Actuarial UPDATE
THE NEWSMONTHLY OF THE AMERICAN ACADEMY OF ACTUARIES

2013 Summer Summit Sizzles

Entitlements and Their Long-Term Sustainability Prompt Calls to Action

Tom Terry addresses an engaged crowd of Academy members.

NEAR-RECORD-SETTING HEAT could not dampen the enthusiasm of Academy leaders from all practice areas attending the July 15 Summer Summit in Washington to discuss the Academy's policy agenda moving forward into 2014. "This summit underscores the call to action for the American Academy of Actuaries," said Tom Terry, Academy president-elect. "The speakers and discussions uncovered even more substantial opportunities for us to use our expertise and actuarial brand to foster sustainable public programs."

The "A-list" speakers that offered hard-hitting insights from the Senate, the CBO, and the House were Kent Conrad, former senator from North Dakota and former chairperson of the Senate Budget Committee; Joyce Manchester, chief of the Long-Term Analysis Unit—Health Retirement and Long-Term Analysis Division of the Congressional Budget Office (CBO); and Rep. Jim Cooper (D-Tenn.). (See sidebars for more details on their remarks.)

Insight from the Senate

In his remarks, which set the stage for the day's analysis of what actuaries can do to influence the debate on entitlement programs, Conrad began by telling the audience what a great brand actuaries have—a brand known for factual and unbiased information that could make a difference in decision-making. He presented thought-provoking data and analysis on economic performance with detailed looks at GDP elements, reform efforts in Congress, and ways progress can be made.

He urged the Academy audience to message its work simply and often. "You have credibility. You have an ability to be truth tellers—and truth tellers are desperately needed," he said. "You don't need to eviscerate these programs to get back on track, but you need to make changes."

Terry referenced Conrad's call to be "truth tellers" as he set the stage for a panel discussion on current

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Get Ready to Vote

Regular Director Election Opens Aug. 26

FROM AUG. 26 TO SEPT. 16, Academy members will have an opportunity to vote for four regular directors. Candidates are running to fill three full three-year terms and one unexpired one-year term. Members who have voted in the two previous online elections will find similar procedures in place for 2013.

Each of the candidates on the Nominating Committee's slate for regular director has a distinguished and lengthy record of service to the Academy. Members are encouraged to recognize and support the candidates' commitment to the Academy and the profession and the public it serves by casting their ballot during the election, which will close at 11:59 p.m. EDT on Sept. 16.

The candidates for regular director are:

For regular director, one-year term expiring 2014

- Thomas Campbell

For regular director, three-year term expiring 2016

- Albert Beer

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AUGUST

2–3 International Association of Black Actuaries (IABA) Annual Meeting, Chicago

14 Academy Executive Committee meeting, Washington

22 Financial Reporting Implications Under the ACA webinar

24–27 NAIC summer national meeting, Indianapolis

SEPTEMBER

16–17 Casualty Loss Reserve Seminar, Boston

24–25 Life PBR Seminar, Indianapolis

OCTOBER

1 CUSP meeting, Washington

1–2 Academy Board of Directors meeting and board orientation, Washington

20–23 CCA Annual Meeting, San Antonio

20–23 SOA Annual Meeting, San Diego

NOVEMBER

3–6 CAS Annual Meeting, Minneapolis

4 Academy Annual Meeting and Awards Luncheon, Minneapolis

11–14 2013 Life and Health Qualifications Seminar, Arlington, Va.

13–14 Effective Loss Reserve Opinion Seminar: Tools for the Appointed Actuary, St. Louis

15–16 NAAC meeting (Academy), Miami Beach, Fla.

21–24 NCOIL Annual Meeting, Nashville, Tenn.

DECEMBER

11 Executive Committee meeting, Washington

15–18 NAIC fall national meeting, Washington

To continue receiving the *Update* and other Academy publications on time, remember to make sure the Academy has your correct contact information. Academy members can update their member profile at the member log-in page on the Academy website.

Academy NEWS Briefs

Academy Experts Talk Annuities and Flood Insurance

ACADEMY EXPERTISE WAS ON DISPLAY at the 2013 National Conference of Insurance Legislators (NCOIL) summer meeting in Philadelphia. Casualty Vice President Mike Angelina spoke to a panel of state legislators on the future of the National Flood Insurance Program (NFIP) on July 11, and Senior Life Fellow Nancy Bennett participated in a special session on annuities on July 13.

For his presentation, Angelina focused on the NFIP's future after the passage of the 2012 Biggert-Waters Flood Insurance Reform Act. He began by discussing Biggert-Waters' forthcoming significant changes to rate setting. Specifically, subsidized rates will be phased out gradually for non-primary residences, businesses, and properties with severe repetitive losses. Additionally, lapsed policies as well as policies for newly purchased properties or those issued after Biggert-Waters' enactment on July 6, 2012, will be immediately subject to full-risk rates. Remapping may place some properties on a schedule toward full-risk premium rates.

Biggert-Waters is moving NFIP premiums toward actuarial soundness by pricing NFIP products at increasingly closer-to-adequate rates. Even if all NFIP-covered properties were given "full-risk" rates, such rates historically have not had provisions for cost of capital. These full-risk rates are being phased in gradually. Several bills pending in the current Congress would slow the rate at which premium increases are implemented.

Angelina also discussed the NFIP's debt, which is approximately $24 billion. Hurricane Katrina and Superstorm Sandy have added to the debt and exacerbated the already challenging issue of repayment. Even with an unusually low interest rate, any other significant losses would further complicate congressional plans to address the debt. Angelina noted that the program may not be viewed as financially secure until the debt issue is resolved.

In her presentation to the panel, Bennett discussed the demographic, economic, regulatory, and political factors putting pressure on the life insurance industry.

Given such uncertainties and challenges, Bennett talked about what insurers, regulators, consumers, agents, and the Academy are doing in response. Insurers are reducing the risk in their blocks of variable annuities, adapting products according to consumer demands and insurers' tolerance for risk, and implementing more sophisticated risk management approaches.

State regulators are focused on strengthening oversight. Efforts are under way to increase consumer protections, evaluate existing regulations and their effectiveness in a global marketplace, and employ more risk-focused regulation because of a more complex marketplace. In addition, federal and international regulators are becoming increasingly involved in the oversight process.

Consumers find themselves needing to take greater responsibility. As they attempt to recover from recent financial losses and a lackluster economy, consumers need to focus on accumulating assets for retirement and figure out how to maintain a lifetime income. Agents will need to adapt to changing product offerings and more stringent sales regulations.

Bennett discussed the Academy's efforts to address these concerns as part of its Lifetime Income Initiative. Lifetime income risk is one aspect of longevity risk: It involves an individual's risk of outliving assets, even when those assets are structured to meet basic needs. To manage this risk, workers and retirees need to consider a number of approaches that address lifetime income from different directions; they need the support of employers, lawmakers, and financial product providers.

Bennett talked about "Risky Business: Living Longer Without Income for Life," a discussion paper prompted by the Lifetime Income Initiative that focuses on ensuring secure income for retirees that lasts their entire lifetime. The paper also explores potential solutions through changes in education, plan design, and federal retirement policy.

Get Ready for ICA 2014

Actuarial organizations around the world are invited to help promote ICA 2014. Click here to find out more about registration and events.

IN THE NEWS

CBS Moneywatch discussed the Academy's report on longevity risk in "Living Too Long Is a Risk!" and "Experts Warn of Retirement Crisis." The same report was mentioned in Bankrate's retirement blog, in a *Wall Street Journal* piece written by Karl Rove, in the story "Retirement Income: Where's the Innovation?", in the Construction Executive eNewsletter, in a *Star Global Tribune* piece on financial planning, and in a story in the *Employee Benefit Advisor*.

A PBS Newshour segment mentioned the *Contingencies* story on young people and the Affordable Care Act. Sen. Mike Lee cited statistics from the same story in his July 17 floor remarks. A Senate Republican Policy Committee post also referenced the information.

The *Contingencies* article "The Perilous State of Flood Insurance" was mentioned on the author's blog.

"How Sex Can Sell Annuities" quotes Noel Abkemeier, cochairperson of the Academy's Lifetime Income Risk Joint Task Force, on gender-neutral rates in defined benefit plans and the annuities sold as part of those plans.

Senior Pension Fellow Don Fuerst was quoted in the *Detroit Free Press* article "Susan Tompor: Don't Blame Pensioners for Detroit's Fiscal Crisis" and in the *Pension and Investments* story "Sheet Metal Workers Pension Fund Latest to Go to Variable Benefits." He also was interviewed by *Life and Health Advisor* on Social Security.

Senior Health Fellow Cori Uccello was quoted in an article on PolitiFact.com on premium changes under ACA.

The Academy's white paper "Financial Reporting Implications Under the Affordable Care Act" was mentioned in the NBCH newsletter

The Committee on Ways and Means released a fact sheet that quotes from Academy testimony given on May 23.

Register now for the Aug. 22 webinar to learn more about how various provisions of the Affordable Care Act will affect financial reporting requirements as discussed in a recently released white paper by the Academy's Health Practice Financial Reporting Committee.

Financial Reporting Implications Under the ACA (FREE)
Aug. 22, 2013 Noon–1:00 p.m. EDT

Get a Head Start on Reserving in a Principle-based World

Life PBR—The New Valuation World (Sept. 24–25 in Indianapolis): Register now for this interactive seminar, which will combine instructor-led training with small-group discussions on the practical application of the principle-based reserving mechanics as outlined in VM-20. Principle-based reserve experts will discuss the latest developments, including the new PBR Actuarial Standard of Practice and PBR practice note—both expected to be completed this year.

PROFESSIONALISM COUNTS

What is the history behind the Academy credential being written into regulations?

Academy membership is the hallmark of a qualified actuary in the United States. In December 1966, the National Association of Insurance Commissioners (NAIC) adopted a resolution supporting recognized standards of actuarial competence and conduct and urged commissioners to support the Academy's efforts to gain official recognition. Today, every state has regulations that recognize Academy membership as a qualification for signing insurance company annual statements. Some states also have corresponding recognition for public employee retirement systems. Indiana was the first state to act; in a 1968 law it provided for actuarial certification by a state board. In other states, the general pattern has been to issue administrative orders or regulations.

In 1975, a new requirement spelled out that an actuary who signed a life insurance company annual statement must express an opinion on the actuarial elements, including an opinion on the adequacy of reserves. The Academy responded with recommendations on how that responsibility should be met (as it did again in 1983 when a comparable actuarial opinion began to be required for health service corporation and HMO annual statements). In 1980, a similar requirement was added to the property and liability insurance company annual statement; this requirement, however, was at the discretion of the domiciliary insurance commissioner. The Academy again responded with appropriate recommendations to the profession.

At the Academy's urging, the NAIC in 1990 eliminated the discretion of individual states. As a result, virtually all annual statements from property/casualty companies in the United States must be accompanied by a loss reserve opinion from a "qualified actuary," which is defined as an Academy member approved by the Casualty Practice Council, a member of the Casualty Actuarial Society, or an individual approved by the domiciliary commissioner. (In the pension field, the Employee Retirement Income Security Act of 1974 [ERISA] established extensive and specific standards for actuarial reports, for disclosure and fiduciary relationships, and for the qualifications of actuaries in pension work.) Academy membership also became a legal requirement in 2006 for actuaries filing actuarial equivalence attestations for retiree health plans seeking a Medicare Part D subsidy.

Actuarial Standards Board

Exposure Draft ASOP on Modeling Needs Your Input

THE ACTUARIAL STANDARDS BOARD (ASB) has approved an exposure draft of a proposed actuarial standard of practice (ASOP) on modeling. Members are asked to send their comments and suggestions by Sept. 30, 2013. The new ASOP's purpose is to help actuaries select, design, build, modify, develop, or use models when performing professional services. Actuaries in every discipline work with models, ranging from simple spreadsheets to complex capital ones, and the presence of modeling applications in actuarial science has continued to increase, with the results of actuarial models often entering financial statements directly.

Modeling guidance from the ASB is not new, but it has been limited in its scope. Motivated primarily to address the role that catastrophe modeling of earthquakes and hurricanes played in property ratemaking, the ASB started work on a modeling standard in the late 1990s. At that time, the guidance focused on specialized models used by actuaries but developed by non-actuaries. With the scope of the standard limited to the property/casualty practice area, ASOP No. 38, *Using Models Outside the Actuary's Area of Expertise*, was approved by the ASB in June 2000. Because many other ASOPs allude to "models" or "modeling" in their guidance, the ASB thought it was time to broaden the guidance to all practice areas.

Work began in 2010 when the Life Committee formed a task force and then released a discussion draft in 2012 called "Modeling in Life Insurance and Annuities." The ASB used the feedback on this draft to create two task forces—the Modeling Task Force, which focused on creating an ASOP to address modeling across all practice areas, and another, which worked to determine if expanding ASOP No. 38 to all practice areas made the most sense. This exposure draft comes from the Modeling Task Force, whose members have experience in life insurance, health insurance, property/casualty insurance, enterprise risk management, and pension/benefits. An exposure draft of revisions to ASOP No. 38 is tentatively planned for release near the end of the year.

All responses to this exposure draft will receive appropriate consideration as the drafting committee prepares the final document for approval by the ASB. The ASB accepts comments by either electronic or conventional mail, although email is preferable. For email, please send a message to comments@actuary.org.

PROFESSIONALISM BRIEFS

- **D. Joeff Williams**, a consultant with Actuarial Management Resources, Inc. in Winston-Salem, N.C. has been appointed Vice Chairperson of the Council on Professionalism.

Weigh In on PBR ASOP Exposure Draft

Principle-based reserving (PBR) for life insurance products is in the process of being considered and adopted in states around the country and, if a threshold adopts it, could be effective as soon as 2015. A new Actuarial Standard of Practice (ASOP) exposure draft ("Principle-Based Reserves for Life Products") that provides guidance on PBR in light of the National Association of Insurance Commissioners (NAIC) Standard Valuation Law and the NAIC *Valuation Manual* adopted in December 2012 has been released by the Actuarial Standards Board (ASB). Those who are interested in commenting are encouraged to do so before Dec. 16, 2013.

Several years ago, the ASB formed a task force to determine if a standard of practice was needed for actuaries who would be working with PBR, and that task force created a discussion draft for calculating PBR that is consistent with VM-20 (the relevant chapter of the *Valuation Manual*). Because of useful suggestions from different sources and changes to VM-20, that draft has been revised many times over the years. The result is the draft now being exposed.

Many factors prompted the need for more specific PBR guidance. After 1980, greater interest rate volatility, innovations in policy designs, and regulations seen as either too restrictive or not restrictive enough led industry professionals and regulators to seek new ways to maintain solvency and efficiency whatever the economic conditions. Some of these approaches included dynamic statutory valuation interest rates, cash flow testing of reserves, and several different minimum reserve requirements. However, product innovations continued at a rapid pace, and keeping up with their proliferation was increasingly difficult.

Statutory reserve issues were not limited to the United States, and other countries had put new programs in place to shore up their systems. The new approach proposed in the United States was given the name of principle-based reserves, and required that companies use their own experience for reserve calculations, recognize the impact of all material risk factors, and create reserve margins appropriate to a given product's risk.

This PBR ASOP would provide guidance to the actuary opining on a principle-based reserve valuation performed in compliance with the Standard Valuation Law applicable to United States jurisdictions. The terminology and provisions of this ASOP are intended to be consistent with those requirements.

All responses to this exposure draft will receive appropriate consideration as the drafting committee prepares the final document for approval by the ASB. The ASB accepts comments by either electronic or conventional mail, although email is preferable. For email, please send a message to comments@actuary.org. In addition, the Academy will plan further PBR educational initiatives for practitioners on PBR over the next several months.

Practice Note Highlights ERM

THE ACADEMY'S ENTERPRISE RISK MANAGEMENT (ERM) Committee has released a practice note on what U.S. actuaries do when performing or assessing the effectiveness of ERM. The use of ERM within the insurance industry continues to evolve, and interest in its use is growing across many disciplines. Rating agencies and regulators also are interested in how insurers use ERM on a day-to-day basis. Currently, the National Association of Insurance Commissioners (NAIC) is developing regulatory requirements regarding an insurer's Own Risk and Solvency Assessment (ORSA).

The practice note discusses the role actuaries can play within this process: "Actuaries undergo extensive training and develop specialized experience in dealing with uncertainty within many areas of an insurance organization. Therefore, actuaries often play key roles in all aspects of the ERM control cycle."

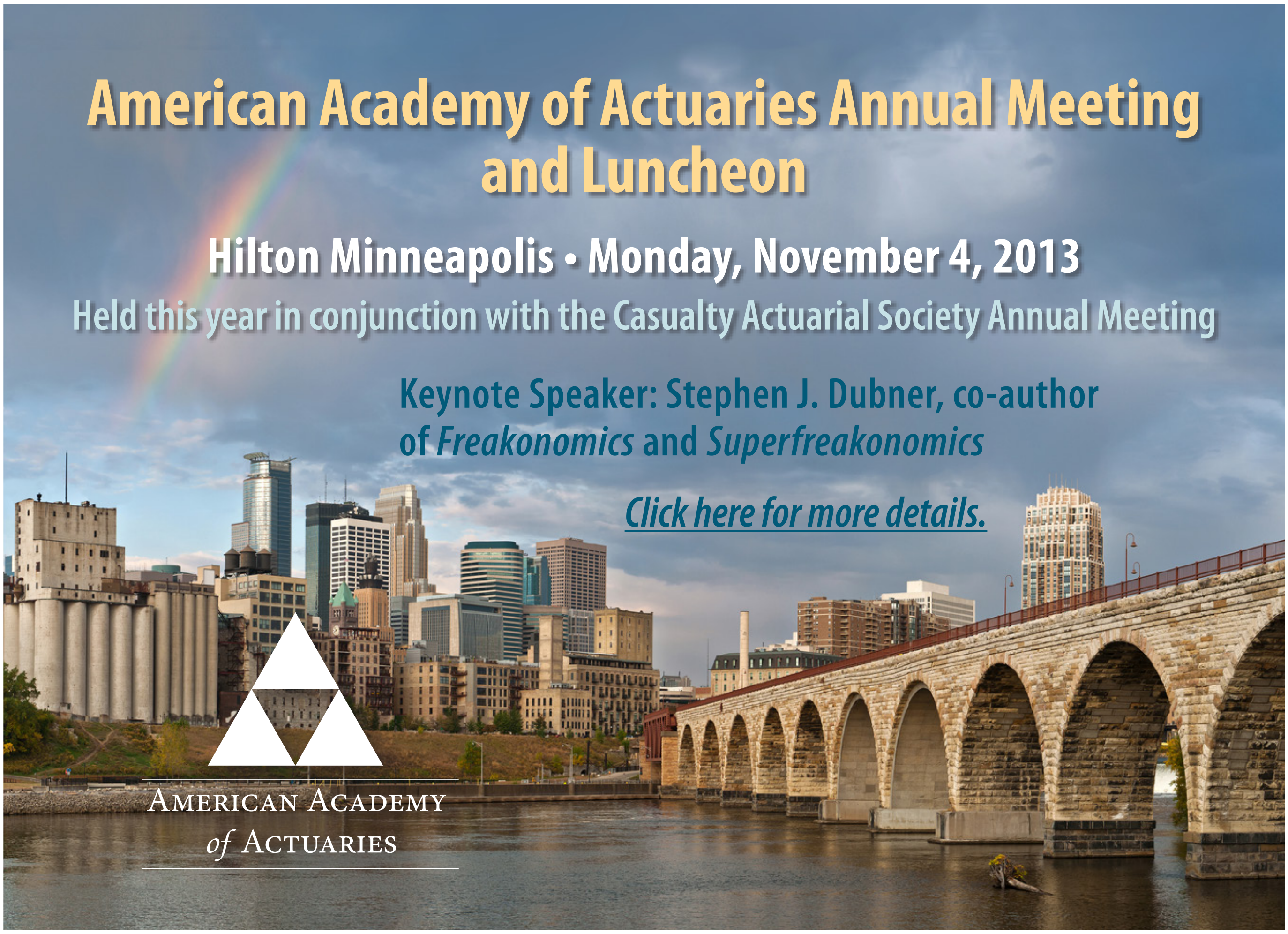
The practice note describes effective ERM as having two primary goals:

- "To identify, evaluate and, where possible, quantify risks and their correlations and/or dependencies from all sources across an organization; and
- To ensure that the organization actively implements risk treatment strategies that leverage knowledge of its risks to achieve appropriate risk and return tradeoffs in accordance with an organization's values and goals."

Additionally, the practice note discusses key concepts and processes that insurance organizations have used to implement ERM. It describes in detail the risk culture, risk organization, and risk governance common to ERM practice. Specific policies and procedures support this culture and organization and involve various risk identification and categorization strategies, risk evaluation approaches, and risk treatment activities. Overall strategies for monitoring and treating risk come into play. The practice note concludes with a discussion of likely future developments in ERM.

RISK MANAGEMENT AND FINANCIAL REPORTING BRIEFS

- **Elizabeth Brill**, vice president and actuary for New York Life Insurance Co. in New York, has joined the Reinsurance Committee.



Academy efforts in these areas. Moderated by Steve Alpert, chairperson of the Public Interest Committee, representatives from several committees and councils—John Moore, vice president of the Pension Practice Council; Tom Wildsmith, chairperson of the Medicare Steering Committee; and Mike Angelina, vice president of the Casualty Practice Council—talked about the Academy's work on flood insurance, Social Security, and Medicare, including testimony on Capitol Hill, webinars, and publications. In breakout sessions, participants discussed four key questions:

- Actuarial aspects of the Social Security, Medicare, Medicaid, and flood insurance programs;
- Characteristics of sound and sustainable approaches;
- Information and analysis needed for policymakers to assess or modify programs;
- Ways that program costs could be better articulated to facilitate sound policy discussions.

Insight from the CBO

After lunch, Academy President Cecil Bykerk introduced Manchester. Her presentation went into greater detail on issues introduced in Conrad's speech, especially on CBO methodology for calculating 10-year and longer-term cost trends for Social Security, Medicare, Medicaid/CHIP, and health insurance exchange subsidies.

"We bend over backwards to think in nonpartisan ways," Manchester said. "If both sides are annoyed, we've done a good job. Once in office, elected officials understand the importance of objective, nonpartisan information."

Insight from the House

Introduced by former Academy President Mary Frances Miller, who lives in his district and confirmed his reputation for fiscal conservatism as well as his popularity, Cooper talked about the inner workings and unworkings of Congress and what actuaries can do to further progress on key issues.

"Real reform is only possible at the margins," he said. "Unless the public changes its mind on key issues or unless the public starts electing statesmen."

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The Actuarial Brand

Speaking about entitlement programs to attendees of the Summer Summit, Kent Conrad, former U.S. senator from North Dakota, joked: "I am the guy who failed completely in convincing my colleagues to take on these issues, and I am here to advise you how to succeed."

Noting that in 2009 the United States experienced a 60-year high in spending and a 60-year low in revenue, Conrad said: "Those who say we have a spending problem have it half right. If you're going to look at the problem, you have to look at both sides of the equation."

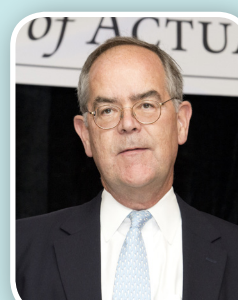
While an improving economy and cuts in discretionary spending are helping, Conrad said, the cuts have come in spending areas that were already shrinking while spending in health care accounts has been growing. Reining in tax loopholes, especially those used by corporations or individuals in overseas accounts, has to be on the agenda.

In response to specific questions about Social Security and Medicare solvency, Conrad reiterated the urgency.

"When I'm asked what is the biggest problem, it is public opinion," Conrad said. "Most of my colleagues want to get re-elected, and the people who want them here are not convinced that something must be done about increasing revenue, that something must be done about Social Security and Medicare."

Conrad added, "You have a great brand. You are actuaries. You have a chance to help educate my colleagues and the American people. That is a huge opportunity, and with that goes a huge responsibility. I hope you will continue your efforts. There is a lot at stake, a lot at stake."

Congressional Challenges



U.S. Rep. Jim Cooper (D-Tenn.) began with a slide that read: "Welcome to Washington: The last place in the U.S. with gravity-free accounting." He used that as a springboard for discussing budget deadlocks, public priorities, and future solutions.

"Public education is the central challenge," Cooper told Summer Summit attendees. He outlined a variety of solutions—"all obvious, all painful"—to keep entitlement programs solvent and sustainable. Cooper's proposal: using chained CPI, means testing, and older retirement ages for Medicare and Social Security; federalizing Medicaid and moving the program to all managed care; implementing Clinton-era tax levels or a carbon tax for increased revenue; and encouraging freer trade and the dollar as reserve currency.

Cooper also discussed congressional deadlock and some of its consequences: month-to-month funding of government, delayed passage of debt-ceiling increases, longer-term arbitrary sequester cuts, short-term deficit declines that don't help longer-term problems, and increasing partisanship.

Given this climate, Cooper gave odds on what could happen to fix the situation: 2 percent chance of a "grand bargain" like that created by Tip O'Neill and Ronald Reagan in the 1980s; 90 percent chance of continued gridlock; and 8 percent chance of political reform. Such reforms would involve threats of no pay for Congress if it cannot get a budget passed and an end to the exemption from the sequester cuts. He also noted the success of programs that don't get a lot of attention or for which no one party receives the credit or blame.

Cooper underscored the importance of constituents reaching out to their representatives. "The amazing thing about America is so often our flaws counterbalance each other," he said. "Our resilience is our greatest strength. So often without historical perspective it is easy to get depressed. We have survived worse than this."

Summit, continued from Page 6

Rep. Cooper brought his entire class of summer interns to observe the proceedings and the high engagement of actuaries in the fiscal matters that make a difference.

Responding to Cooper's remarks, Craig Hanna, the Academy's director of public policy and a former Capitol Hill staffer, called Cooper's characterization the "absolute reality, the unvarnished reality."

"Congress is beholden to special interests, beholden to public interests, but it will respond to real crises," Hanna said. "From a programmatic perspective, we have something to say about Medicare, Medicaid, and many other programs. Is it acceptable to wait until an 11th-hour fiscal cliff instead of making investments to sustain those programs? We can talk about that."

Wrapping up the day, attendees discussed how best to respond to the issues brought up by the day's speakers and conversations. They also talked thoughtfully about the four questions they analyzed earlier. Participants generally agreed that they should apply themselves and their actuarial expertise toward analysis that would shed light on the opportunities and costs associated with taking actions now or waiting until later. They also discussed strategies for expanding their communications regarding entitlement programs.

Projecting Growth

Joyce Manchester, chief of the Long-Term Analysis Unit—Health Retirement and Long-Term Analysis Division of the Congressional Budget Office (CBO), found an eager, interested audience for her comments at the Summer Summit.

"As I'm sure you know, a big part of the pressures on the federal government come from Social Security, Medicare, Medicaid, CHIP, and health insurance exchanges, which are now being called marketplaces," Manchester said. "It's a growing share of our economy, and we hope people are paying attention."

Manchester used tables to depict the growth of Social Security and major health care programs as a share of gross domestic product (GDP). In 1973, that share was around 4.5 percent. The CBO projects it will be 11.5 percent in 2023.

To make these projections, the CBO must take into account current law but also can create alternative fiscal scenarios that assume changes to current law, that continue certain tax and spending policies. Ten-year budget plans use detailed program projections underlying CBO's baseline, while those looking beyond 10 years use a long-term microsimulation model set within an actuarial framework that relies on macroeconomic data. Beginning with Social Security Administration earnings data from the IRS for 1 percent of the population, for example, the CBO uses the model to add data on elements such as fertility, mortality, immigration, education, and marital status and then applies macroeconomic information such as labor, capital, and productivity growth.

Longer-term projections are helpful for highlighting trends and providing a baseline for assessing policy changes, Manchester said. Their drawbacks stem from uncertainty, especially for health programs, and from macroeconomic conditions such as depressions, recessions, and more minor fluctuations in growth.

As she detailed the specifics of CBO calculations and methodology, Manchester explained excess cost growth (ECG) and its role in health care cost projections.

Manchester went into great detail discussing 2012 assumptions for Medicare and Medicaid ECG as well as the CBO's approach to projecting population growth and GDP.

The Actuarial Foundation 2012 Annual Report is now available

The Actuarial Foundation 2012 Annual Report is now available on the Foundation website. If you would like to receive a printed copy via regular mail, please contact the Foundation office at 847-706-3535 or email programs@actfnd.org.

2012 Annual Report:

www.actuarialfoundation.org/publications/annual_reports.shtml

Read and share *Financial Smarts*

The Foundation helps consumers with timely information on relevant topics. The summer issue of Financial Smarts covers sought-after insights on the basics of a 401(k) Plan. Share this informative resource with friends, family and your local library or community center.

Financial Smarts:

http://www.actuarialfoundation.org/programs/newsletter.shtml

ACA Financial Reporting Pitfalls Explored

THE ACADEMY'S HEALTH PRACTICE FINANCIAL REPORTING COMMITTEE released a white paper designed to provide more clarity on financial reporting requirements as Affordable Care Act (ACA) market reforms move forward. *"Financial Reporting Implications Under the Affordable Care Act"* covers key ACA categories that may affect health insurers' financial reporting.

ACA premium stabilization programs are covered first. The 3R's—risk adjustment, reinsurance benefits, and risk corridors—are designed to protect insurers. However, they may create burdens because their financial reporting requirements involve retrospective settlement processes and estimates that "may be uncertain in magnitude and direction, and may be large in relation to the forecasted annual net income for the affected lines of business."

Insurers must also be aware of new ACA-related taxes and fees that they or the sponsors of self-funded plans must address. The new non-deductible excise tax assessed to issuers under ACA Section 9010 and the contributions made by issuers (and also self-funded benefit plan sponsors) to fund the reinsurance benefits may affect their financial statements.

Advance payments, such as premium subsidies and cost-sharing reduction payments, will become more prevalent under ACA. New estimates and systems to accommodate them will need to be addressed by insurers.

These three categories taken together could affect health insurance issuers in several ways, beyond just the extra diligence that comes with new program requirements:

- Increased level of uncertainty in financial statements;
- Issues with year-to-year comparability of the balance sheet;
- Issues with year-to-year comparability of the income statement;
- Problems with issuer-to-issuer comparability.

HEALTH BRIEFS

- **Muzammil Waheed**, an actuary at the Society of Actuaries in Schaumburg, Ill., has joined the Cancer Claims Cost Tables Work Group.
- **Mark Birdsall**, chief actuary with the Kansas Insurance Department in Topeka, Kan., has joined the LTC PBA Work Group.

Election, continued from Page 1

For regular director, three-year term expiring 2016

- Audrey Halvorson

For regular director, three-year term expiring 2016

- Annie Voldman

More information on the candidates, including their biographical information and candidate statements, can be found online at the Academy Board Election Center. All actuaries who are members of the Academy as of August 12 will be eligible to vote.

Members should look for an email on or about Aug. 12 from the Academy's election vendor, Intelliscan, announcing that Academy elections will be open soon and that information will be sent to them from elections@intelliscaninc.net. Members should add this address to their safe senders list and check their spam folder to make sure their system will not block election messages from Intelliscan.

Those who have opted out of receiving Academy emails will receive election materials through conventional mail. Any member who does not receive an email (or paper) ballot should contact elections@actuary.org. The Academy will announce the winners shortly after the election process ends.

Newly elected regular directors as well as the new slate of officers announced in the May *Update* will officially start their terms at the close of the Academy's annual meeting in Minneapolis at the Monday luncheon (Nov. 4, 2013) during the CAS Annual Meeting.

Actuarial Update

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Gareth Kennedy
Barbara Lautzenheiser
Tonya Manning
Bob Meilander
Geoffrey Sandler
Debbie Schwab
Chet Szczepanski

EDITOR
Julia Goodwin
editor@actuary.org

DESIGN AND PRODUCTION
BonoTom Studio Inc.

DESIGNER
Paul Philpott

PUBLICATIONS AND MARKETING PRODUCTION MANAGER
Cindy Johns

American Academy of Actuaries

PRESIDENT
Cecil Bykerk

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EXECUTIVE OFFICE
The American Academy of Actuaries
1850 M Street NW
Suite 300
Washington, DC 20036
Phone 202-223-8196
Fax 202-872-1948
www.actuary.org