The comment period on the exposure draft ended in July, and the Academy's Committee on Qualifications is currently sorting through the responses.

PUBLIC STATEMENTS

9/05 discussion [paper](#) on peer review

1/06 second exposure [draft](#) of qualification standards

6/06 discussion [paper](#) on materiality

6/06 discussion [paper](#) on the actuary's role in model selection and applications

EVENTS

11/05 webcast on actuarial communications (co-sponsored with SOA)

11/05 Life and Health Qualifications Seminar

2/06 webcast on Code of Professional Conduct (co-sponsored with CCA)

3/06 webcast on the Morris Report (co-sponsored with CCA)

3/06 Professional Standards Seminar

5/06 webcast on letters of engagement (co-sponsored with CCA)

6/06 webcast updating information on activities of the Joint Board (co-sponsored with CCA)

7/06 webcast on professionalism peer review (co-sponsored with CCA)

For more information, visit www.actuary.org/professi.asp. Underlined documents are available on the Academy website.



Standing, from left, ASB members William Reimert, William Weller, Cecil Bykerk, Karen Terry, and Godfrey Perrott. Seated, from left, William Cutlip, Michael La Monica, and Lawrence Sher

ASB

THE ACTUARIAL STANDARDS BOARD, which is separate from but housed at the Academy, serves the actuarial community and the public by codifying generally accepted actuarial practice through the issuance of actuarial standards of practice (ASOPs).

Since October 2005, the ASB has exposed a number of proposed and revised ASOPs and adopted several revised ASOPs. The ASB also hosted a two-hour information-gathering session at the Academy's May 16 spring meeting to elicit feedback on its general procedures and on the ASOPs. Chaired by ASB Chairperson Cecil Bykerk, the open hearing featured discussions on several issues, including how to define generally accepted practice and the role of the ASB in maintaining and restoring trust in the profession. Lawrence Sher, ASB vice chairperson, and Robert Miccolis, a member of the ASB, joined Bykerk in representing the ASB at the open hearing.

ASB PUBLICATIONS

12/05 final revision of ASOP No. 8, *Regulatory Filings for Health Plan Entities*

12/05 final revision of ASOP No. 12, *Risk Classification (for All Practice Areas)*

1/06 second exposure draft of the *Qualification Standards*

2/06 exposure draft, *Property/Casualty Unpaid Claim and Claim Adjustment Expense Estimates*

3/06 second exposure draft of proposed revision of ASOP No. 38, *Using Models Outside the Actuary's Expertise (for All Practice Areas)*

3/06 final revision of ASOP No. 15, *Dividends for Individual Participating Life Insurance, Annuities, and Disability Insurance*

4/06 exposure draft of proposed revision of ASOP No. 24, *Compliance with the NAIC Life Insurance Model Regulation*

8/06 third exposure draft, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*

8/06 fourth exposure draft, *Selection and Use of Asset Valuation Methods for Pension Valuations*

8/06 exposure draft of proposed revision of the deviation clause in actuarial standards of practice

8/06 exposure of proposed repeal of ASOP No. 16, *Actuarial Practice Concerning Health Maintenance Organizations and Other Managed-Care Health Plans*

For more information, visit www.actuarialstandardsboard.org. Underlined documents are available on the ASB website.

ABCD

THE ACTUARIAL BOARD for Counseling and Discipline (ABCD), which is separate from but housed at the Academy, serves the five U.S. actuarial organizations by considering complaints concerning possible violations of the Code of Professional Conduct and responding to inquiries from actuaries about their professional conduct.

As of Sept. 30, 2006, the ABCD had 17 inquiries in process, compared with 16 at the same time in 2005. Of those 17 cases, three are scheduled for a hearing;

six are awaiting investigation; six are suspended; one is pending final disposition; and one is awaiting more information from the complainant, the subject actuary, or others.

Of the five cases resolved through September 2006 by the ABCD, one was dismissed; one was dismissed with guidance; and three resulted in counseling following an investigation.

Through September, the ABCD received 21 voluntary requests for guidance.

For more information, visit www.abcdboard.org.



Clockwise from left, ABCD members Edward Burrows, Frank Irish, William Falk, Lawrence Johansen, Michael Toothman, Julia Philips, Carol Sears, and Linda Bell



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