

AMERICAN ACADEMY OF ACTUARIES

2009 RECORD

*Academy
Year in
Review*

Introduction

Throughout 2009, U.S. policymakers have scrambled to erect solutions to wide-reaching economic problems triggered by risk management failures in the financial services industry. Still standing strong amid the dust, the actuarial profession—and its steadfast commitment to proven risk management practices—was effectively promoted by the Academy as an essential resource to help policymakers pick up the pieces and build a more protective regulatory regime.

The Academy's commitment to leading the regulatory debate was most visible at the financial summit it hosted on July 31. The summit, which drew keynote speaker Assistant Treasury Secretary Alan Krueger, brought together over 60 Academy volunteers across all practice areas to discuss a variety of contemporary regulatory issues and to organize the profession's response to the financial crisis.

Academy volunteers also became regular guests on Capitol Hill throughout the year, submitting testimony and meeting with congressional committees to discuss future financial regulatory issues such as systemic risk. Among these Hill visitors were Academy Senior Life Fellow Nancy Bennett, a key addition to the Academy staff this year.

In the short-term, however, health care reform captured national attention as the big-ticket policy issue of 2009. Accordingly, the Academy stepped up its education efforts. From policy statements on issues that contain actuarial insight to teaming up

with the Society of Actuaries for detailed research on congressional proposals, Academy staff and volunteers reasserted themselves to policymakers and the media as trusted, nonpartisan resources to inform the national debate.

As volunteerism continues to grow, so does overall Academy membership. If you are one of the almost 17,000 members, please take a moment to check out the 2009 Academy Record and catch up some of the impressive accomplishments in professionalism, public policy, and public affairs throughout the past Academy year. And thank you for making them all possible.

Professionalism highlights

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AMERICAN ACADEMY *of* ACTUARIES

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Council on Professionalism Highlights

The Council on Professionalism:

- Hosted three widely attended webcasts to assist actuaries in complying with their continuing education requirements under the U.S. Qualification Standards, covering topics such as the application of standards of practice and qualifications outside the United States; a refresher on the Code of Professional Conduct; and Precept 13 of the Code. The council also plans another webcast on Dec. 18 to discuss Actuarial Standards of Practice Nos. 36 and 43.
- Received and responded to questions from actuaries, regulators, and insurance companies on the U.S. Qualification Standards. Through October 2009, the Committee on Qualifications had responded to over 150 questions on various aspects of the Qualification Standards.
- Successfully implemented part of the Academy's strategic plan by encouraging compliance with the Academy's annual conflict of interest policy, which requires all Academy volunteers to specifically acknowledge the Academy's policy. For 2009, the council streamlined the prior year's process and was

able to achieve 98.5 percent compliance, resulting in dropping only 15 volunteers.

- Published an article in the September 2009 edition of the Actuarial Update explaining to membership the adoption by the board in late 2008 of "private reprimand" as an alternative to the disciplinary measures available to the Academy.
- Sponsored the Academy's annual Life and Health Qualifications Seminar to assist actuaries in meeting examination requirements and/or continuing education requirements in the Qualification Standards.
- Created two task forces, one to review the applicability guidelines associated with actuarial standards of practice and another to review the professionalism course materials used by the Casualty Actuarial Society and the Society of Actuaries in furtherance of the Academy's strategic plan.

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, 2009, the ABCD had 44 inquiries in process, compared with 16 at the same time in 2008. Of those 44 cases, one was scheduled for a hearing, five were awaiting investigation, one was in suspension, 35 were awaiting more information from the complainant, the subject actuary, or others, and two were pending finalization by the ABCD.

The ABCD resolved 11 cases during the first three quarters of 2009. Five were dismissed, five were dismissed with guidance, and one ended with a recommendation for public reprimand.

By Sept. 30, 2009, the ABCD had also received 28 requests for guidance, 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, 2008, to Sept. 30, 2009, the ASB:

Released one exposure draft:

- Proposed revision of ASOP No. 36, Prescribed Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves

Requested comments on one ASOP:

- ASOP No. 36, Prescribed Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves

Clarified language in one ASOP:

- ASOP No. 44, Selection and Use of Asset Valuation Methods for Pension Valuations

Issued the final version for:

- ASOP No. 13, Trending Procedures in Property/Casualty Insurance

ASB Resources

Visit the ASB website, where all ASOPs are available.

Practice Council Highlights

Casualty Practice Council Highlights

The Casualty Practice Council:

- Testified before the House Judiciary Committee's Subcommittee on Courts and Competition Policy to discuss the implications of the Health Insurance Industry Antitrust Enforcement Act of 2009 on medical professional liability insurance. The council also provided written comments on the issue following the bill's inclusion in the House's Affordable Health Care for America Act.
- Spoke to representatives from the Government Accountability Office regarding factors that affect commercial property/casualty rates and the usefulness of actuarial reviews in determining commercial rate adequacy.
- Conducted the Academy's fourth annual seminar on loss reserve opinions, including expanding content to cover both novice and advanced opinion writers.
- Provided reports to the National Association of Insurance Commissioners (NAIC) and its groups on various topics, including premium deficiency reserves, underwriting factors, and credit scoring. The council also provided an issue brief to the NAIC Casualty Actuarial and Statistical Task Force (CASTF) on catastrophe modeling and a report on a proposal for a workers compensation data reporting construct.
- Participated in a panel discussion at the National Conference of Insurance Legislators (NCOIL) Spring Meeting in Washington concerning the predictive value and consumer impact of insurers' use of education and occupation data. The council also provided NCOIL with comments on issues such as a proposed amendment to its insurance scoring model act and a proposed system for public-private natural catastrophe financing.
- Published a medical professional liability fact sheet on tort reform.
- Provided comments to the Actuarial Standards

Board concerning its exposure draft of revised Actuarial Standard of Practice No. 36, *Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves*.

Casualty Practice Council Resources

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

Health Practice Council Highlights

The Health Practice Council:

- Developed a series of short policy statements, providing an actuarial perspective on various potential components of health care reform proposals. The series, *Critical Issues in Health Reform*, addresses the following issues: actuarial equivalence, administrative expenses, gender considerations in a voluntary individual health insurance market, health insurance cooperatives, an individual mandate, market reform principles, merging the small group and individual markets, minimum loss ratios, a public plan option, risk pooling, and transitioning into new markets. These statements, as well as additional materials related to health care reform, helped launch a new health care reform webpage on the Academy's website.
- Collaborated with the Society of Actuaries on two modeling projects. The first project was a comment letter developed in July by a joint work group of the Academy's Federal Long-Term Care Task Force and the Society's Long-Term Care Insurance Section Council regarding the Community Living Assistance Services and Supports (CLASS) Act, a proposed voluntary long-term care services program. The second project resulted in a webcast and a technical report on the necessary start-up capital requirements for health insurance cooperatives and a public plan option.
- Hosted briefings for congressional staff on risk pooling and adverse selection, risk adjustment, and

the keys for viable health care reform. Spoke with congressional staff on issues ranging from actuarial equivalence and the effects of adverse selection to the impact of health reform on premiums and reinsurance and risk-sharing mechanisms.

- Contributed a series of articles to *Contingencies* covering international health care reform. The first article on the Israeli system appeared in the May/June edition. The second article covers changes in the Dutch health care system and appears in the November/December edition.
- Responded to a number of requests from the National Association of Insurance Commissioners. In February, the Medicare Supplement Refund Formula Subgroup submitted its report on the proposed changes to the Medicare Refund Supplement Refund Formula. In March, the Medicare Part D RBC Subgroup submitted its recommendations regarding changes to risk-based capital risk factors for Medicare Part D coverage.
- Composed a new practice note on the changes to the actuarial statement of opinion instructions. The practice note, written by the Health Practice Financial Reporting Committee, outlines revisions to the health actuarial opinion requirements and assists actuaries to both understand and comply with the new requirements.

Health Practice Council Resources

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

Life Practice Council Highlights

The Life Practice Council:

- Supported the National Association of Insurance Commissioners (NAIC) adoption of the revised standard valuation law that enables principle-based reserving to be adopted by the states, contingent on the completion of the accompanying valuation manual.
- Continued its work on the principle-based approach (PBA) effort by submitting amendments to the valuation manual, making presentations on the treatment of asset default costs and net spreads,

revising the C3 Phase III risk-based capital proposal in response to feedback from the NAIC and interested parties, and proposing a framework for corporate governance under a principle-based reserving system.

- Presented several reports, in partnership with the Society of Actuaries (SOA), to the NAIC on the potential development of a 2008 commissioners standard ordinary mortality table, provided updates on the development of a preferred mortality table, and gave input on both the 2008 valuation basic table and payout annuities. The council also jointly sponsored two seminars and a webcast on PBA topics with the SOA.
- Submitted comments to the NAIC on an American Council of Life Insurers proposal for annuity illustration model guidelines.
- Presented a "PBA 101" educational session for regulators at the Fall NAIC meeting, and presented educational sessions on PBA topics including four webcasts, presentations at meetings of the National Conference of Insurance Legislators, and an NAIC session.
- Published four practice notes covering topics that included fair value accounting for Financial Accounting Standard Nos. 157 and 159, the calculation of embedded values for life insurance companies, the application of Actuarial Guideline 43 and C3 Phase II for risk-based capital calculations, and an update of a practice note on compliance with Actuarial Standard of Practice No. 24 and the NAIC's life illustrations model regulation.
- Submitted a letter to the Internal Revenue Service identifying several actuarial issues and concerns with a notice proposing changes to the tax treatment of life insurance contracts that mature after age 100.

Life Practice Council Resources

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

Pension Practice Council Highlights

The Pension Practice Council:

Hosted a Capitol Hill briefing on the effect of the financial crisis on retirement projections in the U.S. The briefing also discussed new ways of looking at retirement and U.S. retirement policy.

- Published two practice notes on selecting assumptions, one addressing mortality assumptions and the other addressing a variety of other assumptions.
- Published a practice note on preparing a certification of the adjusted funding target attainment percentage (AFTAP) for pension plans.
- Published an issue brief on understanding the assumptions used to evaluate Social Security's financial condition. The council also published its annual issue brief in response to the Social Security trustees' report.
- Sent a letter to the Government Accounting Standards Board in response to an invitation to comment on questions targeting pension accounting and financial reporting. The response addressed multiple perspectives of the board's questions.
- Sent comments to the IRS regarding the use of surplus assets for matching contributions under 401(k) replacement plans.
- Commented to the Federal Accounting Standards Advisory Board in response to its exposure draft revisions on accounting for social insurance.

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:

- Met with assessors from the International Monetary Fund to discuss the Academy's role in relation to U.S. insurance regulation.

- Issued white papers on risk management requirements for systemic risk regulation and on the use of discount rates in accounting present value estimates. The latter was submitted to the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB).

- Commented to the IASB on its discussion paper, *Credit Risk in Liability Measurement*, and to FASB on its revenue recognition project, and presented at a FASB educational session on risk margins.

- Submitted written testimony to the U.S. House Subcommittee on Capital Markets, highlighting key concepts and elements that are needed for the effective oversight and monitoring of risks in the insurance industry.

- Commented to the Securities and Exchange Commission on its *Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers*.

- Commented to the National Association of Insurance Commissioners' International Solvency and Accounting Working Group on its Solvency Modernization Initiative Work Plan.

- Presented testimony to the National Conference of Insurance Legislators at a hearing on actuarial principles from the insurance industry relevant to the risk management of credit default swaps.

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

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.

- What's an actuary
- Taking it to the Hill
- Protecting the nest egg
- Looming Decisions
- Trained to Respond
- Pooling Resources
- Gather at the Summit
- Modeling Reform Costs
- Advancing PBA

What's an Actuary?



Academy member Tonya Manning explained to comedian D.L. Hughley what an actuary does during the Jan. 17 broadcast of CNN's "D.L. Hughley Breaks The News." The actuarial profession landed on many "best profession" lists in 2009, included *Forbes'* best jobs for college graduates and *CareerCast's* best jobs rankings, which was published in the *Wall Street Journal*.

Taking It to the Hill



The Academy's Chairperson of the Committee on Federal Health Issues, David Shea, discussed risk pooling during a March 11 Capitol Hill briefing. The Academy hosted several briefings throughout the year for congressional staff and the media as health care reform emerged as one of the top domestic policy agenda items. Academy spokespersons were quoted throughout 2009 on reform topics such as gender considerations, market reform principles, health spending growth, individual mandates, and adverse selection.

Protecting the Nest Egg



Academy Senior Pension Fellow Frank Todisco appeared on three CNBC programs on April 8 to explain the current condition of state and local pension plans as well as options to improve pension funding levels. Todisco appeared on cable news several times in 2009, was featured on local radio shows, and was frequently quoted in the national business press as he sought to explain various pension and retirement security subjects including longevity risk, pension funding issues, and potential pension takeovers by the Pension Benefit Guaranty Corp. Among others, in 2009 Todisco was a source for articles by the Associated Press, Bloomberg, Newsweek, Kiplinger's, and FOX Business.

Looming Decisions



Academy Senior Health Fellow Cori Uccello discussed the financial challenges facing the nation's retirement programs with FOX Business anchor Stuart Varney minutes before the May 12 release of the 2009 Medicare and Social Security trustees' reports. Academy spokespersons diligently answered questions from reporters about both programs and garnered dozens of placements from an array of print and Web publications including CNN Money, CBS MoneyWatch, U.S. News & World Report and Dallas Morning News. Academy spokespersons also used the opportunity to discuss the Academy's position statement on Social Security that advocates for an increase in the program's retirement age.

Trained to Respond



Academy Property and Casualty Extreme Events Committee Co-chairperson Shawna Ackerman, who participated in the Academy's media training program in 2007, was quoted in a May 30 Associated Press article exploring the homeowners insurance market heading into the 2009 hurricane season. The article was published online by nearly 700 news organizations and in more than 100 newspapers nationwide.

Pooling Resources



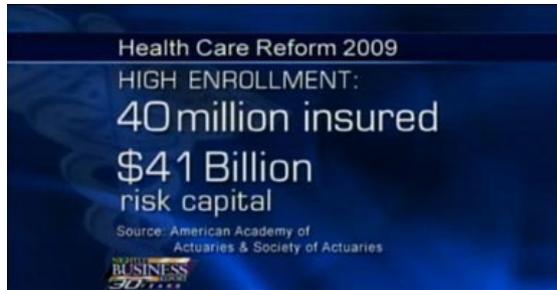
Academy Pension Practice Council Vice President Ethan Kra chats with a reporter following a June 22 Capitol Hill briefing on the latest retirement research. Kra, who at the time was the council's vice chairperson, was on a panel of actuaries including Frank Todisco, the Academy's senior actuary fellow, Andrew Peterson, the Society of Actuaries staff fellow for retirement systems, and Anna Rappaport, a consulting actuary and the president of Rappaport Consulting in Chicago. The briefing was a collaborative venture of the Academy and the Society of Actuaries. The sister organizations also teamed up for a Sept. 29 Hill briefing on lessons learned from the financial crisis.

Gather at the Summit



High-ranking government officials typically draw a crowd, and the Academy's financial summit was no exception to the rule. Members of the Washington press corps including international reporters attended the July 20 event to hear U.S. Treasury Assistant Secretary Alan Krueger's remarks on the economy.

Modeling Reform Costs



A segment during the Oct. 29 broadcast of PBS's "Nightly Business Report" featured Academy Senior Health Fellow Cori Uccello and discussed a soon-to-be-released technical report from the Academy and the Society of Actuaries on projected start-up capital requirements under different scenarios for health insurance cooperatives and a public plan option. The Academy and the Society of Actuaries also partnered to produce an actuarial analysis of the Community Living Assistance Services and Supports Act (CLASS Act), a health care reform provision to create a federal long-term care program. Since its July release, the analysis has been extensively cited in articles and opinion pieces, including those published by the Washington Post, Wall Street Journal, and USA Today.

Advancing PBA



Larry Bruning, member of the Academy's Life Practice Council, presents during a VACARVM seminar jointly sponsored by the Academy and the Society of Actuaries. The seminar's goal was to prepare actuaries for compliance with Actuarial Guideline No. 43, the principle-based reserving valuation guide for variable annuity products that was adopted by the National Association of Insurance Commissioners (NAIC) in 2008. The Academy's efforts to spearhead the principle-based approach project have been noted in business and trade media all year. Those efforts netted a victory for principle-based approach advocates as the NAIC voted on Sept. 23 to adopt proposed revisions to the standard valuation law.