

AMERICAN ACADEMY OF ACTUARIES

Academy Year in Review

2010
RECORD

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AMERICAN ACADEMY *of* ACTUARIES

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Introduction



Ken Hohman, President 2009-2010

2010 has been a year of great progress for the American Academy of Actuaries and we will begin 2011 with brighter prospects. As the Academy's 2010 president, I take absolutely no credit for this—the credit is due to the Academy's leaders, volunteers, and staff members. I want to thank each of you—it is your hard work, dedication, commitment, and professionalism that has made 2010 so successful.

A year ago, we identified the need for undertaking a top-to-bottom examination of the Academy's governance and its role in helping the Academy fulfill its mission to the public and the profession through its work at home and abroad. I'm pleased to report that our Governance Task Force has delivered a comprehensive report, with specific recommendations, to the Academy board of directors. The report is posted on the Academy website—along with an online comment form. I encourage you to read the report and share your comments with us as the board begins considering these recommendations.

One of my commitments when I began my term as Academy president was to improve communications with our membership and the public. In working toward that goal, we've used a number of means during this past year to keep you informed about what is going on at the Academy—from our mainstay publications, *Contingencies* and the *Actuarial Update*, to new, timely e-mails from the president, videos, and Twitter. We have taken a huge step in communications this year, but there is still much more to be done.

A record number of Academy members responded to our annual volunteer survey; Academy members clearly are more aware of what we're doing and voting with their keyboards in support of growing actuarial influence in the public policy arena.

We indeed have aggressively targeted public policy work during the past year as hundreds of volunteers have focused on a variety of issues with a level of intensity that I have not previously seen from the Academy. Within every practice area, at the state, federal, and international levels, we are addressing vital issues that significantly affect the public, and that will, we believe, change the way actuaries practice in areas that are coming under ever-increasing regulatory scrutiny. Let me highlight just a few items for you:

- The Health Practice Council launched an all-out effort throughout 2009 and early 2010 to address the various health care reform proposals. When the final legislation was passed, the council immediately engaged in the regulatory-implementation phase. It's important to note that members of Congress frequently called the Academy in 2009 and 2010 to get unbiased information on various reform proposals; while their final votes may have been driven as much by politics as facts, they knew who to call for objective and reliable information. This relationship has only grown stronger with our key stakeholders in the administration as new rules are being drafted at a breakneck pace.
- Our Pension and Life Practice councils have been collaborating to assist regulators with their efforts to encourage access to and use of lifetime income options for retirees.
- The National Association of Insurance Commissioners' (NAIC) regard for the Academy's work was evident when it asked the Academy to broadly assess the current risk-based capital system, analyze what works and what doesn't, and recommend solutions—for all lines of insurance.
- The Casualty Practice Council continues to address practice and regulatory concerns through both the Committee on Property and Liability Financial Reporting (COPLFR), and the Risk-Based Capital Committee. The council also has raised its profile with Congress on a variety of hot button issues

ranging from oil spill liability to averting repeal of the antitrust exemption for medical professional liability insurers.

■ The Risk Management and Financial Reporting Council has been working at the international level to address insurance reforms and accounting standards that will affect U.S. practices and regulations. At the state level, the council has worked to coordinate the development of policy statements across practice areas on issues such as deferred tax assets. At the federal level, it has tackled federal oversight of insurance and systemic risk policy stemming from the Wall Street reform law. This includes meeting with the Treasury's assistant secretary for financial institutions in October to discuss these issues.

■ One natural outgrowth of the Academy's public policy work has been the actual advocacy of positions. What makes us unique and credible in this area is that our advocacy is restricted to positions that are in the public interest. Two years ago we didn't see significant support for our advocacy position for raising the Social Security retirement age as part of a demographic solution for the sustainability of Social Security. But we persevered in our ongoing communications efforts regarding this position, with the result that policymakers from different parts of the political spectrum, as well as the mainstream media, have recognized and now often cite our position. This is a sign that the issue has ripened and that actuaries are seen as leaders in the discussion.

These are just a sampling of the 2010 accomplishments of Academy volunteers. You'll read about much more of their work in the pages that follow.

In an age of declining mainstream media where opportunities to earn media coverage are shrinking, Academy spokespeople continue to be featured in prestigious print, broadcast, and online media. As subject matter experts, they have provided the actuarial perspective on serious issues—from retirement and lifetime income to health reform implementation, from catastrophic risk to systemic risk, and countless others in between and beyond.

Engaging 17,000 members from different practice areas and with diverse experience can be seen as a challenge—or as an opportunity to be innovative. This year we launched the Academy Advisors, an online survey research panel with an initial enrollment

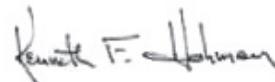
of more than 300 Academy members willing to volunteer their time and provide valuable feedback. We have also created the Young Actuaries Committee to ensure that the next generation of actuaries is part of the dialogue as we determine how to move the profession forward.

The collaboration between the five U.S.-based actuarial organizations continues to be a priority. While the Academy is a member organization, we are something of a hybrid, because the leaders of the other four U.S.-based organizations sit on our board of directors. The leaders of the five organizations then form a committee of the board known as the Council of U.S. Presidents (CUSP). Among other initiatives this group has worked to develop a proposal for an improved disciplinary process that will greatly benefit the U.S. profession. CUSP also has coordinated positions on international issues between the U.S. and North American organizations. We may not always agree, but we communicate well and collaborate wherever we can.

It has been a genuine honor to serve as the 2010 Academy president. I must thank the members of our Executive Committee and board of directors. These are smart, successful people who give up a great deal to serve the Academy and the profession. They truly deserve our respect and thanks. And I also am honored to thank our more than 1,000 volunteers. I simply am overwhelmed by the number of brilliant people who volunteer their time to make our profession stronger. Without you the Academy could not function. I have full confidence that you will support 2011 President Mary Frances Miller as strongly as you have supported me—and that the Academy will reach new heights in 2011.

Thank you all!

With deep appreciation,



Ken Hohman
2010 President
American Academy of Actuaries

Council of U.S. Presidents Highlights

The Council of U.S. Presidents (CUSP) is an Academy board of directors committee established in January 2007. It is composed of the Academy's president and president-elect, plus the presidents and presidents-elect of the American Society of Pension Professionals and Actuaries (ASPPA), the Casualty Actuarial Society (CAS), the Conference of Consulting Actuaries (CCA), and the Society of Actuaries (SOA) (the Academy's special directors).

CUSP's purpose is twofold:

- As an Academy board committee, CUSP is assigned responsibility for certain board functions appropriate for profession-wide supervision, such as oversight of the Actuarial Standards Board (ASB) and the Actuarial Board for Counseling and Discipline (ABCD), and
- CUSP serves as a vehicle where actuarial leaders can discuss issues of importance to the entire U.S. actuarial profession, such as international strategies.

In 2010, CUSP focused its efforts on development of a proposal to reform the disciplinary process.

Under the proposal, a disciplinary recommendation by the ABCD would be submitted for determination to a single representative joint disciplinary panel and, in the event of an appeal, a joint appeal panel. The proposal would create a more efficient disciplinary process with greater consistency in outcomes. The proposed reforms will require bylaws changes and a vote of the membership at each of the member actuarial organizations. The timetable calls for the bylaws changes to be voted upon in 2011 with the revised disciplinary process to go into effect in 2012. On Oct. 1, 2010, CUSP adopted a statement of position on the disciplinary process of the U.S. actuarial profession.

In addition to the most recent statement of position, CUSP, since its formation, has adopted several other statements of positions. These statements, all signed by CUSP's individual members, can be reviewed on the CUSP page on the Academy website.

Council on Professionalism Highlights

The Council on Professionalism and its committees:

- Co-sponsored quarterly webcasts on important professionalism topics with the American Society of Pension Professionals and Actuaries (ASPPA), the Casualty Actuarial Society (CAS), the Conference of Consulting Actuaries (CCA), and the Society of Actuaries (SOA). The professionalism webcasts covered areas such as retiree drug subsidy attestations, the qualification standards, and the SOA's continuing professional development requirements. More than 500 registrants and an estimated 2,500 attendees took part in each of the two most recent webcasts, which covered the U.S. Qualification Standards (June) and the best of the Up To Code articles published in Contingencies (October). A webcast on Actuarial Standard of Practice No. 35 (*Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations*) and other pension standards is scheduled for early December.
- Finalized and published an updated version of the Applicability Guidelines (with the assistance of the other practice councils) in the first quarter of 2010. The update reflects changes that have been made to actuarial standards of practice.
- Answered more than 160 questions relating to various aspects of the revised U.S. Qualification Standards.
- Sponsored the Academy's 11th annual Life and Health Qualifications Seminar to assist actuaries in meeting examination requirements and continuing education requirements under the U.S. Qualification Standards. The event was attended by 68 registrants. In recognition of the continuing value of this seminar, the responsible task force was converted into a standing committee by the Academy's board of directors at its January 2010 meeting.
- Obtained acknowledgments of the Academy's conflict of interest policy from 99 percent of the volunteers. The process was facilitated by allowing volunteers to acknowledge the policy directly online.
- Completed a review of the CAS professionalism



INCREASING THE PUBLIC'S UNDERSTANDING

John Gleba, the 2010-2012 Council on Professionalism vice president, participates in the Academy's media training program, which continues to prepare Academy leaders to become spokespersons for the actuarial profession.

associateship course and the SOA associateship and fellowship professionalism courses, and provided the two organizations with input on their programs. In addition, Academy volunteers and staff participated in SOA and CAS professionalism courses and served throughout 2010 as a professionalism resource for actuarial organizations and clubs.

- Submitted a letter to the Department of Health and Human Services in connection with the interim final rules under the Mental Health Parity and Addiction Equity Act of 2008 and its use of the terms "qualified and licensed" actuary and "member in good standing" of the Academy.
- Completed drafting proposed changes to the Academy's conflict of interest policy and a discussion paper that will provide assistance to volunteers on how to adhere to the policy. The proposed changes will be reviewed and then sent to the Academy board for consideration at its January 2011 meeting.
- Recommended Sheldon Summers for the 2010 Robert J. Myers Public Service Award to the Executive Committee. The recommendation was adopted, and Summers received the award at the Academy's annual meeting on Nov. 8, 2010.

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 standards of practice and 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, 2010, the ABCD had 19 inquiries in process, compared with 44 at the same time in 2009. Of those 19 cases, six were awaiting investigation; one was in suspension; 10 were awaiting more information from the complainant, the subject actuary,

or others; and two were pending finalization by the ABCD.

The ABCD resolved 19 cases during the first three quarters of 2010. Thirteen were dismissed, one was dismissed with guidance, two ended with a recommendation for private reprimand, and three ended with a recommendation for suspension.

The ABCD continued its educational outreach efforts throughout the year. By Sept. 30, it had received 40 requests for guidance. ABCD representatives also made educational presentations at actuarial meetings and continued to write *Up to Code*, which appears in each issue of *Contingencies* magazine.

Public Discipline Highlights

The Academy convenes a disciplinary committee to hear each individual case. Acting in accordance with the Academy's bylaws and under recommendation from the Actuarial Board for Counseling and Discipline (ABCD), these committees addressed

several disciplinary recommendations from the ABCD in 2010. In accordance with the Academy's efforts to be as transparent as possible within confidentiality constraints, the Academy posts notices of public discipline on its 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 United States.

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;
- Publishes a final standard or another exposure draft.

From Oct. 1, 2009, to Sept. 30, 2010, the ASB:

Released four exposure drafts:

- Proposed repeal of ASOP No. 2, *Recommendations for Actuarial Communications Related to Statements of Financial Accounting Standards Nos. 87 and 88*;
- Proposed revision of ASOP No. 10, *Methods and*

Assumptions for Use in Life Insurance Company Financial Statements Prepared in Accordance with GAAP;

- Proposed revision of ASOP No. 28, *Statements of Actuarial Opinion Regarding Health Insurance Liabilities*;
- Proposed revision of ASOP No. 35, *Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations*.

Released two second exposure drafts:

- Proposed revision of ASOP No. 36, *Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves*;
- Proposed revision of ASOP No. 41, *Actuarial Communications*.

Issued the final version of:

- ASOP No. 35, *Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations*.

Practice Council Highlights

Casualty Practice Council Highlights

The Casualty Practice Council:

- Provided a comment letter to House and Senate leadership concerning the reconciliation process involving the Affordable Health Care for America Act (H.R. 3962) and the Patient Protection and Affordable Care Act (H.R. 3950).
- Provided a comment letter to House sponsors of the Health Industry Fair Competition Act.
- Provided written testimony to the Senate Committee on Environment and Public Works concerning the Big Oil Bailout Prevention Liability Act of 2010 (S. 3305).
- Provided comments to the Department of the Treasury on Financial Markets: Terrorism Risk Insurance Analysis in response to a request appearing in the June 17 *Federal Register*.
- Provided reports to the National Association of Insurance Commissioners (NAIC) on risk-based capital underwriting factors.
- Participated in several cross-discipline projects headed by the Financial Reporting and Risk Management Council, which provided comments to the NAIC on its solvency modernization initiative and deferred tax assets.
- Discussed potential changes in the NAIC's Risk-Based Capital Model with the NAIC Capital Adequacy Task Force's Solvency Modernization Initiative Subgroup and other interested parties during a two-day meeting in July. The Academy's Property and Casualty Risk-Based Capital Committee likely will be actively involved in this project.
- Published a report on the causes of property/casualty insurance company insolvencies.
- Conducted the Academy's fifth annual seminar on loss reserve opinions, providing expanded content to educate both relatively new and advanced opinion writers.

- Provided comments to the Actuarial Standards Board concerning its second exposure draft of revised Actuarial Standards of Practice No. 36, *Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves* and comments on its exposure draft of revised Actuarial Standards of Practice No. 41, *Actuarial Communications*.
- Provided a comment letter to the California Commission on Health and Safety and Workers' Compensation concerning a paper by Frank Neuhauser advocating for the integration of workers' compensation into the group health model.

Health Practice Council Highlights

The Health Practice Council:

- Provided numerous comments to the Department of Health and Human Services (HHS) on the new federal health reform law, the Affordable Care Act (ACA), related to its implementation including medical loss ratio reporting and rebates, rate review disclosure and justification of "unreasonable" increases, and the planning and development of state



PROVIDING OBJECTIVE ACTUARIAL INFORMATION
On the floor of the U.S. Senate, Sen. Lamar Alexander (R-Tenn.) cited and entered into the Senate record on March 1 an Academy comment letter regarding health care reform legislation.



A RESOURCE FOR POLICYMAKERS AND THE PUBLIC
The Academy transitioned its Health Reform Now resource library to a new implementation information portal after historic health reform legislation was signed into law. The new Actuarial Compass provides work products related to the new law and its implementation.

health benefit exchanges. As tasked in Section 1341 of the ACA, the Academy worked directly with HHS to discuss possible approaches to identifying high-risk individuals and determine reinsurance payments.

- Commented on a series of interim final regulations for several ACA provisions that took effect in 2010, including the creation of a temporary reinsurance program for early retirees; grandfathering provisions; the elimination of lifetime limits and restriction on annual limits; the elimination of preexisting condition exclusions for children younger than 19; the extension of dependent coverage to age 26; and provision of first dollar coverage for preventive services.
- Worked closely with the National Association of Insurance Commissioners (NAIC) and HHS to identify considerations for developing regulations on medical loss ratios reporting and rebates. Drafted multiple letters addressing the potential for disruption in the individual market, the potential inclusion of contract reserves, and statistical credibility. In addition, met with congressional staff, administration officials, and HHS and Office of Consumer Information and Insurance Oversight representatives to discuss various aspects of health reform implementation.

- Held a webinar on health care reform prior to the passage of ACA to give attendees an overview of the status of the pending reform measures. The webinar, which was co-sponsored by the Conference of Consulting Actuaries (CCA) and the Society of Actuaries (SOA), outlined some of the more significant

differences between the House and Senate bills, and discussed the Academy's involvement in the health care reform debate.

- Collaborated with the SOA on two new state-focused work groups—the Cancer Claims Cost Tables Work Group and the Long-Term Care Valuation Work Group. The Cancer Claims Cost Tables Work Group is in the process of evaluating, updating, and adjusting the 1985 NAIC cancer cost tables to account for the current level of benefits. The Joint Long-Term Care Valuation Work Group is in the process of making recommendations with respect to valuation morbidity tables for long-term care insurance.
- Contributed a series of articles to *Contingencies* covering international health care reform. The articles, which appeared in the January/February and September/October issues, discussed the health care systems in Germany, Japan, and Singapore.
- Developed two new practice notes. *Actuarial Certification of Restrictions Relating to Premium Rates in the Small Group Market* provides information for actuaries who develop actuarial certifications in the small group market. *Practices for Preparing Health Contract Reserves* provides information for actuaries who are required to prepare financial statements by illustrating some of the common approaches to this work.

Life Practice Council Highlights

The Life Practice Council:

- Played an integral role in the development of the exposure draft for *Valuation Manual-20: Requirements for Principle-based Reserves for Life Products*. The National Association of Insurance Commissioners' (NAIC) Life and Health Actuarial Task Force adopted the exposure draft on Aug. 12; it is undergoing field testing with a report due March 31, 2011. The Academy plans to help promote understanding of the principle-based approach (PBA) at both the regulator and company/actuary level throughout the field-testing process.
- Participated in a panel discussion about the future of solvency regulation with respect to regulatory capital requirements and overarching accounting/valuation issues at a meeting of the NAIC's Solvency Modernization Initiative (SMI) Task Force in March.

- Testified on stranger-originated annuity transactions at an NAIC Life and Annuities Committee hearing on May 20.



ADVISING PUBLIC POLICYMAKERS
Noel Abkemeier, a member of the Academy's Life Products Committee, testified on Sept. 15 before the U.S. Treasury and Labor departments that employers should be required to offer a guaranteed lifetime income option in defined contribution retirement plans.

- Testified, jointly with the Pension Practice Council, at a Sept. 15 public hearing sponsored by the Treasury and Labor departments on lifetime income options for retirement plans.

- Worked to complete development of an approach to life and annuity product nonforfeiture reform that could build on an earlier reform framework.
- Presented webinars following the spring, summer, and fall NAIC meetings that provided updates on NAIC activities and reviewed progress of the PBA project, mortality issues, and risk-based capital.
- Issued a practice note on scenario and cell model reduction for purposes of principle-based approaches to reserves and capital on Sept. 22.

- Co-sponsored two seminars with the Society of Actuaries (SOA). How will PBA Rock Your World? was held in Tampa, Fla., on May 19. PBA Implementation: Getting a Rock Solid Start was held



ASSISTING REGULATORS

Academy Life Products Committee Chairperson Cande Olsen testified to the National Association of Insurance Commissioners during a May 20 public hearing regarding stranger originated/owned annuities.

in conjunction with the Valuation Actuary Symposium in Chicago on Sept. 22.

- Reviewed current required disclosures for life settlements and how they benefit both potential sellers and potential investors, with the objective of determining if an Academy position statement would be appropriate.
- Developed an educational paper about the effect of government mandates; the paper will be geared toward both the public and policymakers.

Pension Practice Council Highlights

The Pension Practice Council:

- Testified, jointly with the Life Practice Council, before the Treasury and Labor departments at a public hearing on lifetime income options for retirement plans. The public hearing provided an opportunity for the Pension Practice Council to follow up on the councils' May 3 response to a request for information issued jointly by the Treasury and Labor departments earlier in the spring.
- Testified at a Joint Board for the Enrollment of Actuaries (JBEA) public hearing regarding JBEA proposed regulations, for which the Pension Committee previously submitted a comment letter.



EXPERTS ON RISK AND FINANCIAL SECURITY ISSUES

Academy Senior Pension Fellow Frank Todisco appeared live on Feb. 1 in the New York studio of FOX Business News to discuss increasing Social Security's retirement age with host Brian Sullivan.

- Presented an informational webinar on the Governmental Accounting Standards Board's (GASB) preliminary views on *Pension Accounting and Financial Reporting by Employers*. The webinar featured three members of the Public Plans Subcommittee and was viewed by nearly 300 Academy members and interested parties working in the public plans arena.



EXPLAINING THE ISSUES

Academy Public Interest Committee Chairperson Tom Terry appeared live on CNN to discuss increasing the retirement age for Social Security. Terry told host Don Lemon on July 18 that "there is a long-term financial imbalance in the Social Security system" and that it should be addressed in part by increasing the retirement age.

- Testified at a public hearing and provided written comments to the GASB in response to its preliminary views on *Pension Accounting and Financial Reporting by Employers*.
- Published an updated version of the Academy issue brief: *Social Security Reform: Changes to the Benefit Formula and Taxation of Benefits*.
- Sent a comment letter regarding harmonization of Cost Accounting Standard Nos. 412 and 413 with the Pension Protection Act of 2006.
- Provided comments to the International Accounting Standards Board (IASB) responding to an exposure draft of proposed amendments to International Accounting Standard 19, *Employee Benefits*. The committee supports the IASB's efforts to improve employee benefit accounting and the comments focused on areas of concern related to implementation, measurement details, minimum funding requirements, and disclosures.

- Provided two letters to the Actuarial Standards Board addressing proposed changes to ASOP No. 41, *Actuarial Communications*, and proposed changes to ASOP No. 35, *Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations*.

- Sent a comment letter with suggested changes to the 2011 Schedule SB and Schedule MB instructions and forms.

- Provided two comment letters to the Pension Benefit Guaranty Corporation (PBGC). One letter responded to a PBGC request for comment concerning the purchase of irrevocable commitments prior to initiating a standard plan termination under Employee Retirement Income Security Act (ERISA) Section 4041. The second letter addressed proposed regulations concerning reportable events under ERISA Section 4043.

Risk Management/Financial Reporting Council Highlights

The Risk Management/Financial Reporting Council:

- Conducted two webinars on financial regulatory reform. A webinar on April 20 outlined federal regulatory responses to the financial crisis and their potential effects on the life and casualty insurance industry. Panelists discussed proposals for modernizing financial services regulation and examined reactions to proposals from Congress, the National Association of Insurance Commissioners (NAIC), and the Academy. A webinar on Oct. 5 provided an overview of the Dodd-Frank Act, and included a discussion of the law's components that would affect the insurance industry, as well as the work the Academy had done on the law during the legislative process and now with its implementation.
- Held a webinar discussing the implications of the changes to general purpose insurance contract accounting in the proposed *Insurance Contracts* exposure draft by the International Accounting Standards Board (IASB) and the Financial Accounting Standards

Board (FASB). The webinar was an introduction to the current work of the IASB affecting insurance, and provided an overview of the *Contracts* technical document.

- Sent comments to the IASB on its *Insurance Contracts* exposure draft and to the FASB on its parallel discussion paper.
- Sent a letter to Senate and House leadership urging Congress to include an Office of the Chief Actuary in an Office of National Insurance as Congress reconciled financial reform legislation H.R.4173 and S.3217. The council met with representatives of the Treasury Department, including the assistant secretary for financial institutions, to discuss the newly established Federal Insurance Office and the importance of actuarial resources in the Federal Insurance Office and Office of Financial Research. The council also provided testimony to the Senate Committee on Agriculture, Nutrition, and Forestry supporting the establishment of a governmental systemic risk regulator.
- Released the *Role of the Systemic Risk Regulator* white paper, which outlined new key functions necessary for effective systemic risk regulation.
- Submitted a final report to the NAIC's Capital Adequacy (E) Task Force outlining the appropriate treatment of deferred tax assets in the risk-based capital formulas for life, property/casualty, and health.
- Submitted comments to the International Association of Insurance Supervisors on its *Guidance Paper on Capital Adequacy for Regulatory Solvency Purposes* and on its *Draft Standard on Group-wide Regulatory Requirements and Guidance on Group-wide Supervision Framework*.
- Presented comments to the NAIC on its consultation paper, *Own Risk and Solvency Assessment for the Solvency Modernization Initiative*, at the NAIC's fall meeting.
- Commented to the NAIC's Solvency Modernization Initiative (EX) Task Force on its *Consultation Paper on Corporate Governance and Risk Management* and responded to questions posed in the *Consultation Paper on Regulatory Capital Requirements and Overarching Accounting and Valuation Issues for the Solvency Modernization Initiative*.
- Discussed accounting practices in the health, property/casualty, and life practice areas during the council's annual meeting with the American Institute of Certified Public Accountants (AICPA). Discussed the IASB's *Insurance Contracts* exposure draft in a subsequent call with AICPA.

Governance Task Force

The Academy's board of directors at its October 2010 meeting received and will consider a final report submitted by the Governance Task Force that analyzes the Academy's governance structure and makes specific recommendations. The board thanked and

disbanded the task force, which has now completed its work. The board will convene a special full-day meeting in early 2011 to consider the report and its recommendations. Academy members are invited to submit their comments via an online form.

Volunteer Activities

More than 700 Academy members—a record number and more than double the 2009 response rate—completed the annual volunteer survey to offer their expertise and time to Academy projects. This demonstrates the deep commitment Academy members have to serving both the profession and the public interest.

As demonstrated throughout this edition of the *Record*, Academy volunteers over the past year produced substantial, noteworthy work that touched every practice area and many aspects of the profession. The response to the 2010 volunteer survey reflects an ever-increasing commitment among actuaries to volunteer their time, talent, and expertise to advance the profession and serve the public interest.

New to the Volunteer Survey in 2010 was the option to sign up for the Academy Advisors, a "virtual" committee that will employ easy-to-use survey research technology via the Internet to capture feedback and advice from a representative group of Academy members. Academy Advisors, which will begin its work with approximately 300 members, will be instrumental in providing assistance to the Academy leadership by adding a reliable, critical perspective to the decision-making and governance processes. The panel was created on the recommendation of the Strategic Planning Committee.

Academy Events Recap

Throughout the year, Academy volunteers presented seminars, conferences, webinars, and audiocasts for both actuaries and other interested parties. These events—covering a wide variety of topics on public policy and professionalism—offered members convenient, interactive, cost-effective opportunities to expand their knowledge and sharpen their skills.

Events in 2010 included:

January

25 **Webinar:** Health Care Reform from the Actuarial Perspective: What Are The Key Differences Between the Bills?

February

25 **Webinar:** IFRS/General Purpose Insurance Contract Accounting

March

24 **Webinar:** Retiree Drug Subsidy Certification

April

6 **Webinar:** Quarterly NAIC Update

20 **Webinar:** Federal Regulatory Responses to the Financial Crisis

May

19 **Seminar** (Tampa, Fla.): How Will PBA Rock Your World?

June

17 **Webinar:** Qualification Standards

July

15 **Webinar:** A Look at the GASB's Preliminary Views on Pension Accounting and Financial Reporting by Employers

19 **Conference** (Washington): Summer Summit: The Public Interest



WORKING IN THE PUBLIC INTEREST

Former U.S. Comptroller General David Walker, who headed the Government Accountability Office from 1998 to 2008, delivered the keynote address during the 2010 Academy Summer Summit on July 19. Academy leaders gathered in Washington to discuss how the Academy can utilize its actuarial expertise to adopt advocacy positions on public policy issues.

September

9 **Webinar:** August NAIC Meeting Recap for Life Actuaries

20–21 **Seminar** (Lake Buena Vista, Fla.): Casualty Loss Reserves

22 **Seminar** (Chicago): PBA Implementation: Getting a Rock Solid Start

October

5 **Webinar:** Overview of the Dodd-Frank Act

21 **Webinar:** Best of Up to Code articles

26 **Webinar:** Post-NAIC Update/PBA Webinar

November

1–4 **Seminar** (Arlington, Va.): Life and Health Qualifications

8 **Meeting** (Washington): Academy Annual Meeting

17–18 **Seminar** (Chicago): P/C Effective Loss Reserve Opinion: Tools for the Appointed Actuary

December

3 **Webinar:** Pension Standards of Practice—Today and Tomorrow

Academy Awards

Three actuaries were honored during the presentation of the annual Jarvis Farley and Robert J. Myers service awards at the American Academy of Actuaries' Nov. 8 Annual Meeting and Luncheon.

The Academy awarded Rowen Bell the 2010 Jarvis Farley Service Award in recognition of his service to the association and his efforts to provide policymakers with actuarial information related to health care reform and financial reporting. Bell is the divisional vice president of actuarial forecasting for Health Care Service Corporation in Chicago.



The Jarvis Farley Service Award

The Academy also presented the 2010 Jarvis Farley Service Award posthumously to Daniel J. McCarthy in recognition of his service to the Academy and the actuarial profession. McCarthy was a former president of the Academy, and until his untimely death in 2008, had served as the association's first international secretary, representing the U.S. actuarial profession on the international stage. In this role, he made extraordinary contributions to the actuarial profession.

The service award was established in 1991 in honor of Jarvis Farley, a charter member of the Academy. Farley was a highly respected figure in the actuarial profession who gave tirelessly to the association. The Academy presents the award to individuals who continue Farley's spirit of volunteer service to the actuarial profession.

In addition, the Academy honored Sheldon Summers with the 2010 Robert J. Myers Award for Public Service in recognition of his contributions to the public good through his 31 years of service with the California Department of Insurance, where he served as chief actuary from 2002 to 2009.

The annual award is named after Robert J. Myers, who helped structure and fund the nation's largest social insurance program in history during his tenure as the chief actuary of the Social Security Administration from 1947 to 1970. The award was established in 1994 to honor Myer's lifelong commitment to public service. The award is bestowed upon an actuary who has distinguished himself or herself through many years of service in the public sector.



The Robert J. Myers Award for Public Service

Presidential Communications

In each issue of *Contingencies*, the Academy's award-winning bimonthly magazine, the president of the Academy offers perspectives on issues relevant to the profession and the public policy work of the Academy.

In 2010, Academy President Ken Hohman wrote about:

- **HIDDEN VALUE:** In the broad debate on financial security, it is vital that actuaries be an integral part in planning the direction our financial leaders will take.
- **A SPIRIT OF COOPERATION:** The five U.S.-based membership organizations for actuaries collaborate through the Council of U.S. Presidents (CUSP). CUSP recently recommended ways to make the disciplinary process more efficient.
- **IT'S A SMALL WORLD:** The U.S. economy is more intertwined with the economies of other countries than ever before—that's why it is important for U.S. actuaries to stay engaged in international actuarial activities.
- **STEPPING BACK TO LOOK FORWARD:** The actuarial profession must have a strong, respected, nonpartisan voice addressing public policy issues at the federal and state levels.

In keeping with his pledge to encourage better and more frequent two-way communications between the Academy leadership and its members, President Ken Hohman also authored a number of letters throughout the year to update members on Academy activities and accomplishments. The 2010 e-mail messages covered:

- A message highlighting the Academy's public policy work. (February 2010)
- A message announcing the Governance Task Force. (March 2010)
- A message seeking nominations for regular director of the Academy board of directors and announcing the formation of Academy Advisors. (April 2010)
- A message providing updates from the May 20 board of directors meeting. (June 2010)
- A message announcing the 2010 Academy Volunteer Survey. (July 2010)
- A message recapping public policy and professionalism activities over the summer at the Academy. (August 2010)
- A message recapping highlights from the October board of directors meeting as well as a full slate of recent public policy and professionalism activity at home and abroad. (October 2010)

Academy Communications

In addition to expanded communications to the membership by the president, the Academy also worked to enhance communications through other channels with both members and external audiences.

■ COMMUNICATING VIA SOCIAL MEDIA. Seeking new ways to increase its outreach to a variety of audiences, the Academy has expanded its communications efforts to include social media. To stay updated on the Academy's public policy and professionalism work on behalf of the actuarial profession, members now can follow the Academy on Twitter under the name (handle) Actuary_Dot_Org.



■ ACADEMY VIDEO IN THE PUBLIC INTEREST DEBUTS.

The Academy also launched a new video programming initiative to improve communications with and for members and the publics the Academy serves.

Watch Academy 2010 President Ken Hohman, 2011 President Mary Frances Miller and others share their views on the value of the Academy's unbiased, objective public policy work and how that work has evolved into public advocacy. This five-minute video, which premiered at the Nov. 8 Annual Meeting, is the first in a series of informational videos planned for 2011.

North American Actuarial Council Highlights

The North American Actuarial Council (NAAC) brings together the nine national actuarial organizations on the North American continent:

- American Academy of Actuaries (Academy) (U.S.-based)
- ASPPA College of Pension Actuaries (ACOPA) (U.S.-based)
- Asociación Mexicana de Actuarios (AMA)
- Asociación Mexicana de Actuarios Consultores (AMAC)
- Canadian Institute of Actuaries (CIA)
- Casualty Actuarial Society (CAS) (U.S.-based)
- Colegio Nacional de Actuarios (CONAC)
- Conference of Consulting Actuaries (CCA) (U.S.-based)
- Society of Actuaries (SOA) (U.S.-based)

The primary purpose of NAAC is to build solid and lasting bridges between the professional actuarial organizations of North America. It provides a forum to promote coordination, cooperation, and trust among the leadership of the participating organizations, who represent actuaries in Canada, Mexico, and the United States. In this spirit, NAAC members exchange and share information on significant current activities, discuss profession-wide issues (not necessarily involving all participating organizations) and, wherever possible, develop an action plan to address those issues.

In 2010, the NAAC:

- Continued to discuss a tri-country cross-border discipline agreement among Canada, Mexico, and the United States. Through in-person meetings and conference calls, NAAC's two task forces on this issue—the Task Force on a Trilateral Cross-Border Discipline Agreement and the Task Force to Describe Actuarial Work in Another Jurisdiction—continued to make progress toward a draft agreement.
- Expanded the work of the NAAC Collaborative Research Group. Created at NAAC's February 2009 meeting, the group's mission is six-fold:

- > Share information about each organization's research priorities and initiatives;
- > Promote collaboration;
- > Minimize duplication;
- > Brainstorm on topics for potential partnered research by the organizations;
- > Identify research projects with a potential for public policy advocacy
- > Coordinate funding as needed.

The Collaborative Research Group has been holding monthly conference calls. One project that resulted is joint SOA and CAS funding of a study on the risk of severe inflation and deflation. The group also has been sharing information on ongoing projects, among which are the Actuaries Climate Volatility Index, the work of the Joint Risk Management Section, and research on medical errors, retirement, and accounting.

- Supported increased information sharing among NAAC member organizations.

> DISCIPLINARY REFORM IN THE UNITED STATES:

STATES: The Council of U.S. Presidents reported to NAAC on CUSP's current efforts to overhaul the U.S. profession's disciplinary system and processes. The CUSP report detailed the proposed system's structure and the steps each U.S. actuarial organization must take to ensure it is implemented

> MEXICAN MEMBERS' PRESENTATION ON

IMPLEMENTING SOLVENCY II IN MEXICO: NAAC's Mexican members shared information on how Mexico is undergoing the change to a financial reporting system based on Solvency II principles. They have described the economic, political, and regulatory challenges arising from Solvency II.

> MEXICAN MEMBERS' PRESENTATION ON THE

MEXICAN ACTUARIAL PROFESSION: Mexican members delivered a presentation on the widely varied fields in which actuaries work and on the relationship between their university-based credentialing system and the profession.

International Activities

The American Academy of Actuaries serves as the voice of the U.S. actuarial profession internationally, coordinating activities among the five major U.S.-based actuarial associations, to identify emerging international issues affecting U.S. actuaries and, where possible, to seek consensus on positions under consideration by international organizations.

As the actuarial organization with the largest membership of U.S.-based actuaries, the Academy also is committed to advancing the U.S. profession in the international arena with multilateral stakeholders concerned with insurance and actuarial matters, such as the International Association of Insurance Supervisors (IAIS), International Accounting Standards Board (IASB), Organization for Economic Co-Operation and Development (OECD) and, in particular, the International Actuarial Association (IAA). Within its overall mission to serve the public on behalf of the U.S. actuarial profession, the Academy continues to develop and provide input on actuarial issues to international stakeholders, including public policymakers and standard-setters, to ensure that the interests of U.S. actuaries are known and considered.

At the International Actuarial Association (IAA), the signature issues of 2010 involved the Academy's work to emphasize that any international standards of practice adopted through the IAA must be model standards—examples for associations or areas of the world in which few or no standards of actuarial practice exist—and that they must be voluntary, not mandatory. There also is ongoing discussion at the IAA regarding the desirability and feasibility of achieving convergence of actuarial standards around the globe.

Some of the Academy's activities at the IAA for 2010 included:

■ IAA PROCESS OF IMPLEMENTING INTERNATIONAL ACTUARIAL STANDARDS (IASPS): The IAA developed a new process two years ago for implementing model International Actuarial Standards of Practice (IASPs). The first step in the new process involves an IAA committee's responsibility to explain through a "Statement of Intent" (SOI) why a model standard is needed and what it would address.

■ INSURANCE ACCOUNTING COMMITTEE SUBMITTED ITS SOI ON INTERNATIONAL FINANCIAL REPORTING

STANDARDS (IFRS): The IAA's Actuarial Standards Subcommittee of the Insurance Accounting Committee submitted a statement of intent for a model IASP. Throughout 2010, the Academy worked on responding to this SOI to ensure that any new model standard would be specific to IFRS work, and would separately address, through a different model standard, any general or generic actuarial practices (documentation, communications, data quality, etc.) that are well and thoroughly covered in existing ASOPs issued by the U.S. ASB. At the October 2010 IAA meeting in Vienna, Austria, the IAA Council, the international organization's governing body, approved the course of action that the Academy had been supporting.

■ INSURANCE CONTRACTS: The Insurance Accounting Committee of the IAA is working on its response to the IASB on its insurance contracts exposure draft, which proposes International Financial Reporting Standards (IFRS) that all insurers in all jurisdictions could apply to all contract types on a consistent basis. The Financial Accounting Standards Board (FASB) also released a companion discussion paper that solicits input on how to improve, simplify, and converge the financial reporting requirements for insurance contracts.

■ SYSTEMIC RISK IN INSURANCE: The IAA's Insurance Regulation Committee has established a working group to outline the actuary's role in systemic risk regulation. The paper, *The Role of the Actuary in Systemic Risk Regulation*, will address the source of systemic risk in financial markets, the role of regulators, and the measures of systemic risk. The paper is expected to take into account developments within various countries. A version of the paper was discussed at the Vienna meeting in October 2010, with a final version scheduled to be completed and adopted at the Sydney, Australia, meeting in April 2011.

■ GUIDANCE PAPER ON USE OF SCENARIO AND

STRESS TESTING: The Solvency Subcommittee drafted a paper covering use, construction, formulation, evaluation, and analysis of stress scenarios.

Comments were circulated initially after the Cape Town meeting in March 2010, with more discussion at the Vienna meeting in October.

■ COMFRAME—COMMON FRAMEWORK FOR THE REGULATION OF INTERNATIONALLY ACTIVE COMPANIES: The ComFrame Task Force was created recently under the IAA's Insurance Regulation Committee. The ComFrame Task Force will assist the IAIS in a five-year project to develop the common frameworks for the supervision of internationally active insurance groups to ensure that actuarial principles are realized, where appropriate, relating to matters such as solvency requirements on capital adequacy, internal models, enterprise risk management, investment, valuation of assets and liabilities, and the role of the actuary.

■ NOTE ON THE USE OF INTERNAL MODELS: The Solvency Subcommittee is finalizing a *Note on the Use of Internal Models for Risk and Capital Management*

Purposes by Insurers. This note provides educational material for those responsible for constructing, using, and approving the use of models to assess and manage risk and capital within insurance enterprises (insurers). This Note also will be useful to those who rely upon the information derived from models as an aid to understanding the derivation, uses, and limitations of this information.

■ REPORT ON PROGRESS TOWARDS DRAFTING OF ERM PROFESSIONAL STANDARDS FOR ACTUARIES: A review of the possible extension of the scope of standards in the United States to embrace enterprise risk management was commissioned by the U.S. ASB. In light of this development, an international monitoring subgroup of the IAA Enterprise and Financial Risk Committee was formed to liaise with the ASB with a goal of understanding implications for standards beyond the United States. There also is discussion of a model IASP for ERM.