

*New Leadership and Academy Traditions*

# Moving Forward and Honoring the Past

**T**HE AMERICAN ACADEMY OF ACTUARIES' ANNUAL MEETING featured many time-honored rituals: the passing of the gavel from the outgoing to the incoming president, the bestowing of the presidential medal on the incoming president, the presentation of awards to Academy volunteers, and the annual meeting of Academy members at which the Academy announces the member election results for regular directors.

The Academy's 2013 Annual Meeting and Awards Luncheon in Minneapolis on Nov. 4 was a forum for all these traditions and a stage on which Academy leaders reviewed past achievements and discussed how the Academy will be leading the U.S. actuarial profession in the coming year. The meeting took place in conjunction with the Casualty Actuarial Society's annual meeting.

Incoming 2014 Academy President Tom Terry spoke in his [inaugural address](#) about two lessons learned from a meeting with Sen. Kent Conrad



Former President Cecil Bykerk (right) congratulates his successor, Tom Terry.

(D-N.D.), former chair of the Senate Budget Committee, during the Academy's 2013 Summer Summit.

To help address the financial issues facing mandatory spending programs like Social Security and Medicare, actuaries must become better communicators, speaking "in relevant, understandable ways," Terry said. They must also preserve their cred-

ibility by continuing to foster a culture of objectivity. "Sen. Conrad ... talked about credibility. He told us that we actuaries have credibility as truth-tellers. He said, and this is a quote, 'You have a great brand. You are actuaries. You have a chance to help educate my colleagues and the American people.

SEE **MEETING**, PAGE 11

## Academy Work on ACA Gets National Notice

**T**HE ACADEMY'S PUBLIC POLICY WORK got nationwide attention this month as federal lawmakers and the national press discussed proposals that would dismantle two critical components of risk management built into the Affordable Care Act (ACA): the individual mandate and minimum coverage requirements for the individual and small-group insurance market.

An increasing number of federal lawmakers called for postponing the ACA's individual mandate provision after the troubled launch of the government's health care exchange website in October. In November, President Obama announced that his administration would not enforce the ACA's minimum coverage provision requiring

non-ACA compliant policyholders to update their coverage.

The Academy's Health Practice Council [addressed](#) both of these [issues](#) in separate letters to Congress, warning lawmakers that a delay or repeal of either provision could cause an upheaval in the insurance risk pool composition, resulting in higher premiums to consumers and greater costs for the federal government.

The Academy's letters ignited a frenzy of attention in Washington and among news organizations across the country. (See [Page 3](#) for links to articles.) As events unfold, the Academy will continue to provide policymakers and the media with expert actuarial opinion and advice to ensure the stability and sustainability of U.S. health insurance markets. ▲

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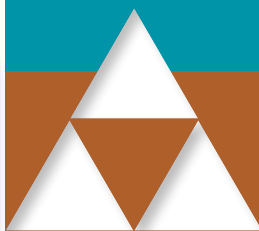
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- 3 Professionalism webinar
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- 15 Academy Capitol Forum webinar
- 15-18 NAIC fall national meeting, Washington

## JANUARY 2014

- 14 CUSP meeting
- 14-15 Academy Board of Directors meeting, Washington

## MARCH 2014

- 6-9 NCOIL spring meeting, Savannah, Ga.
- 23-26 Enrolled Actuaries Meeting, Washington
- 26-30 IAA Council and Committee meetings, Washington
- 29-April 1 NAIC spring national meeting, Orlando, Fla.
- 30-April 1 Ratemaking and Product Management seminar, Washington
- 30-April 4 ICA 2014, Washington

## MAY 2014

- 1 CUSP meeting, Washington
- 1-2 Academy Board of Directors meeting, Washington
- 15-17 NAAC meeting, Quebec, Canada

## JULY 2014

- 10-13 NCOIL summer meeting, Boston
- 14 Summer Summit, Washington

## AUGUST 2014

- 7 Executive Committee meeting, Washington
- 16-19 NAIC summer meeting, Louisville, Ky.

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](http://www.actuary.org).

# Academy NEWS Briefs

## Interim Comments Keep Professionalism in Focus

**O**N OCT. 30, the Committee on Qualifications (COQ) sent an interim [response](#) to the Society of Actuaries (SOA) noting that it was suspending consideration of the SOA request to add reference to itself in Section 3.1.1.2 of the U.S. Qualification Standards as a provider of general insurance exams until further advancement of that issue by the National Association of Insurance Commissioners (NAIC). In a supplemental letter to the NAIC that emphasizes the Academy's particular place in U.S. law and regulation, then Academy President Cecil D. Bykerk embraced the COQ's position.

Noting that no need of the U.S. actuarial profession or of the NAIC has been identified to support the SOA's request to add its name to the model laws and regulations, Bykerk reiterated the Academy's goal to work with the NAIC to optimize the process by which the profession and regulators can with confidence recognize qualified actuaries to sign opinions. He noted that as a basic education provider, the SOA is similar to other international education providers and not at all similar to the Academy, the national association of U.S. practicing actuaries. Strategic commercial goals to bolster the marketing of the SOA's new general insurance track to meet global insurance needs are not needs that exist in the United States.

The Academy has interfaced for years with regulators at all levels in pursuit of and commitment to its mission as the national actuarial organizations serving the U.S. profession, public, and public policymakers. As the one organization whose mission emphasizes its independence from the commercial interests of employers, clients, and other actuarial organizations, Bykerk noted that the Academy wants to continue its work with the NAIC toward mutual goals of excellence in professionalism and providing analysis of issues of value and interest to the NAIC.

"It is the long held and stated position of the Academy that the M.A.A.A. is the single designation that is specific to U.S. actuarial qualifications to practice and is therefore the necessary and most meaningful credential to be used in U.S. model laws and regulations." ▲

### NAAC Releases Annual Report

The North American Actuarial Council released its [2012-2013 annual report](#), outlining its work and highlighting its accomplishments for the year.

## Letter to the Editor

**I**N THE SEPTEMBER 2013 ISSUE of *Actuarial Update*, Robert J. Rietz, chairperson of the Actuarial Board for Counseling and Discipline (ABCD), wrote an [article](#) on pension actuaries and the discipline process. *Update* received the following in response to Rietz's article:

*As a practicing public plan actuary with some background as a general pension actuary, I have a possible explanation regarding the distribution of referrals to the ABCD. When I worked on corporate plans, I rarely would see the work of another actuary except in the occasional event where the plan sponsor changed actuaries. In the public realm, there are frequently audits, studies by external firms,*

*reviews of local plans by a state actuary, etc.—plus the fact that most of what we do is public information—so there is a lot more exposure of what we do. I would guess that much of the work by an insurance company actuary rarely is seen outside of the actuary's firm. So, my theory would be that the distribution of complaints is at least partially related to the number of independent actuaries who will see the work product.*

*I hope this helps—it might be interesting to find out what other theories are proposed.* ▲

**Brent A. Banister**  
Chief Pension Actuary for  
Cavanaugh Macdonald Consulting  
Bellevue, Neb.

## IN THE NEWS

The Academy's recent letter to Congress "[Implications of Delaying the ACA Individual Mandate](#)" has been reported in numerous articles and cited by pundits and lawmakers debating the issue:

- ➔ [Actuaries: Obamacare Delays Would Cause Chaos](#)
- ➔ [Workbook: Seven Reasons Obamacare Isn't Facing a "Death Spiral"](#)
- ➔ [Actuaries Warn Against Mandate Delay, Enrollment Extension](#)
- ➔ [Actuaries Warn: Delaying Health Reform's Individual Mandate Would Raise Premiums and Add to Ranks of Uninsured](#)
- ➔ [Top Health Insurer Anticipates Extension of Obamacare Open Enrollment](#)
- ➔ [Actuaries Warn About Extending Open Enrollment Period](#)
- ➔ [Humana Exec Predicts Obamacare Open Enrollment Extension](#)
- ➔ [Actuaries Warn of Consequences of Extending ACA Open Enrollment or Delaying Individual Mandate](#)
- ➔ [Delaying Obamacare Mandate May Mean Higher Rates: Actuaries](#)
- ➔ [Dem-Backed Bill Delays O-Care Mandate](#)
- ➔ [Obamacare Individual Mandate Delay Could Be Costly, Actuaries Say](#)
- ➔ [Reform Update: Business, Labor Interests Flummoxed by Potential Change to Reinsurance Fee](#)
- ➔ [Actuaries: Delaying Individual Mandate Would Disrupt Coverage, Increase Costs for Consumers](#)
- ➔ [Actuaries: Individual Mandate Delay Would Hike Premiums, Increase Deficit, Hurt Plans](#)
- ➔ [Why the "Free to Be" Agenda Is Key for Republicans Who Want to Win Youth Vote](#)
- ➔ [Obamacare Woes Abound in Washington](#)
- ➔ [Issue Brief: Extending Open Enrollment Will Lead to Adverse Selection](#)
- ➔ [Debate Over Delaying Individual Mandate Grows Louder](#)
- ➔ [Health Care Reform Law Update - Week of November 11, 2013](#)

- ➔ [Individual Mandate Delay Would Increase Premiums, Actuaries Say](#)
- ➔ [Text of Letter From American Academy of Actuaries to Actuarial Standards Board on Coordinating ASOPs Involving Retirement Benefits](#)
- ➔ [November 30: D-Day for Health Insurance Exchanges](#)

## VIDEO

- ➔ [On the Money With Maria Bartiroma \(CNBC\)](#)
- ➔ [Special Report With Bret Baier \(FOX NEWS\)](#)
- ➔ [On the Record With Greta Van Susteren \(FOX NEWS\)](#)

The Academy sent another letter to Congress, "[Implications of Changing ACA Rules Regarding Insurance Cancellations in the Individual and Small Group Health Insurance Markets](#)," which was also widely cited and reported:

- ➔ [Obama Moves to Avert Cancellation of Insurance](#)
- ➔ [Obama Announces Change to Address Health Insurance Cancellations](#)
- ➔ [Obama to Meet With Insurance Ceos Friday](#)

- ➔ [The Obamacare "Fix" Is In: Now, Where Do We Go From Here?](#)
- ➔ [Insurance, Health Care Experts Say Obama's Fix Is Bad Medicine](#)
- ➔ [Obama Health Law Fix May Cost Government Money](#)
- ➔ [One State Won't Allow Obamacare Fix, but One Insurer Is OK With It](#)
- ➔ [Obama's Extension Has Insurers Scrambling to Gauge Fallout](#)
- ➔ [President Obama's Messy Breakup With Insurers](#)
- ➔ [To Quell Furor, Obama Will Allow Year's Extension of Health Policies](#)
- ➔ ["It's on Us": Health Law to Change](#)
- ➔ [Obama Health Plan Cancellation Fix Draws Cost Warnings](#)
- ➔ [Obama Insurance Cancellation Fix Draws Warnings of Higher Costs](#)
- ➔ [Obamacare Woes Continue](#)
- ➔ [ICYMI: Actuaries Warn Proposal Threatens Viability of New Insurance Markets](#)
- ➔ [Obama's ACA "Fix" Rests With Insurers, Regulators](#)

SEE **IN THE NEWS**, PAGE 14

## ▲ PROFESSIONALISM COUNTS

### *Disclose and Document*

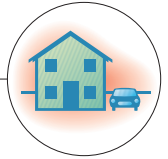
“Are there any ASOPs that an actuary should consider memorizing?” asked a participant during the Academy's October professionalism [webinar](#). ASOP No. 41, *Actuarial Communications*, immediately came to mind for the panelists because it applies to all practice areas and all forms of actuarial communication—whether written, oral, or electronic—and thus nearly everything an actuary's work involves. “You cannot spend enough time reading ASOP [No.] 41,” stressed one panelist.

Of course, one of the main reasons to disclose and document, as required by ASOP No. 41, is to produce a quality work product that the intended user can understand and rely upon. The disclosures and documentation should be

detailed enough to allow another actuary to determine the reasonableness of the work.

While some actuaries may find the level of detail required onerous, fulfilling the requirements also can protect an actuary years later if that work product becomes the subject of a dispute. An actuary may have had perfectly sound reasons for using certain assumptions or data, but if those reasons are not disclosed or related files are not well documented, it may be difficult to reconstruct those reasons years later.

So perhaps a little brushing up on ASOP No. 41 won't hurt. Remember, time spent studying an ASOP counts as continuing education credit. ▲



## Seminar Participants Sharpen Skills

BY NICOLE ELLIOTT

**T**HE ACADEMY HOSTED its ninth annual Seminar on P/C Effective Loss Reserve Opinions: Tools for the Appointed Actuary Nov. 13-14 in St. Louis. The seminar faculty, which I chaired, featured an expert panel of speakers made up of regulators, loss reserve experts, audit firm actuaries, an appointed actuary, a litigation expert, and the Academy's president-elect, Mary D. Miller.

Participants learned about appropriate qualifications, documentation and disclosure requirements, applicable standards of practice, and regulatory expectations. Building on changes first implemented last year, the program continues to be very interactive; this year, it included several workshops and break-out sessions, along with a participant-driven panel discussion. Early feedback indicated that a majority of the participants were "very satisfied" with the seminar and that many participants had attended in prior years, demonstrat-

ing the continued success and popularity of the seminar.

The already-robust prepared curriculum was enhanced by extemporaneous discussions among faculty members and attendees about the value and necessary documentation associated with subjecting actuarial opinions and reports to a peer review process. Additional discussion centered on what constitutes a range of reasonable estimates and, in particular, how correlation can be addressed when determining a range of reasonable estimates.

The seminar faculty was pleased that so many attendees rose to the call to "meet me in St. Louis!" with a near record turnout in attendance. The seminar is held each November and rotates locations between Baltimore and a midwestern state. ▲

**Nicole Elliott is P&C examining actuary with the Texas Department of Insurance in Austin and chairperson of the Academy's Opinion Seminar Subcommittee.**

## NCOIL Meeting Features Academy Expertise

**A**T THE NATIONAL CONFERENCE OF INSURANCE LEGISLATORS (NCOIL) annual meeting, Nov. 21-24 in Nashville, Tenn., the Academy participated in several sessions relating to longevity risk, international issues, and health care reform.

Academy Senior Life Fellow Nancy Bennett [presented](#) on longevity risk and lifetime income during the Life Insurance and Financial Planning Committee meeting. During her presentation to the legislators, Bennett discussed why lifetime income risk is an issue and the ways that regulators, insurers, and consumers are, or should be, responding to it. Bennett also addressed the [Academy's Lifetime Income Initiative](#).

Academy Risk Management and Financial Reporting Council Vice President William Hines presented at the International Insurance Issues Committee meeting. Hines discussed international insurance regulation by the International Association of Insurance Supervisors and the Financial Stability Board of potential global systemically important insurers and global systemically important financial institutions.

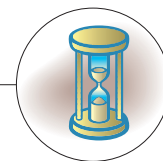
On the health side, Audrey Halvorson, chairperson of the Acad-



emy's Rate Review Practice Note Work Group and newly elected Academy Board member, participated in a special symposium on health care costs in the Affordable Care Act (ACA) era. Halvorson provided legislators with an [overview](#) of rating and the factors affecting premiums, individual and small-group rating, provisions in the ACA and how they alter rates, and the influence of participation on rates.

Academy Health Care Costs Work Group member Susan Pantely [presented](#) on new models of care under the ACA at the Health, Long-Term Care, and Health Retirement Issues Committee meeting. Pantely discussed different models of care delivery, such as open systems, patient-centered

medical homes, accountable care organizations, and staff models, as well as a number of strategies that can be used in any model to enhance care delivery. She also reviewed the actuarial components of care delivery models, which include setting budgets and appropriate care coordination fees, measuring results, evaluating risks and reinsurance, assessing credibility, and reporting and monitoring of results. ▲



## PBR Brief Distributed to State Legislators, Commissioners

**THE LIFE PRACTICE COUNCIL** sent a letter to state insurance legislators and commissioners in support of the new principle-based reserving (PBR) framework. The [Legislation-in-Brief](#) was sent to insurance legislators and regulators in states that will consider the National Association of Insurance Commissioners (NAIC) revised model Standard Valuation Law in 2014.

The brief is intended to inform legislators and insurance commissioners of the importance of the new PBR methodology in the NAIC model Standard Valuation Law. The Academy has been working over many years to educate legislators and regulators about the

benefits of revisions to the NAIC's model Standard Valuation Law. These revisions create a new framework for calculating life insurance policy reserves that is in the best interests of consumers, the insurance industry, and regulators.

To successfully implement the new PBR framework, more resources and training will be needed for both regulators and companies. The Academy is committed to working with the NAIC, state insurance departments, and state legislators to provide technical advice and support that will ensure the new PBR framework's success. ▲

## Regulators Learn the Ins and Outs of PBR

**REGULATORS** got an exclusive in-depth look at principle-based reserving (PBR) in a Nov. 20 Academy webinar. Panelists Dave Neve, chairperson of the Life Financial Soundness/Risk Management Committee, and Cande Olsen, chairperson of the Life Principle-Based Reserves Strategy Subgroup, gave regulators great detail on issues surrounding VM-20 (PBR for life products) and the PBR actuarial standard of practice (ASOP) exposure draft.

Neve began his overview of the current formula-based valuation system by talking about its 155-year history. "Very little has changed over the past 150 years," he said. "For the majority of life products, the reserve calculation still follows a formula-based approach that is based on prescribed assumptions with essentially no actuarial judgment allowed to address the underlying risks of the product."

He delved further into the history of reserves, the growing complexity of products and investments, and the benefits of the new PBR framework, which include:

- Addressing all of the identifiable, quantifiable, and material risks, benefits, and guarantees within an insurance contract;
- Being able to "right size" reserves based on the risk profile of

- the insurance company and product features and guarantees;
- Preventing consumers from being overcharged because of redundant reserves or undercharged because of insufficient reserves;
- Allowing reserves to reflect actual product and company risks and risk management processes;
- Eliminating constant regulatory or legislative action to make adjustments to formulas or rules;
- Retaining the ability to establish a minimum floor if needed.

The remainder of his presentation described the VM-20 reserve methodology and requirements along with numerical examples, and the challenges facing regulators once the PBR framework is implemented.

Olsen focused on the development of a new PBR ASOP and emphasized the important role regulators can play in the process. "My reason for talking about the PBR ASOP is that the comment deadline to the Actuarial Standards Board is Dec. 16—which is less than a month away," she said. "We really want to get comments from regulators."

Both Neve and Olsen also responded to specific participant questions. ▲

## Captives Methodology Gets Initial Look

**THE ACADEMY'S LIFE PRACTICE COUNCIL** [commented](#) on the initial [report](#), exposed on Sept. 13, of Rector & Associates, Inc. on the NAIC Principle-Based Reserving Implementation (EX) Task Force. In its response, the Academy focused on how the adequacy of assets supporting the obligations assumed by an insurer (traditional or captive, insurer or reinsurer) can best be assessed, including its support of a principle-based approach. "Such an approach should focus on a robust actuarial analysis of the risks associated with the insurance transaction and should consider the interaction of the asset and liability cash flows involved," the Nov. 15 letter stated.

The report suggests dividing the assets supporting captive reinsurer liabilities into two categories, primary assets and other assets. However, the council, in its comments, pointed out that the report

does not give enough specific information on constructing this methodology or using it in partitioning and will withhold more substantive commentary until it sees this information. "As with the determination of the adequate assets for a captive," the letter stated, "the Life Practice Council strongly recommends that the process involved in any such asset partition, if put in place, should focus on a robust actuarial analysis of the financial risks involved." ▲

### LIFE BRIEFS

- **Ken Griffin**, managing director and head of life advisory for Conning Asset Management in Hartford, Conn., has joined the C1 Workgroup.



## Financial Reporting and Uncertainty Under ACA

**A**LTHOUGH MORE QUESTIONS about the Affordable Care Act (ACA) and its implementation have been answered, a few still remain. A new Academy [issue brief](#), *Financial Reporting Implications Under the Affordable Care Act*, explores the less publicized but potentially volatile area of financial statements. ACA will require greater use of actuarial estimates, which in turn creates greater uncertainty in financial statements and issues with year-to-year comparability for balance sheets, income statements, and issuer-to-issuer comparisons.

Contributing factors fall into several categories. Premium stabilization programs—risk adjustment, reinsurance, and risk corridor programs—primarily affect commercial individual and small-group lines of business and help drive the accounting uncertainty resulting from ACA implementation.

“The cumulative effect of all of these items is that users of health issuer financial statements will have to be diligent in the next few years to ensure that conclusions drawn reflect the underlying performance of the business and not just intermediate changes in treatment as a result of ACA implementation,” according to the Health Practice Financial Reporting Committee, author of the issue brief.

Risk adjustment programs are designed to allow issuers to price individual and small-group products without factoring in the underlying relative health status of potential clients. This causes uncertainty in several areas, including the issuers’ risk scores, member exposures, calculation granularities, and data validation.

Reinsurance, which is designed to offset an expected greater participation of those with chronic conditions and larger claims, follows a calendar-year accrual whereas the benefits occur on June 30 of the following year. The timing difference complicates year-over-year comparability for plans heavily invested in the individual market, the issue brief states. Also, reinsurance benefits have set limitations, which could lead to reduced payments if funding levels are off.

The risk corridor program does provide payments from the Department of Health and Human Services to issuers from 2014 through 2016 to offset variability. Even with such payments, substantial variance will still affect a company’s financial return.

In addition to the premium stabilization programs, issuers will need to factor new ACA-related taxes and fees, advance payments, and existing actuarial liabilities in their work on financial statements. ▲

## Mortality Standards Get Fresh Look

**O**N NOV. 4, the Academy’s State Long-Term Care (LTC) State Task Force [commented](#) on the NAIC’s Long-Term Care Valuation Subgroup’s proposals that replace current mortality standards for new LTC policies in the group’s Health Insurance Reserves Model Regulation.

The Academy’s task force has formed the Terminations Work Group, which is collaborating with the Society of Actuaries’ Experience Committee and the Medical Information Bureau in an ongoing project to summarize data from the 1984–2007 Intercompany Study. The work group plans to validate mortality to a published table (or tables) and will exclude mortality data contributed by companies with low actual-to-expected deaths compared with the aggregate, indicating more miscoded deaths relative to other submitted data. Voluntary terminations will be calculated as the total terminations (with no exclusions) less expected deaths calculated from the exposures and the published table(s). ▲

### HEALTH BRIEFS

➔ **Paul Lavallee**, assistant vice president—LTC valuation for Unum in Portland, Maine, and **Yiwen Bu**, assistant vice president and actuary for MetLife in Bridgewater, N.J., have joined the LTC Principle-Based Work Group.

### Medicaid and Health Outcomes: An Oregon Case Study

Dec. 4, 2013 / Noon–1:00 p.m. Eastern

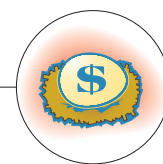
In 2008, Oregon expanded its Medicaid program to include 10,000 additional residents. Given the number of residents who qualified for the program, Oregon held a lottery to determine who would be added to the Medicare program. This provided researchers with an opportunity to study the health outcomes of those who were added to Medicaid compared with those who were not. The study led to some interesting conclusions.

#### WEBINAR HIGHLIGHTS:

- ➔ Overview of the study, including methods, assumptions, and data received;
- ➔ Examination of the study’s results and what they mean;
- ➔ Exploration of the study’s implications, especially what it does and does not tell us about Medicaid expansion.

**PRESENTER:** Katherine Baicker, Ph.D., professor of health economics, Department of Health Policy and Management, Harvard School of Public Health; research associate, National Bureau of Economic Research; and elected member, Institute of Medicine

**MODERATOR:** Cori Uccello, Academy Senior Health Fellow



## Defined Benefit Plans and Measuring Obligations

**TENS OF MILLIONS** of U.S. workers and retirees belong to pension plans that are the subject of a heated debate surrounding the discount rate used to measure pension obligations. The Academy's Pension Practice Council published an [issue brief](#) in November to inform public policymakers and the general public regarding different measurements of the obligations of defined benefit pension plans. The brief covers two common measurements of pension obligations: the solvency value and the budget value.

The solvency value is the amount needed to fulfill all benefit obligations when invested in a portfolio of securities free of default risk whose cash flows match the future benefit payments. An important characteristic of the solvency value is that it is intended to fulfill the benefit obligation without additional funds but requires that the portfolio be free of default risk. Treasury securities are the only broadly available securities generally considered free of default risk.

The discount rate used to calculate the solvency value is based on the Treasury yield curve or the return on the assets of the hypothetical Treasury portfolio. The solvency value, like any market-based value, will change when interest rates change but does not change merely because the asset allocation of the actual portfolio is changed.

The budget value is the amount expected to be sufficient to pay all benefits if that amount is invested and earns the anticipated return of the plan's investment portfolio. When the portfolio is diversified and the return is uncertain, additional funds may be needed when returns are less, and surplus assets may develop when returns are greater than expected. Because of the risk aspects of the portfolio, insufficient or surplus assets may develop, and the budgeting process will have to be adjusted for this differential over time.

The budget value differs from the solvency value in that the selection of the discount rate is based on judgment of future market performance while the solvency discount rate is based on observable data in current markets. Selection of a reasonable rate is essential to the viability of the budget method.

A simplified example illustrates the level of certainty associated with each method: If you promise to pay \$1 million to another party

in 10 years, you could fund this debt with a 10-year zero-coupon Treasury note. With a return of 3 percent, an investment of \$744,000 would sufficiently fund the debt with 100 percent certainty.

You might also fund the debt with a smaller amount invested in a diversified portfolio of assets. If you could reasonably expect the portfolio to return 6 percent, an investment of just \$558,000 would be expected to fund the debt, but the ability to meet the obligation would be less certain. The portfolio might earn more or less than 6 percent over the 10 years.

The difference between the solvency value and the budget value represents both the market value of the investment risk in the diversified portfolio and the target gain or reward that the plan sponsor anticipates. Each method is useful for its intended purpose, although the measurements may differ significantly. ▲

### DUES REMINDER

Current Academy members should have received information about renewing their Academy membership for 2014. The deadline for 2014 dues is Jan. 1. You can pay online by [logging in](#) to the members-only page of the Academy website and following the instructions there. If you have questions about your account or the website, or how to make multiple payments in a single transaction, contact Mary McCracken, the Academy's membership database administrator, at (202) 223-8196 or [membership@actuary.org](mailto:membership@actuary.org).

#### PENSION BRIEFS

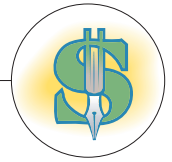
- ➔ **Eli Greenblum**, senior vice president and actuary for the Segal Co. in Washington, is the new chairperson and Academy vice president of the Pension Practice Council.
- ➔ **Bruce Cadenhead**, partner and chief actuary—U.S. retirement for Mercer in New York, and **William Hallmark**, consulting actuary for Cheiron Inc. in Portland, Ore., are now vice chairpersons of the Pension Practice Council.
- ➔ **Steve Rabinowitz**, senior vice president for the Segal Co. in New York will chair the Multiemployer Plans Subcommittee.

### Professionalism Webinar: Up to Code: Are You Keeping Up to Code?

*Dec. 3, 2013 / Noon–1:30 p.m. Eastern*

Registration is open to everyone.

Register [online](#) now.



## Navigating Regulatory Environments

**T**HE NEWEST WEBINAR in the Meet the Experts series, “NAIC and Academy Update: Navigating the International and U.S. Regulatory Environment,” was held on Nov. 15. The webinar looked at several insurance regulatory developments that are occurring at the state, federal, and international levels, including ComFrame, global systemically important financial institutions designations, the Solvency Modernization Initiative, and Own Risk Solvency Assessment (ORSA).

“Insurance companies navigated the recent financial crisis well,” said Jeffrey Schlinsog, a webinar presenter and chairperson of the Academy’s Financial Regulatory Reform Task Force. “Insurance liabilities are fundamentally different from bank liabilities; regulatory standards established for banks may not be appropriate for insurance companies.” Highlighting the contribution of the actu-

arial profession, Schlinsog pointed out, “There is no bank role comparable to that of the appointed actuary of an insurance company.”

During the live webinar, Schlinsog, co-presenter Larry Bruning, life actuary in the Financial Regulatory Affairs Division of the National Association of Insurance Commissioners (NAIC), and moderator Kris DeFrain, director of the NAIC’s research and actuarial department, discussed the activity and impact of the International Association of Insurance Supervisors, the G-20 finance ministers and central bank governors, and the Financial Stability Board on international insurance regulations. They also provided a backdrop on U.S. federal and state/NAIC activities and their impact on the insurance regulatory environment.

[Slides](#) of this webinar and previous public policy webinars are available to Academy members at no cost. ▲

## Everything You Wanted to Know About ERM

**A**CTUARIES who see the value of using enterprise risk management (ERM) practices in their organization learned the steps to its implementation in a Nov. 19 [webinar](#), “The Practice of ERM in the Insurance Industry,” which was based in part on a recent Academy [practice note](#).

“As we thought about ERM, we wanted to put together something that would help the actuaries and analytical thinkers in an organization set up an ERM department—sort of a how-to manual,” said presenter Bruce Jones, chairperson of the Academy’s ERM committee. The webinar focused on what ERM means and how it operates from an organization and a practice perspective. “We really want to get at the thought process underneath it,” Jones said in introductory remarks.

And with the help of fellow presenters Mike Celichowski and Seong-min Eom, both members of the ERM committee, that is exactly what the webinar did. Presenters defined ERM, discussed the ways it can be applied in various situations and organizations, described the benefits of its application to organizations, and explored various standards and regulations dealing with risk management. They also answered specific participant questions.

“If we are to manage risk, we need to know what we are managing,” said Celichowski. “We must look beyond current conditions. It requires foresight and an open mind.”

Eom mentioned the actuarial standards of practice (ASOPs) related to ERM (ASOPs [No. 46, Risk Evaluation and Enterprise Risk Management](#) and [No. 47, Risk Treatment in Enterprise Risk Management](#)). She also went into some detail about what companies are

doing in response to the National Association of Insurance Commissioners’ (NAIC) Own Risk and Solvency Assessment (ORSA):

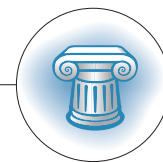
- Reviewing the effectiveness of the current corporate ERM program, including risk governance;
- Identifying gaps between current company practice and ORSA requirements;
- Analyzing the materiality of the identified risks, prioritizing key risks, and evaluating aggregate risk across the group;
- Developing and enhancing aggregate group-level capital model and stress/scenario testing framework;
- Creating processes to perform forward-looking assessments of risk and solvency over the planning horizon;
- Integrating ERM into the group strategic planning processes;
- Writing a mock ORSA summary report.

“ORSA will make a major impact,” Eom said. “Insurers need to show regulators their integrity.” ▲

### RISK MANAGEMENT AND FINANCIAL REPORTING BRIEFS

- **Kamil Jasinski**, senior manager for Ernst & Young in Warszawa, Poland, has joined the Solvency Committee.
- **Mike Celichowski**, vice president—capital management for CUNA Mutual Group in Madison, Wis., has joined the Solvency Committee and the ERM Committee.
- **Jeff Fitch** of Fitch Consulting Inc. in Grand Island, Neb., has joined the ORSA Subgroup.





## Seminar Reaches Record Number

**T**HE NOV. 11–14 annual Life and Health Qualifications Seminar reached a record capacity attendance this year with 108 registrants. At the seminar, actuaries learn about issuing the National Association of Insurance Commissioners (NAIC) life and health annual statement opinions and meet part of the qualifications needed under the U.S. Qualification Standards to sign these statements. On the final day of the seminar, 64 attendees sat for the exam.

“In recent years, the Academy has updated seminar materials to take into consideration the impact of the principle-based approach to reserving and Affordable Care Act regulations,” said Joeff Williams, chairperson of the Life and Health Qualifications Seminar Committee. The Affordable Care Act and its numerous potential financial implications were a hot topic during the three-day semi-

nar, which included the Academy’s recent white paper, the *Financial Reporting Implications Under the Affordable Care Act*.

Many questions were asked about the principle-based approach to reserving and risk-based capital methodologies that states are considering adopting. “Principle-based reserving will have a major impact on the work of actuaries who calculate life and annuity reserves,” said Donna Claire, a member of the committee and faculty.

Preliminary results from the attendees’ surveys show that sessions on drafting actuarial opinions, reinsurance, premium deficiency reserves, and professionalism were the most valued, with the feedback ranging from “very educational,” “overall excellent,” and “great case studies” to “all topics were useful and built on each other to give us information that will be great for us on the job.” ▲

## Where the Rubber Meets the Road and the Code

**T**HE ACADEMY’S OCT. 31 PROFESSIONALISM WEBINAR brought the Code of Professional Conduct and actuarial standards of practice (ASOPs) to life through vignettes that turned experts into performers. The webinar aimed to illustrate how the Code of Professional Conduct applies to actuaries’ everyday work. The webinar had 1,111 participants.

The presenters, each with more than 30 years of actuarial experience, were Ken Kent, member of the Academy’s Board of Directors and chairperson of the Joint Committee on the Code of Professional Conduct; Michael Toothman, chairperson of the Academy’s Council on Professionalism Task Force on Discipline; and Timothy Muth, a litigation shareholder at the Milwaukee law firm Reinhart, Boerner, Van Deuren, and leader of the firm’s financial litigation group.

Academy General Counsel and Director of Professionalism Keith Jones moderated the webinar. The webinar’s three scenes highlighted how the Code of Professional Conduct and ASOPs may apply in different circumstances, and a lively discussion of key concepts followed each vignette.

“The challenge for an actuary is to always be aware of all of the ASOPs and their constant changes,” said Toothman. “Being regularly refreshed on the ASOPs in an interesting way like this can not only enhance an actuary’s level of awareness to dangers and repercussions but, more importantly, enhance his or her level of professionalism.”

Common themes emerged from these vignettes, namely the need to perform actuarial assignments with “skill and care” (Precept 1), the requirement to follow the ASOPs (Precept 3), and the need to include thorough documentation and disclosures in actuarial work products ([ASOP No. 41, Actuarial Communications](#)).

ASOP No. 41 generated considerable discussion on what it means to be a responsible actuary, what a signature on a report means, to what extent to disclose reliance on others, and who takes responsibility for the assumptions selected.

The presenters also highlighted [ASOP No. 23, Data Quality](#), as a standard that applies to most actuarial assignments, and thus a good

one for actuaries in all areas to review. The wide-ranging discussion also touched on conflicts of interest, the benefits of peer review, and how to deal with time pressure.

Academy members who missed this webinar can watch it on the Academy’s [website](#). ▲

### PROFESSIONALISM BRIEFS

➔ At the Actuarial Society of Greater New York’s 2013 annual meeting on Nov. 18, **Cande Olsen**, a member of the Council on Professionalism’s Task Force on Discipline and former vice president of the Life Practice Council, and **John Purple**, a member of the Actuarial Board for Counseling and Discipline, delivered a presentation to an audience of approximately 300 people about recent professionalism issues related to the National Association of Insurance Commissioners (NAIC) Joint Qualified Actuary Subgroup Discussion Paper and other Academy professionalism activities.

➔ On Nov. 8, Academy Assistant General Counsel **Sheila Kalkunte** provided a presentation on the definition of “qualified actuary” and matters related to the NAIC Joint Qualified Actuary Subgroup Discussion Paper at the annual meeting of the Actuaries’ Club of the Southwest in Austin, Texas. Also presenting at this event was **Michael Boerner**, an Academy member and the chairperson of the NAIC Life Actuarial Task Force, who provided an update on the status of principle-based reserving legislation and its adoption throughout the country.

➔ **David F. Ogden** has been appointed the newest member of the Actuarial Board for Counseling and Discipline. Ogden is a health consultant with 35 years of experience in commercial, Medicare, and Medicaid consulting. He has worked with health plans, providers, state Medicaid agencies, Blue Cross Blue Shield plans, and insurance companies, and has significant experience working with Medicare Advantage and Part D plans.

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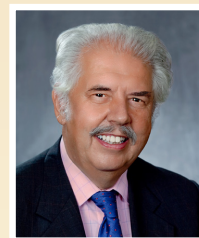
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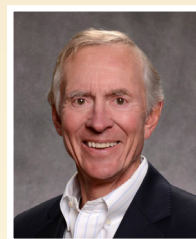
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That is a huge opportunity, and with that goes a huge responsibility.”

The Academy’s extensive health care cost initiative will “soon bear fruit with the forthcoming publication of a series of papers addressing health costs,” outgoing 2013 Academy President Cecil Bykerk said in his [farewell address](#).

Bykerk reflected on the Academy’s accomplishments during his presidential year, including the lifetime income initiative that was successfully launched this past summer. The Academy also meaningfully engaged with public officials at the federal and state levels, Bykerk said, including the U.S. comptroller general, the director of the U.S. Pension Guaranty Corp., members of Congress, and NAIC state regulators. Bykerk offered the Academy’s engagement with NAIC representatives regarding their concerns over the profession’s qualification and discipline processes as an example of robust outreach on professionalism matters, which is part of the Academy’s unique mission.

In one of his final acts as president, Bykerk presented seven awards honoring volunteers. “Volunteering is at the heart of the Academy and its mission,” he said. “We are fortunate to benefit from the skill, dedication, and hard work of more than 1,300 Academy volunteers. Their contributions were given to advance the Academy’s mission and the profession.”

Ethan Kra was honored with the 2013 Jarvis Farley Service Award, for his contributions to the actuarial profession through his numerous volunteer efforts during his career. Five actuaries—Anne Button, Audrey Halvorson, Geoffrey Hancock, David Ingram, and Joeff Wil-

**ACADEMY PUBLIC INTEREST COMMITTEE**  
Chairperson Stephen Alpert delivered a presentation, “Beyond Actuarial Principles: Service, Advocacy, and the Public Interest,” at the joint meeting of the Actuaries’ Clubs of Boston and Hartford/Springfield on Nov. 14 in Sturbridge, Mass.

liams—were recognized with the 2013 Award for Outstanding Volunteerism for their contributions to the Academy during the year and their efforts to advance its mission. Stephen Goss, chief actuary of the Social Security Administration, made acceptance remarks by video for the 2013 Robert J. Myers Public Service Award, named after a predecessor who served as chief actuary of the agency. The video is [posted](#) on the Academy’s YouTube channel. Bykerk also led a moment of silence in memory of 2012 Farley Award recipient Curtis Huntington, who was known and admired by many as an accomplished actuary who had worked tirelessly to promote actuarial professionalism.

The meeting closed with the announcement of the beginning of the terms of the four regular director members elected by Academy members in online balloting this past summer. Albert Beer, Audrey Halvorson, and Annie Voldman were elected as regular directors to serve three-year terms, and Thomas Campbell was elected as a regular director to serve a one-year term completing the term of a director who moved into a vice president position on the Academy’s Board of Directors. ▲

## HONORING THE PAST WITH PRESENT ACHIEVEMENTS

**STEPHEN GOSS**, chief actuary of the Social Security Administration (SSA) and winner of the 2013 Robert J. Myers Public Service Award, described himself as “elated” when first offered a chance to work for the federal government.

“The opportunity to interact with political policymakers, economists, demographers, and actuaries seemed too good to be true,” he said. “And it still is. The breadth of the work we get to be involved in is enormous, and the opportunity to help in understanding the dynamics of the social and economic issues, mostly behind the scenes, is extremely rewarding.”

His success in these efforts over the past 40 years, and the universal praise he receives from colleagues inside and outside the federal government, were emphasized by immediate past Academy President Cecil Bykerk, who said of Goss, “He is regarded as a thought leader and mentor who has dedicated many years to the common good and public service on behalf of the actuarial profession.” Goss is continuing in a tradition established by



the award’s namesake, Bob Myers, the architect of Social Security and, for many years, SSA’s chief actuary.

Goss is quick to point out that his work at the SSA would not be possible without the fantastic team he works with every day. Any future accomplishments and goals will be done in a spirit of thoughtfulness and teamwork. “The main goal for the future is clearly to do all possible to make sure this office, formulated and nurtured by Bob Myers, continues into the future providing the invaluable, objective, and always pertinent work that all have come to respect and expect,” Goss said. “We are fortunate to have a

great younger generation in the office ready to carry on this great legacy.”

One of the biggest parts of that legacy is a commitment to work that goes beyond computations and analysis. Goss described a conversation with his first boss, Francisco Bayo, which characterized such work as only half done. If he and his fellow actuaries could not translate their actuarial skills into convincing and comprehensible results, they would be missing half their mission. “To the extent we are able to express sometimes complex findings in straightforward demonstrations and, yes, stories, we are able to inform and influence public understanding and policy,” Goss said. “I believe that actuaries, because of their reputation for and determination to maintain objectivity, are in a unique position to make a difference and contribute to the common good.”

Goss was unable to attend the meeting, but a video of his acceptance remarks is posted on the Academy’s YouTube channel at <http://www.youtube.com/user/ActuaryDotOrg> under “Awards.”

SEE MEETING, PAGE 12

## KRA HONORED FOR DEDICATION TO PROFESSION

**WHILE ETHAN KRA DESCRIBED** himself as an “accidental” actuary when he accepted the 2013 Jarvis Farley Service Award, his impact on the actuarial profession shows a thoughtful dedication to his actuarial work and volunteer activities that is anything but. In fact, he offered a great deal of gratitude to many who encouraged him to become an active volunteer, which deepened his commitment to and understanding of his new profession. “Only then did I start to fully comprehend the difference between a job and a profession,” Kra said. “Being an actuary is a profession with an obligation to society beyond the obligation to one’s individual employer and clients.”

Although originally interested in a career as a math professor, Kra stumbled on actuarial science as a good way to apply his interest and background in math. He began in insurance and moved into the actuarial benefits consulting field after ERISA prompted a demand for consulting pension actuaries.

He joined the Academy in 1979 and began his service on the Pension Practice Council in 1993, ultimately serving

as its vice chair for seven years and its chair for two years. He served on the Pension Committee from 1994 to 2010 and was also a member of many other task forces and committees. Outgoing Academy President Cecil Bykerk specifically cited Kra’s skills in public policy. “He became known for effectively presenting Academy analysis and recommendations to policymakers in Washington, and as a result has made a significant positive impact on pension regulation through his profound knowledge of pension policy.”

Kra’s dedication to his profession also included stints as a general committee member of the Actuarial Standards Board and on the Academy Board of Directors. In his executive committee service, he was vice president for pension issues from 2009 to 2011.

His professional trajectory was no less impressive. A summa cum laude undergraduate from Yale, where he also earned a Ph.D. in mathematics, Kra started at Prudential Insurance Co. of America in 1973 and moved to Mercer in 1977, ultimately achieving the rank of chief actuary for retirement in 1994. He



formed his own company, Ethan E. Kra Actuarial Services, in 2011.

“I must highlight that by diving into volunteer positions, you truly receive more from those activities than you contribute,” he said, citing “the opportunities to collaborate with a broad range of cutting-edge colleagues from a great range of backgrounds and employers, to work on the front-line issues facing not only the profession but also society, to learn in depth about these issues, and to have an impact on how the profession addresses these issues.”

## PREDICTING THE FUTURE IS VERY HARD

**FIXING A PROBLEM** can sometimes lead to unexpected consequences. Solving transportation issues in New York in the late 1800s, for instance, led to a huge sanitation problem when horse manure piled up in the streets, said Stephen Dubner, co-author of *Superfreakonomics*. In a keynote speech at the Academy’s Annual Meeting and Awards Luncheon, Dubner described the unpleasant situation on the average New York street at the beginning of the 20th century. Although the city’s trolley system made travel more convenient and available, most New Yorkers wouldn’t have characterized the city’s air quality as the sweet smell of success because of the thousands of horses pulling the trolleys and carts.

But, as Dubner said, “technology constantly creates opportunities that we fail to foresee.” In this case, the automobile. When cars came along, they

did more than move people quickly and independently. They solved the manure problem created by the presence of so many horses in such a crowded city. But almost 100 years down the road, those very same cars and gas-powered vehicles are implicated in another problem: climate change. Once again, a new solution led to unexpected consequences.

Dubner’s explanation for the paradoxes was exceedingly simple. “Predicting the future is very hard,” he told the enthusiastic crowd of 800 actuaries who attended the annual meeting.

In a speech that reverberated throughout the day’s sessions and conversations, Dubner wove together tales of consequences as well as opportunities for those who seek to solve problems and manage risk.

Dubner cautioned that our inability to predict the future well is not a good



reason for being satisfied with the status quo. “Change often comes from a surprising or overlooked problem,” he said. While solutions sometimes come with unintended or paradoxical consequences, change is frequently welcome. Few would prefer to turn in their automobiles and return to the horse-and-trolley days of yesteryear.

# Order Your 2013 P/C Loss Reserve Law Manual

The Property/Casualty Loss Reserve Law Manual is designed to help appointed actuaries comply with the NAIC annual statement requirements for statements of actuarial opinion (SAO). It is updated annually.

## The manual includes a summary of:

- ▶ SAO requirements and the laws and regulations establishing those requirements for every state in the United States (as well as the District of Columbia and Puerto Rico);
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# Preorder the 2014 Life & Health Valuation Law Manual

The Life & Health Valuation Manual is designed to help appointed actuaries comply with the requirements of the NAIC model Standard Valuation Law and the Model Actuarial Opinion and Memorandum Regulation. It is updated annually.

## The manual includes:

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- ▶ Current topics section outlining key valuation developments and specific state guidance;
- ▶ Copies of current NAIC model laws and regulations that have an effect on reserve calculations;
- ▶ A discussion of generally distributed interpretations; and
- ▶ Copies of the current actuarial guidelines from the NAIC Examiners Handbook.

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- ▶ Single-User CD-ROM Subscription \$675
- ▶ Single-User Web Access \$630
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- ▶ Multiple-User Web Access \$2,915
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## In the News, continued from Page 3

- ➔ [Obamacare "Fix" Quiets a Political Storm, but Ignites a Policy One](#)
- ➔ [Reform Update: White House Move to Limit Insurance Cancellations May Backfire](#)
- ➔ [Obama Says Insurers Don't Have to Cancel Non-ACA Compliant Health Insurance Plans](#)
- ➔ [Marco Rubio: No Bailouts for Obamacare](#)
- ➔ [Obamacare's Teachable Moment](#)
- ➔ [Marco Rubio's Devious New Plan to Kill Obamacare](#)
- ➔ [The Central Front in the War Against Obamacare: Cap the Spending](#)
- ➔ [Landrieu-Manchin Bill Would Raise Premiums and Threaten Viability of Insurance Marketplaces](#)

### VIDEO

- ➔ [The Situation Room](#) (CNN)
- ➔ [Markets Now](#) (FOX BUSINESS NETWORK)
- ➔ [Markets Now](#) (FOX BUSINESS NETWORK, second mention)
- ➔ [After the Bell](#) (FOX BUSINESS NETWORK)
- ➔ [Inside Washington](#) (Syndicated Program)

Academy Senior Health Fellow Cori Uccello was quoted in *The Hill* article "[Obama Is Boxed in by Bill Clinton](#)" and the *Kaiser Health News* article "Why Insurers Cancel Policies, and What You Can Do When It Happens" published in [the Washington Post](#) and [PBS Newshour](#).

Academy Senior Pension Fellow Donald Fuerst was quoted in the article "Put Your 401(k) to the Test" published in [MarketWatch](#) and [Next Avenue](#).

Recent Academy research on health care costs and the Affordable Care Act was cited by Sen. Deb Fischer (R-Neb.) during a Senate floor [speech](#) on youth employment and in the following articles:

- ➔ [A "Direct" Way to Lower Health Costs](#)
- ➔ [Many Young Single Women Will See Premiums Rise](#)
- ➔ [How Rejecting Medicaid Funding Boosts the New Marketplace Rates](#)

The Academy's Group Long-Term Disability Work Group's effort to update the Group Long-Term Disability Valuation Table was reported on by *LifeHealth-*

*Pro* in "[Task Force Posts Disability Table Guideline Draft](#)."

Academy member Joeff Williams was interviewed on what it's like to be an actuary for the LocalJobNetwork.com Radio podcast "[I Want to Be an-Actuary](#)."

The MarketWatch article "[Manage Your Nest Egg to Beat Longevity Risk](#)" cites the Academy's Capitol Hill brief "[Risky Business: Living Longer Without Income for Life](#)."

Ballotpedia cites the Academy's Issue Brief "[The 80% Pension Funding Standard Myth](#)" in its post "[Public Pensions in Kansas](#)."

Academy member Albert Beer's election to the Academy's Board of Directors was reported by *Long Island Newsday* in the article "[LI People on the Move](#)."

Academy member Julie Lederer's appointment to the Missouri Department of Insurance as its property/casualty actuary was reported by *Insurance Journal* in the article "[Missouri Insurance Department Adds Lederer as Property/Casualty Actuary](#)." ▲



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