

AMERICAN ACADEMY OF ACTUARIES

2008 RECORD

*Academy
Year in
Review*

Introduction

These are exciting times to be a member of the Academy.

With the approval of a new strategic plan in October, the Academy's leadership has affirmed efforts by the U.S. actuarial profession to move forward in a new spirit of cooperation, and asserted the importance of speaking out on the implications of actuarial policy decisions that affect the American public.

With the adoption of revised Qualification Standards, the Academy has not only strengthened actuarial education and experience standards, but has broadened them as well: The updated Qualification Standards, which take effect Jan. 1, 2008, will apply to most credentialed actuaries who issue SAOs (statements of actuarial opinion) in the United States.

And with the recent formation of the Volunteer Resource Committee, the Academy has signaled to all its members that it wants and needs your input in these and future initiatives.

Whether you are one of the 500 new members who joined the Academy in 2007 or a long-time member, take a moment to review the *2007 Record*. It includes an impressive array of major accomplishments in professionalism, public policy, and public affairs between October 2006 and October 2007. All of them undertaken on behalf of you, the profession, and the public. All of them made possible by you and other Academy members.

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AMERICAN ACADEMY *of* ACTUARIES

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Council on Professionalism Highlights

The Council on Professionalism:

- Hosted three webcasts, co-sponsored by the Conference of Consulting Actuaries (CCA), on the newly revised Qualification Standards for Actuaries Issuing Statements of Actuarial Opinions in the United States that went into effect on Jan. 1. The Qualification Standards, drafted by the Academy's Committee on Qualifications, vastly enhanced qualification standards in terms of experience and continuing education (CE).
- Developed plans for webcasts on topics such as the Code of Professional Conduct (Oct. 24, 2008) and the Actuarial Standards Board and actuarial standards of practice (Dec. 4, 2008).
- Formed a professionalism speakers' bureau and participated at various annual meetings of the Casualty Actuarial Society, the CCA, and the Society of Actuaries, as well as at meetings of local and regional actuarial clubs.
- Sponsored the Academy's annual Life and Health Qualifications Seminar to assist actuaries in meeting examination requirements and/or CE requirements in the Qualification Standards.

- Obtained the status of an approved sponsor of CE under the Joint Board for the Enrollment of Actuaries regulations and has provided enrolled actuaries with continuing education to meet the CE requirements of both the Joint Board and the Qualification Standards.

- Followed up on implementing the Academy's strategic plan by encouraging compliance with the conflict of interest acknowledgment signed by all Academy volunteers. The council also revised and streamlined the process for 2009.

- At the request of the Council of U.S. Presidents, formed a task force to help communicate actuarial uncertainty to principals and to the public.

- Made a recommendation, which was later accepted by the Academy Board of Directors, for the use of private reprimand as a form of discipline against subject actuaries, if warranted

Council on Professionalism Resources

See recent publications, public statements, and other professionalism documents.

ABCD Highlights

The Actuarial Board for Counseling and Discipline (ABCD), which is housed at the Academy, was established by the U.S. actuarial organizations to strengthen members' adherence to the recognized standards of ethical and professional conduct. The ABCD responds to actuaries' requests for guidance on professional issues and it conducts inquiries into possible violations of the actuarial Code(s) of Professional Conduct.

As of Sept. 30, 2008, the ABCD had 16 inquiries in process, compared with 21 at the same time in 2007. Of those 16 cases, one was scheduled for a hearing, three were awaiting investigation, seven were in suspension, four were awaiting more information from the complainant, the subject actuary, or others, and one was pending finalization by the ABCD.

The ABCD resolved 14 cases during the first three quarters of 2008. Nine were dismissed, one was dis-

missed with guidance, one was counseled without a hearing following an investigation, one ended with a recommendation for private reprimand, one ended with a recommendation for public reprimand, and one was recommended for expulsion.

By Sept. 30, the ABCD had also received 29 requests for guidance during 2008, and it continued its educational outreach efforts throughout the year. ABCD representatives made educational presentations at actuarial meetings and continued to write "Up to Code," which appears in each issue of *Contingencies* magazine.

ABCD Resources

ABCD publications and other resources related to counseling and discipline are available on the ABCD website.

ASB Highlights

The Actuarial Standards Board (ASB) establishes and improves standards of actuarial practice. These actuarial standards of practice (ASOPs) identify what the actuary should consider, document, and disclose when performing an actuarial assignment. The ASB's goal is to set standards for appropriate practice for the U.S.

When creating or revising an ASOP the ASB:

- Reviews and evaluates current and emerging practices;
- Determines appropriate guidance;
- Publishes an exposure draft to obtain input from actuaries and other interested parties;
- Considers all comments received; and publishes a final standard or another exposure draft.

From Oct. 1, 2007, to Sept. 30, 2008, the ASB:

Released five exposure drafts:

- Proposed Revision of ASOP No. 13, *Trending Procedures in Property/Casualty Insurance*

- Proposed Revision of *Deviation Language for All Standards and Removal of References to PSAOs From All Standards (All Practice Areas)*

- Proposed Revision of *Introduction to the Actuarial Standards of Practice (ASOPs)*

- Proposed Repeal of ASOP No. 31, *Documentation in Health Benefit Plan Ratemaking*

- Proposed Revision of ASOP No. 41, *Actuarial Communications*

Requested comments on one ASOP:

- ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*

Issued the final version for:

- Revision of *Deviation Language for Standards and Removal of References to PSAOs From Standards (All Practice Areas)*

ASB Resources

Visit the ASB website, where all ASOPs are available.

Practice Council Highlights

Casualty Practice Council Highlights

The Casualty Practice Council:

- Met with staff from the Government Accountability Office (GAO) and the Congressional Budget Office to discuss terrorism reinsurance modeling.
- Conducted third annual seminar on loss reserve opinions.
- Published an issue brief on effective use of reserve ranges.
- Discussed with representatives of the GAO the actuarial implications of adding wind insurance coverage to the National Flood Insurance Program.
- Provided reports to the National Association of Insurance Commissioners (NAIC) and its groups on various topics, including risk transfer practices, a national catastrophe plan, and a climate risk disclosure proposal. The council also gave a presentation to the NAIC on catastrophe modeling.
- Gave a presentation to NAIC Financial Summit attendees on risk transfer practices for regulators.
- Provided the NAIC with a proposed model for the reporting of first dollar premium equivalents for large-deductible workers' compensation insurance policies.
- Published a practice note on writing statements of actuarial opinion for loss reserves.
- Published a fact sheet on medical malpractice policies.
- Commented to the National Conference of Insurance Legislators on a proposed state-federal system for catastrophe funding.
- Provided the Federal Trade Commission (FTC) with a comment letter regarding an FTC draft model order to obtain data to study the effect of credit-based insurance scores on consumers of homeowners' insurance.
- Provided the NAIC with a comment letter offering suggestions on data elements to include in the

model guideline that is currently being drafted by the NAIC to support a proposed model law on medical professional liability closed-claim reporting.

- Published the annual property/casualty loss reserve law manual.

Casualty Practice Council Resources

See recent Academy publications, analyses, and comments on public policy casualty issues.

Health Practice Council Highlights

The Health Practice Council:

- Visited Capitol Hill to discuss various issues related to insurance reform with congressional offices, including the effects of risk pooling on premiums in both the small group and individual markets, small business health reform proposals, the role and experience of the Massachusetts health reform program, effectiveness of disease management programs, the Bush administration's proposal to restructure the tax incentives for health insurance, and mental health parity legislation.
- Developed content for an Election 2008 website that includes issue backgrounders on risk pooling, Medicare, rising health care costs, medical reinsurance, and consumer-driven health plans.
- Published issue briefs on the 2008 Medicare trustees report, the fundamentals of insurance and implications for health coverage, the major drivers of health spending growth, and comparative effectiveness research.
- Hosted briefings for congressional staff on risk pooling, actuarial equivalence, and health care cost drivers.
- Testified on rising health care costs at the National Association of Insurance Commissioners' spring meeting and on dependent health benefits during the National Conference of Insurance Legislators' summer meeting.

- Published practice notes on evaluating the impact of a disease management program on the cost and utilization of medical services, certifying to the actuarial equivalence of a prescription drug plan (PDP) or Medicare Advantage PDP under Medicare Part D, and accounting for Medicare Part D.

Health Practice Council Resources

See recent Academy publications, analyses, and comments on public policy health issues.

Life Practice Council Highlights

The Life Practice Council:

- Submitted comments to the U.S. Treasury Department on Public Notice 2008-18, Life Insurance Reserves under Proposed VACARVM and Life PBR.
- Submitted comments to the Securities and Exchange Commission in response to Proposed Rule 151A relating to the treatment of equity indexed annuities.
- Published three practice notes, including one describing current practices in determining and applying what constitutes credible company experience, another on insurance accounting for deferred acquisition costs, and the third on embedded derivatives. The council also released an exposure draft to a practice note on fair value accounting for Financial Accounting Standard Nos. 157 and 159.
- In partnership with the Society of Actuaries (SOA), presented several reports to the National Association of Insurance Commissioners (NAIC) on the development of new preferred mortality tables.
- Supported the NAIC's development and adoption of actuarial guidelines redefining annuity reserve valuation for variable annuities (AG VACARVM/XLIII) and establishing tables and statutory reserve standards for group life premium waiver benefits (AG GWP).
- Provided actuarial input on travel underwriting for a model law adopted by the NAIC on unfair trade practices.
- Presented educational sessions on principle-based reserving, including six webcasts, two seminars, and a number of sessions at SOA meetings and symposiums. The council also made presentations at

meetings of the NAIC, National Council of Insurance Legislators, National Conference of State Legislators, and many actuarial clubs throughout the country.

- Delivered to the NAIC a full proposal for principle-based capital under C3 Phase III, including additional reports detailing simplification methods and the developing of the working reserve within that proposal.

Life Practice Council Resources

See recent Academy publications, analyses, and comments on public policy life issues.

Pension Practice Council Highlights

The Pension Practice Council:

- In conjunction with the Public Interest Committee, proposed a statement in support of raising Social Security's retirement age that was passed by the Board of Directors before unveiling the statement at a news conference at the National Press Club. The council later met with congressional staff on Capitol Hill to present the Academy statement.
- In conjunction with the Health Practice Council, created an Election 2008 website and produced a guide of key questions about Social Security that should be discussed throughout the 2008 elections. The council also published an issue brief surrounding the Social Security trustees' report on the actuarial imbalance of the program.
- Held a public roundtable in New York for stakeholders to discuss disclosures in public pension plans. The Public Interest Committee also hosted a September forum in Washington to discuss those issues in greater detail as the committee sought to recommend potential Academy action to the Board of Directors, which referred the issue to the Actuarial Standards Board.
- Sent comments to the IRS about its proposed regulations on issues surrounding the Pension Protection Act of 2006 (PPA). Those included issues related to hybrid pension plans, measuring pension assets and liabilities, financially distressed multiemployer plans, and minimum required contributions for single-employer defined benefit pension plans.
- Hired new Senior Pension Fellow Frank Todisco as

the Academy's chief spokesperson for pension and retirement issues.

- Testified at several IRS hearings to discuss proposed regulations for PPA.
- Published a practice note on multiemployer practices related to PPA.
- Requested technical corrections to PPA in a letter to the House Ways and Means Committee.

Pension Practice Council Resources

See recent Academy publications, analyses, and comments on public policy pension issues.

Risk Management/Financial Reporting Council Highlights

The Risk Management/Financial Reporting Council:

- Formed a new task force to monitor federal financial regulatory reform and sent a letter to the U.S. House Committee on Financial Services and the Senate Committee on Banking, Housing, and Urban Affairs to affirm the need to specify the role of actuarial guidance in federal legislation on insurance reform.
- Commented to the International Actuarial Association on a discussion paper, *Measurement of Liabilities for Insurance Contracts: Current Estimates and Risk Margins*.
- Commented on a Securities and Exchange Commission (SEC) discussion paper on improving financial reporting standards and presented at an SEC roundtable on the benefits and potential challenges of using fair value accounting and auditing standards.
- Presented at the National Association of Insurance Commissioners' (NAIC) International Solvency and Accounting Working Group interim meeting, providing a synopsis of international accounting updates and solvency standards in the U.S. and abroad.

- Responded to the International Auditing and Assurance Standards Board on a proposed and revised International Standard on Auditing No. 620, *Using the Work of an Auditor's Expert*.

- Commented to the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) on the exposure draft *Conceptual Framework of Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information* and its accompanying consultative paper, *Conceptual Framework of Financial Reporting: The Reporting Entity*. The council also commented to the IASB on its discussion paper *Reducing Complexity in Reporting Financial Instruments*.

- Discussed accounting practices in the health, property/casualty, and life practice areas in its annual meeting with the American Institute of Certified Public Accountants.

- Participated in panel discussions at a FASB roundtable on the future of accounting standards and potential convergence with international standards.

Risk Management/Financial Reporting Council Resources

See recent Academy publications, analyses, and comments on financial reporting and risk management issues.

Public Affairs Photo Gallery

Working with the news media is a vital component of the Academy's efforts to contribute to the development of sound public policy. While the Academy offers actuarial expertise on key public policy issues to lawmakers and regulators, news outlets carry the actuarial message to the broader public.

This photo gallery illustrates just a few of the Academy's recent public affairs activities. It also provides a sample of some of the issues on which the profession's voice is being heard — whether in a TV news interview, through congressional testimony, or during a presentation at a meeting of the NAIC.

- *Contingencies'* fifteen minutes
- Academy takes lead in *USA Today*
- Social Security statement
- Cat modeling in *Wired*
- Media training for Academy spokespeople
- Capitol Hill briefing
- PBR at NCSL

Contingencies' Fifteen Minutes



Contingencies was introduced to the nation during the Sept. 21 edition of ABC's "Good Morning America." Continuing an election-year tradition, *Contingencies* magazine had invited both presidential campaigns to pen articles addressing health care reform. The articles appeared in the September/October 2008 issue and, soon after, became a significant subject on the campaign trails. The press corps following the candidates was quick to report on the details, resulting in unprecedented media coverage for the Academy's flagship publication.

Academy Takes Lead in *USA Today*



Subsequent to a background meeting with *USA Today's* personal finance team, the Academy became a lead source for the newspaper's weeklong series "Turning 62: The retirement boom begins." The series, which ran the week of Jan. 14, analyzed several key issues facing baby boomers, including when to collect Social Security benefits. The Academy also collaborated with *USA Today* to develop a web tool that accompanied the series. The tool helps boomers determine the value of benefits gained or lost by electing to retire at 62 rather than at older ages. The efforts with *USA Today* were part of a larger campaign to educate retirees about longevity risk and how it could affect the decision to collect Social Security. The campaign commenced in mid-2007 and continued into 2008—yielding more than 110 media placements.

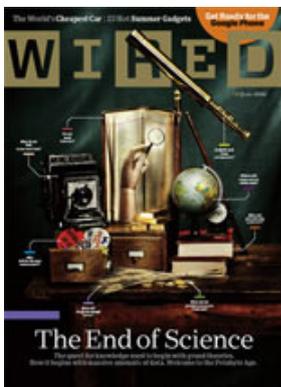
Social Security Statement



The Academy's Pension Practice Council Vice President Tom Terry discussed the Academy's position statement on Social Security on Fox Business News on Aug. 4. Earlier in the day, at a National Press Club press conference, Terry and the Academy's now President-elect Bruce

Schobel unveiled the statement, which advocates increasing the program's retirement age. Schobel and Terry provided interviews for cable news networks and radio shows throughout the country in the days surrounding the release. Their work was paired with broader efforts by the Academy to secure print coverage and support from columnists and editorial boards across the nation. Overall the initial rollout netted more than 125 Web placements, more than 75 print placements, and more than 125 radio and television placements.

Cat Modeling in *Wired*



Wired magazine's July cover story looked at how advances in data crunching are changing science, medicine, business, and technology. Included in the feature was an anecdote on how actuaries and the Academy used catastrophe models and terabytes of data to calculate estimated insured losses stemming from terrorist attacks. The

article also cited the Academy's report on terrorism risk insurance that was submitted to the President's Working Group on Financial Markets.

Media Training for Academy Spokespeople



John Moore, member of the Academy's Pension Committee, explains pension funding during a mock interview as part of the Academy's media training program. Moore was one of 12 actuaries trained during the past year—and one of approximately 75 spokespersons trained since the program's inception in 2002.

Capitol Hill Briefing



The Academy's Senior Health Fellow Cori Uccello and former Vice President of the Health Practice Council (HPC) John Bertko take questions from Rep. Brian Baird (D-Wash.) following a July Capitol Hill briefing on actuarial equivalence. The briefing was one of three by the Academy's HPC as part of a broader education effort focused on health care reform. As these issues picked up steam early in the campaign season, the council produced a series of backgrounders and assisted the media by explaining aspects of various reform proposals. These endeavors resulted in several high-profile media placements, including in *USA Today* and *Kiplinger's Personal Finance*. The Academy was also solicited for bylined op-eds on health care reform. Uccello's piece on curbing health care costs was featured in *Delaware's The News Journal* and another on Medicare's financial challenges was printed in the *New Hampshire Union Leader* just prior to the state's primary.

PBR at NCSL



Dave Sandberg, member of the Academy's Life Practice Council, participated in a panel discussion on principle-based reserving (PBR) at the National Conference of State Legislators legislative forum in New Orleans in July. Sandberg, along with Tom Campbell, the council's vice president, Donna Claire, chairperson of the Academy's Life Financial Soundness/Risk Management Committee, and Diane Wallace, member of the Academy's Life Reinsurance Work Group, all have been quoted throughout the year in various trade media on developments with the PBR project.