JULY 2014

ActuarialUPDATE

THE NEWSMONTHLY OF THE AMERICAN ACADEMY OF ACTUARIES

Academy Summer Summit Addresses the Aging of America

ACADEMY MEMBERS gathered in Washington this month for a summit on the implications of an aging population for both public policy and the actuarial profession. Speakers included Congresswoman Michelle Lujan Grisham, D-N.M., policymakers, aging-policy experts, researchers, and the leaders of Academy practice councils and committees.

Academy President-Elect Mary D. Miller opened the session, framing the issue. "According to a Census Bureau report issued last month, the percentage of the population over age 50 in 1900 was 4 percent. By 2050, it will be almost 20 percent. Generally, people are living longer, but they're not always healthy," and the question of how to meet their needs will affect the profession for decades.

Congresswoman Michelle Lujan Grisham spoke, discussing national policy toward long-term care, and the need to focus on prevention in order to lower health care spending. She previewed legislation she hopes to introduce that would create a "domestic peace corps" of volunteers to assist families caring for a loved one at home.

(Left to right) Academy Past President Cecil D. Bykerk, Academy President-Elect Mary D. Miller, Rep. Michelle Lujan Grisham, and Academy President Tom Terry at the 2014 Summer Summit

Lujan Grisham thanked attendees for the services actuaries provide. "You are very well respected on the Hill, by both sides," she said. On arriving to begin her first term, she was surprised to learn that the Congressional Budget Office (CBO) does not employ any actuaries. "We're going to have to get actuaries inside the CBO to start studying health care," she offered.

Exploring the Problem

Summit attendees heard from leaders outside the profession about the problems posed by an aging population.

Leslie Fried, senior director of the Center for Benefits Access at the National Council on Aging, briefed listeners on what she called "the economic insecurity of older adults, and the programs that assist them."

SEE **SUMMER SUMMIT,** PAGE 3

Academy Speaks at NCOIL Summer Meeting

THE ACADEMY WAS well represented at the National Conference of Insurance Legislators' (NCOIL) summer meeting in Boston, as several members gave presentations on flood insurance, principle-based reserving (PBR), and pension de-risking. More than 330 state legislators, insurance regulators, federal officials, and industry representatives attended the July meeting.

Mike Angelina, vice president of the Casualty Practice Council, joined three other experts in a panel discussion on what is holding back the private market from providing flood insurance. Angelina presented on steps to address the National Flood Insurance Program's $24 billion debt, and what the insurance landscape looks like following the passage of the Homeowner Flood Insurance Affordability Act of 2014 (dubbed Grimm-Waters) earlier this year.

The law slows the increases in flood insurance rates needed to make them financially sound. The Academy has recommended a transition plan to make the rates financially sound, and the removal of grandfathered subsidized rates on newly purchased properties.

During a session on PBR, Senior Life Fellow Nancy Bennett offered an update on PBR implementation, including

SEE **ACADEMY SPEAKS,** PAGE 8

AUGUST

7 Executive Committee meeting, Washington

16-19 NAIC summer meeting, Louisville, Ky.

27 Implementing VM-20: A Practical Approach Seminar, New York

SEPTEMBER

15–16 Casualty Loss Reserve Seminar, San Diego

OCTOBER

7-8 Academy Board of Directors meeting, Washington

NOVEMBER

10-13 2014 Life and Health Qualifications Seminar, Arlington, Va.

13-14 Academy Annual Meeting and Public Policy Forum, Washington

16-20 NAIC fall meeting, Washington

20-23 NCOIL annual meeting, San Francisco

DECEMBER

4 Executive Committee meeting, Washington

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Academy NEWS Briefs

Registration for New, Expanded Annual Meeting Opens

THE CHALLENGES FACING the actuarial profession are growing, and this year, the format of the Academy's annual meeting will expand with them. Held in Washington, Nov. 13 and 14, the meeting will feature 1-1/2 days of issue-focused plenary sessions, practice-specific breakout sessions, and networking opportunities with colleagues in all practice areas. Attendees may earn up to 11.1 organized activity continuing education (CE) credits, depending upon area of practice, including 1 in professionalism.

Speakers will include policymakers from federal and state governments, state insurance commissioners, Academy leaders, and representatives of U.S. actuarial professionalism bodies. White House staffers and representatives of the Congressional Budget Office and federal agencies with key oversight roles in insurance and pension regulation, such as the Pension Benefit Guaranty Corp., will appear.

The meeting will also feature the ceremonial presidential transition, as President-Elect Mary D. Miller succeeds outgoing President Tom Terry, and the presentation of awards for volunteer commitment and lifetime service to the profession and the public.

The meeting will be held at the Hyatt Regency on Capitol Hill, where discounted rooms will be available. Learn more and register.

Check Your Inbox for the Academy Member Volunteer Survey

ACTUARIES WHO VOLUNTEER AT the Academy have a voice in public policy and the future of the profession, expand their own personal expertise, and sometimes earn continuing education (CE) credits. It's an opportunity actuaries are fortunate to have, and something most careers don't offer.

The first step to volunteering is to fill out the annual Academy Volunteer Survey. It takes just a few minutes, and lists and describes Academys committees, highlighting those that are actively seeking volunteers.

Members should have received the survey in their email on Monday, July 28. The survey will be open until Friday, Aug. 8.

If you have any questions about volunteering or about the survey, please contact Kasha Shelton either by email at volunteer@actuary.org or by phone at 202-223-8196.

IN THE NEWS

Thomson Reuters Tax *& Accounting News* reported on the Academy's June 30 letter to the FASB recommending that the board continue to work toward convergence for long-duration contracts. The letter emphasized that the building block approach described in a previous FASB exposure draft, with the inclusion of some critical changes, "provides the best opportunity for a high-quality accounting standard for long-duration contracts."

The Solvency Committee's June 5 letter to Congress regarding the Insurance Capital Standards Clarification Act of 2014 was quoted in an Op-Ed published by National Review and the Competitive Enterprise Institute. The legislation would clarify that the Federal Reserve has the authority and the ability to differentiate between banks and insurers in terms of capital requirements.

The Medicaid Work Group's July 7 letter requesting specific guidance on the ACA's HIP fee, as an alternative to the current approach of informal state-by-state discussions or a proposal-submission process, was mentioned in a *Central Penn Business Journal* article and on the National Association of Medicaid Directors website.

She noted that "more than one-third of seniors are economically insecure," fully 9 percent live below the federal poverty level, and consumers over 65 carry "an average of $10,235 in credit card debt." Almost 40 percent of seniors, she said, have three or more chronic conditions to manage.

Fried detailed public programs that can assist older people, and noted that some are underutilized. "Almost two-thirds of eligible adults," she explained, are not enrolled in the Supplemental Nutrition Assistance Program, which could help them meet basic food needs.

Donald Redfoot, a strategic policy advisor with AARP, told attendees that "the economic security of the middle class is under attack from all sides."

He briefed attendees on AARP's Middle Class Security Project, which examined the state of middle-class homeownership, education, health care, and savings, including the prospect of "not just having achieved these things, but having maintained them over time, and having enough security to maintain it when times get rough."

The results were not good, as "we found that working-age, middle-income people saw their security decline. It got worse the younger we looked." In particular, he said ,"we found that a costly illness, losing a job, mounting debts, or a plunge in home values can derail a secure retirement."

"We're facing the question of how much can people realistically plan for and understand," he added, noting that the last 30 years have seen a movement from "a world where all of these decisions were made by employers, to today, where we've seen them shifted onto workers."

> "The solutions to the problems explored today are not going to be purely actuarial. We're going to have to find people outside our area of expertise to collaborate with."

Philip Barlow, associate commissioner of the Washington, D.C. Department of Insurance, Securities and Banking, focused on the evolving long-term care insurance market. As a regulator, he explained, his department faces a growing number of complaints from the public about long-term care products. "It's not doing anyone any good if they pay their premiums for 20 years, and then premiums go up and they can't afford it, so they drop it just before they're in a position to file a claim."

Implications for Public Policy

For policymakers, Social Security Chief Actuary Steve Goss said, all possible solutions have to be weighed against the simple question of what Americans are willing to pay. "Sustainable just means a program that we're willing to pay the cost to cover."

Social Security Deputy Chief Actuary Alice Wade put it in numbers. "Right now, we need to either reduce Social Security's costs by 25 percent or increase its revenue by 33 percent. Congress has to act."

Paul Spitalnic, chief actuary of the Centers for Medicare and Medicaid Services, said his agency faces much the same set of concerns. "Pretty much everything that is happening in Social Security is also happening in Medicare, but it's worse," he said, because of rising health care costs.

Congress, Spitalnic said, "could immediately cut [Medicare] benefits today by 22 percent to close the actuarial deficit, or increase payroll taxes by 38 percent."

Chris Carlson, chief actuarial officer of the Ohio Bureau of Workers' Compensation, explained that longer lifespans have had a dramatic impact on public workers' compensation programs. "Historically, many workers' compensation claims were very short," he said, "but today we're seeing some extend as long as 50 years."

The same rising health care costs affect his calculations. "Take a knee replacement," he explained. "That typically lasts 25 years. We've had to replace some twice. We may have to replace some a third time. And each time, the technology is better but the cost is more."

Implications for the Profession

Leaders in the Academy's practice councils explained that the aging of America will affect each of their fields.

Academy Vice President Mike Angelina, speaking on behalf of the Casualty Practice Council, told listeners that "the most affected product is workers' compensa-

SEE **SUMMER SUMMIT,** PAGE 4

White House Asks for Feedback Ahead of Conference on Aging

THE FIRST WHITE HOUSE Conference on Aging (WHCOA) was held in 1961. The most recent was held in 2005.

Though no formal date has been set, White House staffers have been working with volunteers to lay the groundwork for a new conference, to be held next year, coinciding with the 50th anniversary of the Older Americans Act.

Lee Goldberg, vice president for health policy at the National Academy of Social Insurance (NASI), and Anne Montgomery, a senior policy analyst at the Altarum Institute and NASI visiting scholar, have been closely involved in the effort. They spoke at the Academy's Summer Summit in Washington this month, explaining how actuaries can be involved in the process. Goldberg told attendees that the White House hopes to organize a series of regional events leading up to the summit, and will be seeking input from stakeholders intimately familiar with the challenges posed by America's aging population. The conference, he said, will be "designed to give a clear sense of what the public's preferences are," because "if everything is important, nothing is important."

Issues covered, Montgomery noted, could be as diverse as whether traditional retirement is vanishing, how to determine what sort of end-of-life care is necessary, and how to fund long-term care. The conference would ultimately produce a report , Goldberg said, that "would include policy recommendations geared both at Congress, and at things that could be executed at a state and community level." Academy Director of Public Policy Craig Hanna told attendees that the Academy's public policy team has been involved in discussions on the WHCOA, including plans for a meeting with White House staff on the conference and the role actuaries can play. He reiterated the importance of the Academy's members being part of the process and working, even at the community level, to contribute to efforts to address aging issues.

tion," explaining that both prices and reserves may change as the population ages.

But, he added, medical professional liability faces challenges as well. "We are putting new stresses into the system" as an aging population pursues more health care, and the health care professions adjust to try to compensate. The personal auto insurance market is affected as well, because, "as you get into your 60s and 70s, you're more likely to get into an accident than you were in your 40s, and you're more than twice as likely to get into an accident with fatalities."

Medicare Steering Committee Chairman Tom Wildsmith offered that actuaries "have a very good understanding of the trajectory of Medicare, thanks to the Office of the Actuary." But "the real rub is, we have to reduce the rate of growth in health care spending, and not just shift the cost onto other people."

Adding to the difficulty, he noted, is the fact that "every dollar of unnecessary Medicare spending is somebody's dollar of revenue."

Academy Vice President Eli Greenblum said that the Pension Practice Council has been focusing on whether people "understand that they can't just plan for their life expectancy," but must prepare for the risk that they live well beyond it. "The Pension Committee has been working on a lifespan illustrator," he added, hoping to "help people understand the chances of a single life, or even a couple, still being around at 75, at 80, and beyond."

Academy Senior Life Fellow Nancy Bennett noted that the challenge of serving an aging population crosses practice areas, and the profession has to accommodate that. The Academy's Lifetime Income Task Force, a joint effort between the life and pension practice councils, has "taken a fairly extensive look at longevity risk," she said. "Longevity risk is not only influencing new products; it's also affecting some of our existing products."

Academy President Tom Terry closed the summit, commenting that "the solutions to the problems explored today are not going to be purely actuarial. We're going to have to find people outside our area of expertise to collaborate with."

Academy Director of Public Policy Craig Hanna noted that the Academy has begun that work, explaining that Academy staff would be meeting with White House officials later that week to share ideas ahead of the 2015 White House Conference on Aging.

Global Aging Institute President Richard Jackson addresses the 2014 Summer Summit while Academy President-Elect Mary D. Miller looks on.

Trustees Reports Show Little Change for Social Security, Improvement for Medicare

THE FINANCIAL STATUS of Social Security has not changed significantly in the past year, while Medicare's outlook has improved slightly, according to a [Summary of the 2014 Annual Reports] issued by the Social Security and Medicare Boards of Trustees.

The annual report, published July 28, projects that the Social Security Old Age, Survivors, and Disability Insurance program will cover benefits through the year 2033. After that, Social Security payroll taxes could cover three-quarters of benefits through 2088.

The report projects that the Disability Insurance fund could be exhausted in 2016, while the Old Age and Survivors Insurance fund could pay full benefits until 2034. These numbers are little changed from the 2013 trustees' report.

Medicare's prognosis has improved compared to the 2013 report. The Medicare Hospital Insurance (HI) fund is now projected to be depleted in 2030 – four years later than last year's report estimated. After that date, tax revenues would cover 85 percent of program benefits.

The HI deficit, over the next 75 years, is now projected to be 0.87 percent of taxable payroll, down from 1.11 percent last year. Closing the deficit, the report says, would require a 30 percent increase in payroll taxes, a 19 percent reduction in benefits, or some combination of the two.

The Academy's Social Security Committee and Medicare Steering Committee will be releasing their respective annual issue briefs examining the trustees' reports in the coming weeks.

PROFESSIONALISM COUNTS

Signing NAIC Statements: Specific Qualifications Required

AS AN ACTUARY practicing in the United States credentialed by any of the five U.S.-based actuarial organizations, you should be aware that you must meet the U.S. Qualification Standards (USQS). But did you know that if you issue NAIC annual statement actuarial reserve opinions for life, health, or property and casualty, you must also meet specific additional requirements to be qualified to sign those opinions?

If you want to issue the Statement of Actuarial Opinion for the NAIC Life and A&H Annual Statement, the NAIC Property and Casualty Annual Statement, or the NAIC Health Annual Statement, you must review and meet the basic education, experience, and continuing education requirements in Section 3 of the USQS, in addition to the general requirements in Section 2. As with the general qualifications, the specific qualifications have three parts: basic education, experience, and continuing education. All are mandatory, and all must be related to the topics specified in Section 3.1.1 of the USQS.

Basic Qualification: Exams or Self-Study

To sign NAIC annual statement opinions, you must take and pass actuarial exams on the topics set forth in Section 3.1.1 given by an actuarial organization, which generally occurs when an actuary takes a specific track to earn his or her fellowship. In addition, for those who did not meet the exam requirements for the NAIC life or health actuarial opinions while earning their fellowship, the Academy offers the opportunity to satisfy the basic education component of Section 3.1.1 by taking exams at the end of the course. See Life and Health Qualifications Seminar for more information.)

There exists a rarely utilized alternate route to satisfy the basic education component of Section 3 (see Section 3.1.2), which requires comprehensive knowledge through work experience and/or self-study, and further requires the actuary to obtain a statement that he is qualified from a basic education standpoint as a result of your work and self-study, signed by another actuary who is qualified to sign the relevant NAIC annual statement opinion and is familiar with your experience and education. For instance, if you believe you have studied on your own sufficiently to obtain the specialized knowledge needed to satisfy the basic education component of Section 3 without having gone through the exam process, you must obtain a certification from another actuary who is already qualified to sign the NAIC Health Annual Statement who is familiar with your self-study. That statement should indicate that he or she is familiar with your professional history and that you have sufficient knowledge to meet the basic education component of Section 3 to sign the NAIC Health Annual Statement actuarial opinion.

Experience Needed

In addition to meeting the basic knowledge requirement, you must have at least three years of responsible experience relevant to the subject of the statement you wish to sign. During those three years, your work must have been reviewed by an actuary who was qualified to sign the relevant NAIC statement. For instance, to sign the NAIC Health Annual Statement, you must have had three years of experience performing health actuarial work in the areas required in Section 3.1.1.3 (see box), and your work during that time must have been reviewed by an actuary qualified to sign the NAIC Health Annual Statement.

Specific CE Requirements

To keep your knowledge current, you must also meet specific CE requirements. Of the 30 hours of general CE required each year, at least 15 must be directly relevant to the topics required for the NAIC annual statement you wish to sign. And at least 6 of those 15 hours must be through experiences that involve interactions with outside actuaries or other professionals, known as "organized activity."

Before you sign an NAIC annual statement, ask yourself if you are qualified, and review Section 3 of the USQS to reach that answer.

Topics Required to Sign NAIC Annual Statements

Life and A&H (Section 3.1.1.1)

- Policy forms and coverages
- Dividends and reinsurance
- Investments and valuations of assets and the relationship between cash flows from assets and related liabilities
- Statutory insurance accounting
- Valuation of liabilities
- Valuation and nonforfeiture laws

Property and Casualty (Section 3.1.1.2)

- Policy forms and coverages, underwriting, and marketing
- Principles of ratemaking
- Statutory insurance accounting and expense analysis
- Premium, loss, and expense reserves
- Reinsurance

Health (Section 3.1.1.3)

- Principles of insurance and underwriting
- Principles of ratemaking
- Statutory insurance accounting and expense analysis
- Premium, loss, expense, and contingency reserves
- Social insurance

PROFESSIONALISM BRIEFS

- **Kathleen Tottle**, Chief actuary at Virginia Beach, Va. based Amerigroup Corp., has joined the Actuarial Standards Board's Medicaid Rate Setting and Certification Task Force.
- **Reginald Mayzck**, a life actuary at the National Association of Insurance Commissioners in Washington, D.C., has joined the Committee on Actuarial Public Service.

ASB Requests Input on Public Pension Standards

ON JULY 22, the Actuarial Standards Board (ASB) issued a request for comment from actuarial organizations and interested parties regarding actuarial standards of practice (ASOPs) related to public pension plan funding and accounting.

As with all of its standards, the ASB continually reviews pension standards to see if they need updating. In recent years, the ASB has been revising many of the pension standards. Within the last year, the ASB has approved several revised pension standards, including ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions* (December 2013); ASOP No. 6, *Measuring Retiree Group Benefit Obligations* (May 2014); and ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations* (September 2013). ASOP No. 34, *Actuarial Practice Concerning Retirement Plan Benefits in Domestic Relations Actions*, and No. 35, *Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations*, are also being revised.

With public pension plan funding receiving increased national attention, the ASB has decided to intensify its efforts and is seeking feedback from a broader range of experts, actuaries, and other interested parties who would like to improve America's public pension plans. The ASB would like to hear from you; please consider commenting.

Academy Writes Congress about Using Pension Policy to Raise Revenues

BOTH THE Pension Practice Council and Pension Finance Task Force submitted letters to congressional leaders this month expressing concern about proposals to raise revenues by changing private-sector pension law to offset unrelated spending increases.

The council explained, "The transportation bill passed by the House (H.R. 5021) and a similar bill being considered by the Senate would lower funding requirements for single-employer defined benefit plans."

The council offered that the changes "should be carefully evaluated based primarily on their effect on the private sector pension system and its stakeholders...rather than primarily as a means to offset spending for other purposes."

The task force, meanwhile, expressed concerns that H.R. 5021 would defer the phase out of certain Moving Ahead for Progress in the 21st Century Act (MAP-21) provisions that were "designed to provide short-term funding requirement relief to plan sponsors in light of economic conditions and included a schedule on which its impact would be reduced."

Essential Elements: Securing Social Security

Each year, the trustees of the Social Security Administration's trust fund report on the current and projected financial status of the program, triggering a round of media coverage. With the report issued this month, the Academy has published a new paper explaining the issues behind the Social Security reform debate in clear terms.

The paper is part of the Academy's Essential Elements series, designed to make actuarial analyses of public policy issues accessible to widespread audiences.

The paper explains that the long-term challenge of keeping Social Security solvent grows out of a declining ratio of workers per beneficiary. "Americans are having fewer children and living longer than in the past, and those trends will be coupled with baby boomers retiring in large numbers over the next 20 years. In short, the U.S. population is changing."

Possible solutions include:

- Raising payroll taxes, currently set at 12.4 percent, or increasing the cap on the maximum amount of income taxed for Social Security purposes, currently set at $117,000 annually;
- Increasing income taxes devoted to the program;
- Lowering the annual cost-of-living adjustment for beneficiaries;
- Reducing benefits to wealthier retirees, and,
- Raising the retirement age.

The paper notes that the program is not in "imminent financial danger," but that it does face long-term sustainability problems, and that smaller adjustments made sooner could eliminate the need for more drastic future action.

LIFE BRIEFS

- **Dana Hunt,** director, risk and capital life insurance actuary for PricewaterhouseCoopers in Des Moines, Iowa, has joined the Life Practice Council.
- **TJ Turner**, actuary for CUNA Mutual Group in Madison, Wis., has joined the Annuity Reserves Work Group.
- **James Reiskytl**, Academy member from Mequon, Wis., has joined the Stress Testing Work Group.

How Other Countries Are Handling the Retirement Crisis

THE NUMBERS are clear. "For most of human history, the elderly have comprised only a tiny fraction of the human population – never more than 5 percent until well into the 20th century. But in today's developed world, they comprise about 20 percent. By 2030, that number will be 30 percent, and in some developed countries, as high as 40 percent."

Global Aging Institute President Richard Jackson told attendees at the Academy's annual Summer Summit in Washington, D.C., that shifting age demographics are a worldwide trend, not simply an American concern. And while there is much to learn from studying how other developed countries are approaching the challenge, he said, no country has yet figured out "how to provide a decent standard of living for the old without placing a crushing burden on the young."

In fact, he said, "In many respects, the U.S. is remarkably well-positioned to answer the aging challenge."

Good News

For one thing, the U.S. is projected to remain the youngest of the world's developed countries, with a median age of 37, likely to reach 40 in a decade. Within that same period, he noted, Europe's median age could reach 48, while Japan's may reach as high as 55.

Americans also tend to work longer than those in many other countries. Almost 40 percent of Americans between ages 65 and 74 are still in the labor force, Jackson noted. Among developed nations, only Japan and Iceland can claim a higher number.

Bad News

But, he told attendees, there are challenges unique to America's position that may give it "a road just as bumpy as some of the countries with the worst projected numbers."

U.S. health care costs, for instance, are "growing at a much faster rate than in other developed countries." Though cost growth has slowed in recent years, it remains high in comparison to most other countries, he explained.

The American economy will also face a more "sudden and sharp ramp-up" in retirement costs than most of its rivals, as the "fiscal shock" of the baby boom generation's retirements will likely be compressed into a shorter time period here than in any other nation.

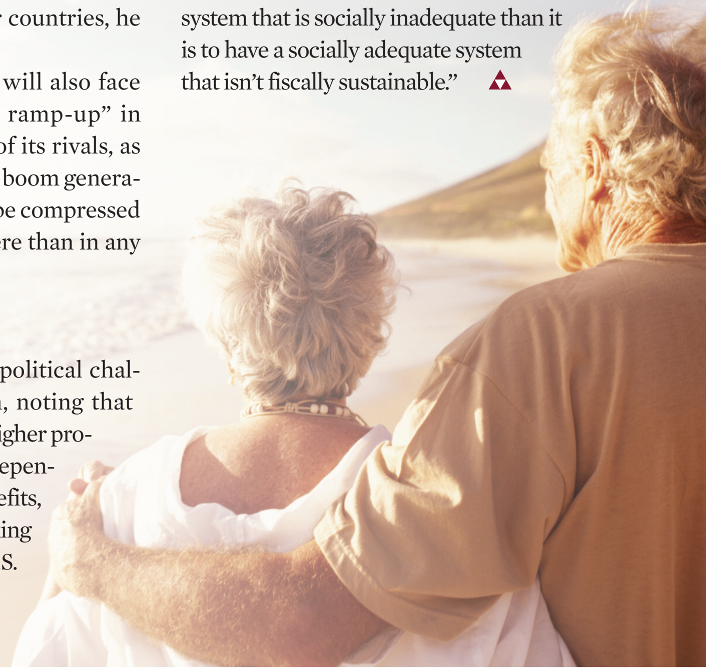
Reforms Elsewhere

Jackson also pointed to the political challenges of significant reform, noting that many other countries have a higher proportion of their population dependent on public retirement benefits, "but they are already undertaking dramatic reforms" that the U.S. has not yet begun.

However, he cautioned, it's difficult to evaluate the success of those reforms. "Some of the progress that other countries have made may be more apparent than real." In particular, Jackson said, the reforms may not have been subject to rigorous actuarial analysis.

"None of these countries have a highly professional agency that analyzes the impacts of these programs going forward," he explained, pointing out the Social Security Office of the Chief Actuary as a particular advantage.

He concluded, "It may be in the long run no more possible to have a fiscally-sustainable system that is socially inadequate than it is to have a socially adequate system that isn't fiscally sustainable."



Academy Speaks, continued from Page 1

a new legislation-in-brief document and FAQ. The PBR approach contained in the Valuation Manual is a hybrid between rule-based and pure PBR approaches; prescriptive and limiting elements were added to address regulators' concerns about discretion granted to companies in establishing reserves. Following her presentation, Bennett and New York State Insurance Department representative Robert Easton engaged in a robust discussion of the pros and cons of PBR.

Ellen Kleinstuber, vice chairperson of the Pension Committee, discussed NCOIL's proposed Pension De-Risking Model Act in the wake of the Pension Committee's comment letter on the proposal in early July. NCOIL's Financial Services & Investment Products Committee deferred consideration on its de-risking proposal until its annual meeting in November to give interested parties additional time to craft a compromise.

In other action at NCOIL, legislators:

- Adopted a resolution that cautions against imposing capital requirements on U.S. companies that may erode policyholder protections;
- Adopted a resolution establishing principles for transparency and coordination in international regulatory discussions;
- Approved certain enhancements to an NCOIL Model Unclaimed Life Insurance Benefits Act.

– DOUG ABRAHMS

Pension News

Brookings Scholar Proposes Automatic Annuity Program

IN RECENT YEARS, America has seen the first wave of retirements among workers who've spent much of the ircareers, not in the defined benefit system, but in the 401(k) system. These workers start retirement, not with continued income, but with a relatively large distribution of cash. Many could convert that lump sum into a guaranteed income on the annuity market, but few do.

William Gale, Arjay and Frances Miller chair in federal economic policy in the economic studies program at the Brookings Institution, thinks there's a better way to entice them into the annuities market. Speaking to the Academy's Summer Summit this month, he summarized a proposal from a 2008 paper he wrote with fellow researchers David C. John, J. Mark Iwry (now deputy assistant secretary for retirement and health policy with the U.S. Treasury Department), and Lina Walker.

"Annuities are often packaged as a safe-but-low-return investment, and that doesn't inspire people. There have been studies that show that, if they are presented to people as income stabilization measures, people are more willing to buy them," he explained.

Rather than leave retirees with an all-or-nothing approach to the annuities market, he proposed, employers should "automatically default 401(k) holders into an annuity that is partial, covering a certain percentage of their balance, perhaps 50 percent or 75 percent, and lasts two years, after which they can opt in or out."

He continued, "We don't have to lock people in for the rest of their lives on this. The idea is to introduce them to annuities."

Such a plan, Gale said, would get around what he called "the big/small problem," that people are unwilling to part with a seemingly large amount of money in return for what appears to be a small monthly payment. "Consumers have no experience taking large cash balances and converting them into annual income flows, and asking them to do it all at once on a permanent basis makes them leery," he explained

Gale cited several studies showing that people tend to stick with the retirement options they are automatically enrolled in.

During a question-and-answer session, several attendees noted that workers might not be comfortable with the notion that, were they to die shortly after retirement, their estates would have forgone the large sum from a 401(k) payout. Gale answered that the program could include a guaranteed payout to survivors should the retiree die within a certain period.

"This is a second-best solution," he explained, "designed to get around certain cognitive biases" that many retirees have against parting with a large lump sum 401(k) payout. "It can be designed flexibly."

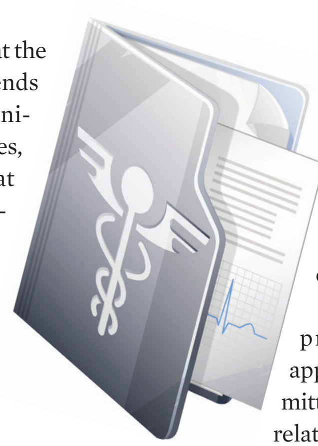
Health News

Academy Asks for Clarification on ACA Provider Fees

THE MEDICAID WORK Group this month sent a letter to the Centers for Medicare & Medicaid Services (CMS) requesting specific guidance on the Affordable Care Act's (ACA) health insurance providers (HIP) fee, and how it affects the Medicaid program.

Currently, CMS is relying on informal discussions of the issue at the state level, and the work group's letter acknowledges that this is often the best approach with aspects of Medicaid, as the way each state operates the program can be unique. However, the letter says, "the work group believes that the HIP fee is one issue that lends itself to development of uniform principles and practices, including the amounts that should be federally matchable" by CMS.

The work group specifically asked for clarification of the fee itself, the impact of state and local taxes or assessments, the schedule for when



states will make payments to managed care organizations, and "guidance on how the HIP fee and associated effects...should be accounted for in risk-sharing arrangements and minimum medical loss ratio calculations."

The letter also asked CMS to provide information on any approaches states have already submitted, and received approval for, that relate to managing the HIP fee.

Terrorism Risk Insurance Reauthorization Bill Advances Through Senate

THE ACADEMY'S Casualty Practice Council was in touch with leaders of both the Senate and the House of Representatives this month expressing support for the reauthorization of the Terrorism Risk Insurance Program.

On July 10, the council submitted comments **to Senate leaders on S. 2244**, which has since passed. On July 16, the council wrote to leaders of the House of Representatives providing an actuarial perspective on the unique challenges of insuring terrorism risks compared to insuring natural catastrophe risks. H.R. 4871, the House reauthorization bill, has since passed the House Financial Services Committee.

Terrorism risks are difficult to accurately evaluate, partly because they are constantly shifting, and the claims resulting from a large-scale terrorist attack can be extraordinary costly. The federal terrorism risk insurance framework (commonly referred to as TRIA) serves as a stabilizing backstop for the terrorism risk insurance market. The current program is set to expire on Dec. 31, 2014.

Substantive differences remain between the House and Senate bills. Should the House bill pass, the council expects to continue to advise policymakers as they work to reconcile these differences.

PROPERTY AND CASUALTY BRIEFS

➡ **Elisa Brown**, assistant actuary for Allstate Insurance Co. in Northbrook, Ill., has joined the Flood Insurance Subcommittee.

Committee Comments on Proposed Changes to IRIS Ratios

THE COMMITTEE on Property and Liability Financial Reporting this month submitted a comment letter to the National Association of Insurance Commissioners' (NAIC) Casualty Actuarial and Statistical Task Force (CASTF) on proposed changes to Insurance Regulatory Information System (IRIS) Ratios 11, 12, and 13.

Last September, an NAIC working group asked the CASTF to examine proposed changes to the basis for calculating the ratios, which reflect one- and two-year reserve development to surplus, and current reserve deficiency to surplus. The proposal would revise the formulas to include adjusting and other expenses (A&O). CASTF requested feedback on the proposal.

The committee's letter addresses "the benefits and drawbacks of the proposal, the impact of the proposal on insurers, the results of research conducted using publicly available data, and some commentary on A&O expense allocation."

The committee's comments do not explicitly endorse or reject the proposed changes, but instead highlight how they might affect insurers. The letter notes that "about two-thirds" of committee members favored no change to the ratios, while "[t]he remaining third was split between (a) making the proposed change and (b) designing a way to use both the current formula for the IRIS ratios along with the new formula."

RISK MANAGEMENT BRIEFS

➡ **Scott Mack**, director, actuarial services for Blue Cross Blue Shield of Arizona in Phoenix, and **Francis de Regnaucourt**, director, actuarial services for KPMG in Radnor, Pa., have joined the ORSA Subgroup.