Actuarial UPDATE
THE NEWS MONTHLY OF THE AMERICAN ACADEMY OF ACTUARIES
AUGUST 2015

Academy Presents at NAIC Summer Meeting

Academy volunteers gave multiple presentations at the NAIC’s Summer 2015 National Meeting in Chicago Aug. 14-17, interacting with state regulators on a variety of topics, including earthquake risk, long-term care terminations, investment risk-based capital (RBC), and actuarial professionalism (see p. 6).

Mary Bahna-Nolan, vice president for life issues, and Richard Daillak, a member of the Life Practice Council, addressed the Life Actuarial (A) Task Force (LATF). Daillak, chairperson of the Life Reinsurance Work Group, presented on Treatment of Yearly Renewable Term Reinsurance in Stochastic Exclusion Ratio Testing, while Bahna-Nolan provided an update on the development of the Guaranteed Issue, Simplified Issue, and Preneed mortality tables from the Academy/SOA Joint Project Oversight Group, and noted that accelerated underwriting is an emerging trend.

John MacBain, a member of the Nonforfeiture Modernization Work Group, provided an update on activities of the

Academy Releases Series of Papers Marking Medicare’s 50th Anniversary

Medicare turned 50 at the end of July, and the Academy—which also is marking its 50th anniversary this year—noted the milestone for the federal health care program by releasing several papers in the new Medicare@50 series. Enacted on July 30, 1965, with President Lyndon Johnson’s signing of the Social Security Amendments of 1965, Medicare became one of the most important social insurance programs in our nation’s history.

“Medicare has played a critical role in meeting the health care needs of nearly all Americans age 65 and older and millions of younger Americans with disabilities,” said Academy Senior Health Fellow Cori Uccello. “With 10,000 Americans now enrolling in Medicare every day, it’s more important than ever to take stock of the program. The Academy’s Medicare@50 series identifies some of the most fundamental issues that policymakers and anyone concerned with the program’s future should be aware of, such as ‘How serious are Medicare’s financial challenges?’ and ‘What benefits does Medicare provide, and to whom?’”

Part of the Academy’s broader “Aging Securely” initiative, which focuses on policy issues around longevity risk, health care needs, and financial security for an aging population, Medicare@50’s first three papers are:

- **Is It Sustainable for 50 More Years?** This paper looks at the financial challenges facing Medicare and highlights the need for policy options to ensure the program’s long-term sustainability.

- **Who Are the Beneficiaries?** This paper examines the diverse needs and characteristics of Medicare beneficiaries.

- **Does It Meet the Needs of the Beneficiaries?** This paper explores the benefits available under the traditional fee-for-service Medicare program, as well as Medicare Advantage and supplemental policies.

The projected long-range financial condition of Medicare, according to the newly released 2015 Medicare Trustees Report, has improved since last year, primarily due to a lower estimate for long-range health care cost growth for the Medicare Hospital Insurance (HI) Trust Fund and other parts of Medicare. As indicated in the Academy’s July issue brief, Medicare’s Financial Condition: Beyond Actuarial Balance, the HI trust fund will have sufficient funds to cover its obligations until 2030, the same year that was projected last year, and 13 years later than was projected in 2009, the last report issued prior to passage of the Affordable Care Act. In 2030, tax revenues would cover 86 percent of program costs.

NEW SPECIAL DIRECTOR ELECTED

The Board of Directors this month elected former Ohio Department of Insurance Director (2007-11) **Mary Jo Hudson** to serve as a special director on the Board for a term ending in the fall of 2016. “I’ve had the pleasure of working with many actuaries as a regulator, and look forward to this new role supporting the important public policy and professionalism mission of the Academy,” said Hudson, a member of the law firm of Bailey Cavalieri LLC in Columbus, Ohio, a legal practice emphasizing multi-state insurance regulatory compliance issues.
THE ACADEMY HAS RELEASED new details for the educational sessions at its Annual Meeting and Public Policy Forum, to be held Nov. 12-13 in Washington. Sessions will offer public policy and professionalism content relevant to all actuarial areas of practice, and practice-specific content on topical casualty, health, life, pension practice, and professionalism issues. Discounted rates are available through Aug. 31—today—so register now.

Uniquely positioned and knowledgeable subject matter experts leading the sessions will include congressional and federal agency representatives, as well as leaders of the NAIC and of the U.S. actuarial profession.

Session topics will include:

- Climate-change risk, cybersecurity threats, price optimization, the changing personal auto insurance market, and the public policy implications surrounding those issues.
- Health care and the 2016 elections, updates on Affordable Care Act implementation, payment and delivery system reform, and long-term care.
- The latest on life insurance regulation reforms, including a hypothetical look at “Day 1” of principle-based reserving (PBR) taking effect, professionalism issues related to PBR, and new requirements for AXXX/XXX captive arrangements.
- Implications of the Multiemployer Pension Reform Act, new reform efforts, and an exam-
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• Earn CONTINUING EDUCATION credits.
• HONOR your esteemed colleagues as the Academy presents awards honoring Academy members’ illustrious service.
• LEARN about the Academy’s activities and plans for the future during the Nov. 12 ceremonial presidential transition.
• NETWORK with your Academy peers from within and outside your practice area.

Registration is open. Visit www.actuary.org
202-223-8196

Hosted in the spectacular Renaissance Revival-style halls of the National Museum of Women in the Arts, the Academy’s 50th Anniversary Gala Dinner will offer a feast in the company of your peers as the Academy commemorates public policy and professionalism milestones of significance to the U.S. actuarial profession—and the dedicated and visionary Academy members who made them possible.

The Gala Dinner is included in the two-day registration fee. Tickets may be purchased separately for guests and those who purchase a one-day registration.
isation of public plan funding and risk disclosure issues.

- Lessons from the first year of Own Risk and Solvency Assessment (ORSA) report implementation, and developments and trends in international solvency and capital standards.

- A focus on cross-practice ethics issues, including discussion of new Academy research about perceptions of the ethical challenges facing the profession.

- A discussion led by the Public Interest Committee of the sustainability of public programs/systems with agency stakeholders who can provide deeper insights into sustainability issues.

The agenda will enable attendees to earn up to 10 organized activity continuing education (CE) credits (depending on area of practice), 1.5 hours of business CE credits, and 2.4 hours of professionalism CE credits. This will all take place amid a festive and fascinating celebration of the Academy’s 50th anniversary this year. Click here for a look at the expanded meeting agenda, and stay tuned for further announcements as speakers are added.

**Issue Brief Details Cost Drivers Of 2016 Health Insurance Premium Changes**

The Individual and Small Group Markets Committee released an issue brief highlighting the major drivers of premium rate changes from 2015 to 2016 in individual and small-group markets.

According to the issue brief, *Drivers of 2016 Health Insurance Premium Changes*, growing health care costs, the phase-out of the Affordable Care Act’s (ACA) transitional reinsurance program, and assumptions regarding the composition of the 2016 risk pool are among the major factors driving changes in health insurance premiums for next year.

While primarily focusing on the individual market, other factors that will affect the small group market are highlighted as well. In particular, the issue brief noted that:

- Premiums in the small group market could also change due to its expansion to include groups sized 51-100.
- Average premium rate changes may not represent the rate change experienced by a particular consumer. A number of factors can result in a consumer’s premium differing from the average rate change, including changes in age, tobacco-usage status, geography, benefit design, family status, and subsidy eligibility.

The ACA transitional reinsurance program provides payments to plans in the individual health insurance market when they have enrollees with especially high claims, thereby offsetting a portion of the costs of higher-cost enrollees. This reduces the claim costs that insurers expect to pay, allowing them to offer premiums lower than they otherwise would be.

Funding for the reinsurance program comes from contributions required by the ACA from all health plans—not only plans in the individual market, but also those in the small and large group markets, as well as self-insured plans. These contributions are then used to make payments to ACA-compliant plans in the individual market.

An increase in costs of medical services and prescription drugs is based on not only the increase in per-unit costs of services, but also changes in health care utilization and changes in the mix of services. In recent years, health care spending growth has been lower relative to historical levels.

But there is some uncertainty regarding the causes of these trends, and whether they will continue. Medical spending will continue to grow and costs for prescription drugs, in particular, are expected to increase as more high-cost specialty drugs come to market, such as new drugs to treat hepatitis C, high cholesterol, and cancer, according to the issue brief.

**Academy Election Update**

**Voting Under Way for Regular Director Positions**

The Academy’s Nominating Committee presented a slate of four candidates for open regular director positions on the Academy Board of Directors. The nominees are: Elizabeth Brill, Alice Fontaine, Laurel Kastrup, and Allen Schmitz.

Brill, Kastrup, and Schmitz are nominated to serve three-year terms expiring in 2018. Fontaine is nominated to serve the remaining one year of a three-year Board term expiring 2016 that is being vacated on Nov. 12.

Academy President Mary D. Miller, in an Aug. 21 email to members announcing the slate of candidates for regular director positions, highlighted the importance of participating in the Academy elections, noting, “We encourage you to take part in selecting the newest leaders of the Academy who will help us fulfill our mission to serve the public and the U.S. actuarial profession.”

Online voting for the regular director positions opened on Aug. 31 at 9 a.m. EDT and will end on Sept. 21 at 11:59 p.m. EDT. For more information about the Nominating Committee Guidelines for how candidates are selected and other election details, please visit the Academy’s online Election Center.
Recently Released

The August issue of HealthCheck covers the Academy’s Medicare@50 series, the Medicare Subcommittee’s annual issue brief, Medicare’s Financial Condition: Beyond Actuarial Balance, which offers a long-term actuarial perspective on Medicare’s long-term financial status, and the Centers for Medicare & Medicaid Services’ Center for Consumer Information and Insurance Oversight announcement of plans to delay publication of preliminary estimates of payments and charges for the risk-corridor program under the Affordable Care Act.

The August ASB Boxscore covers the ASB’s revision of ASOP No. 34, Actuarial Practice Concerning Retirement Plan Benefits in Domes-

Academy Committees Submit Comments on PCAOB Auditor and Specialist Paper


In determining the degree of oversight that needs to be applied to the work of a specialist providing assistance on an audit, several key factors should be considered, the letter states.

Those include:

- whether the specialist is an accredited member of a recognized professional body (and is publicly identified as such) and the training necessary to receive credentials from that body;
- the extent to which that body has a code of professional conduct, professional standards of both practice and qualification to perform the specialist’s services, and an active disciplinary process; and
- the degree to which the body requires continuing professional education and makes public whether those specialists have completed that training.

In recent years, actuarial practitioners—primarily those directly employed or engaged by audit firms—have noted a significant increase in the depth and intensity of the review of their work products by core audit teams. The letter states that the concerns the PCAOB has regarding existing guidance may be more related to a lack of compliance of some, but not all, specialists with the guidance, and the committees said they “do not believe there are any specific problems with the guidance as it relates to actuarial services or actuarial specialists, as defined by the PCAOB consultation draft.”

Further, one-size-fits-all detailed requirements for specialists are unlikely to be effective or implementable, the letter states. Even within the actuarial profession, the approaches taken by pension, life insurance, or casualty actuaries may vary and impact the type of validation performed by auditors, it said, noting that auditing procedures that are appropriate for one actuarial practice area may be inappropriate for another.

REMEMBRANCE

John Morris, Past Chairperson of COQ

John Morris, who was chairperson of the Academy’s Committee on Qualifications (COQ) from 2011 to 2014, passed away Aug. 18 at his home in Downingtown, Pa. He was 62.


“I met John through volunteer service on the COQ and always appreciated his balanced and thoughtful approach to the issues we faced,” current COQ Chairperson Keith Passwater wrote in a note to the committee. “John was a past member and excellent chair of the [COQ], among his many other contributions to the actuarial profession. “His passion for our profession was irrepressible, and I wish that I could communicate fully to future generations of actuaries the great positive impact John has had on the credibility of the actuarial profession,” Passwater wrote.

“In addition to being a noble ambassador of our profession, John was also a very caring gentleman who encouraged me personally on many occasions. I will miss John professionally and personally, but I know he would encourage us to look forward to future opportunities,” he wrote.

Morris is survived by his wife, Lee, and son, Joseph. In lieu of flowers, memorial contributions may be made to Neighborhood Hospice, 400 E. Marshall Street, West Chester, PA 19380. To send online condolences, click here.
Dedicated regulators woke early on a Saturday morning to attend the Academy’s breakfast for regulators at the NAIC’s Summer 2015 National Meeting this month. As they have at each NAIC national meeting for several years, professionalism representatives from the Actuarial Standards Board (ASB), Actuarial Board for Counseling and Discipline (ABCD), and the Committee on Qualifications (COQ) updated regulators on their respective areas of activities, answered questions, and listened to and engaged regulators in dialogue on professionalism issues.

Academy President Mary D. Miller gave a preview of an attestation form—which now reflects comments collected last fall—that regulators have expressed a keen interest in having the Academy develop. The “U.S. Qualification Standards Attestation,” launching by the end of the year, will allow actuaries to demonstrate how they meet the requirements set out in the U.S. Qualification Standards (USQS) for signing NAIC annual life, health, and property/casualty statutory statements of actuarial opinion.

At the breakfast, Tricia Matson, chairperson of the ASB, gave an update of the ASB’s work this year and what standards are under development or revision. Nancy Behrens, a member of the ABCD, summarized recent requests for guidance. And Tom Campbell, a member of the Committee on Qualifications, was available to discuss COQ activities.

The Academy’s professionalism outreach at NAIC began in March 2012, when Academy professionalism representatives attended the NAIC Casualty Actuarial and Statistical Task Force (CASTF) session to listen to regulator concerns on professionalism issues. At the next NAIC meeting, in August 2012, the Academy held its first professionalism breakfast, where representatives from the ASB, ABCD, and COQ outlined the roles they have as part of the Academy’s structural framework on U.S. actuarial professionalism and engaged regulators in discussion.

Since then, the Academy has hosted professionalism breakfasts at every national NAIC meeting, and each regulator-only breakfast has provided a forum for candid and open discussions of professionalism issues that affect regulators, as well as time for regulators to raise concerns about professionalism issues they see in actuarial work they review. In 2013, professionalism representatives also began presenting at sessions of CASTF, the Life Actuarial Task Force, and the Health Actuarial Task Force. These discussions have covered a wide range of topics, including:

- qualifications of actuaries and regulators who review a wide variety of materials;
- how regulators can deal with unprofessional work that may not necessarily violate the Code of Professional Conduct;
- ABCD procedures;
- when regulators should contact the ABCD;
- requests for guidance;
- whether specific qualification standards are needed for new areas, such as principle-based reserves and the Affordable Care Act;
- refusal of filing actuaries to respond to regulator requests for proof of qualifications;
- the use of professional judgment as outlined in actuarial standards of practice; and
- transparency in the ABCD process.

This ongoing dialogue has improved the Academy’s understanding of regulator concerns and regulators’ understanding of, for instance, the USQS and the role of the ABCD. It has also led to several concrete developments that address regulator concerns directly. For example, the ABCD annual report has been expanded to include more detail about cases and requests for guidance, and when they were resolved. And as more regulators have become aware that they can go to the ABCD for confidential guidance, the ABCD has received more requests for guidance from that community.

The forthcoming U.S. Qualification Standards Attestation, which will allow actuaries to document their qualifications and continuing education in one place, was undertaken to try to address serious regulator concerns about how to determine whether actuaries are qualified in specific cases. Other outcomes from this professionalism dialogue include more descriptive discipline notices from the Academy, and regulator-only webinars.

The Academy is dedicated to maintaining the high professional standards of the U.S. actuarial profession—and these outreach dialogues with high-ranking regulators are an important part of that effort.
Academy Provides Professionalism Overview at Actuarial Conference

ON AUG. 3, Committee on Qualifications member John Gleba—a former vice president for professionalism issues—presented “A Look at Professionalism and the U.S. Qualification Standards” to an audience of approximately 65 life and P/C actuaries attending the 2015 Farm Bureau Actuarial Conference in St. Simons Island, Ga. The presentation focused on the qualification standards and the recently updated USQS FAQs on the Academy website, and provided an overview of the Code of Professional Conduct, actuarial standards of practice, and the role of the Actuarial Board for Counseling and Discipline.

From the Actuarial Standards Board

THE ACTUARIAL STANDARDS BOARD (ASB) adopted a final revision of actuarial standard of practice (ASOP) No. 34, Actuarial Practice Concerning Retirement Plan Benefits in Domestic Relations Actions. The revised ASOP applies to actuaries performing actuarial services in connection with the measurement, allocation, or division of retirement plan benefits in domestic relations actions. The ASOP is not applicable to actuarial services performed in connection with other post-employment benefits, such as medical benefits, that may also be considered as part of the domestic relations action.

Key changes from the 1999 version of ASOP No. 34 include modifications to the guidance that each assumption selected by the actuary should be individually reasonable and consistent with the other assumptions selected by the actuary, and to require inclusion of a brief description of the rationale for selection of assumptions and allocation methods.

The revised final ASOP, which will be effective for relevant assignments for which the actuary is first engaged on or after Dec. 1, 2015, can be viewed here.

Call for Papers

IN LIGHT OF THE ACADEMY’S ONGOING FOCUS on policy issues affecting an aging population—longevity risk, retirement security, long-term care, and public program sustainability—the Academy supports a new call for papers from the Institute and Faculty of Actuaries (IFoA), the professional association for actuaries in the United Kingdom.

The IFoA is soliciting research proposals related to a series of key policy questions focused on two actuarial themes: the aging of the population and the effect of the changing economic landscape on financial health. Given the global nature of these two major themes, proposals are being accepted from research-led organizations in the academic, not-for-profit, and public and private sectors within and outside of the U.K.

The Academy encourages members to consider this call for papers to further the prominence of the profession’s independent and objective perspective on these critical actuarial and policy questions. The submissions deadline is Oct. 5.

From The Actuarial Foundation

Read the August Newsletter

Find out the latest news on The Actuarial Foundation in its August newsletter, which includes Chair Helen Galt’s overview of the Foundation’s year-to-date activities and its “Project Math Minds” competition for high school students.

Considering a Reverse Mortgage?

Read The Actuarial Foundation’s latest issue of Financial Smarts on reverse mortgages and learn how homeowners become eligible for a reverse mortgage, the different types of reverse mortgages, and some possible drawbacks. Consider sharing the newsletter with your family, friends, and colleagues.

Celebrating 20 Years—Foundation Releases 2014 Annual Report

The Actuarial Foundation has been making a difference for over 20 years. Relive some of the accomplishments and 20th anniversary celebratory events in the Foundation’s 2014 Annual Report.
Casualty News

Solvency Committee Webinar Looks at Insurance Capital Standards

MORE THAN 400 PEOPLE from 176 registered sites attended the Academy's Aug. 4 webinar, “International Insurance Regulation 201: IAIS Development of Insurer Capital Standards.” Three panelists and moderator Elizabeth Brill, chairperson of the Solvency Committee, looked at the International Association of Insurance Supervisors’ (IAIS) efforts to develop capital standards to prevent the insolvency of large multinational insurers.

Established in 1994, the IAIS is the standards-setting body responsible for developing and assisting in the implementation of principles, standards and other supporting material for the supervision of the insurance sector internationally. Currently, the group is working on a number of capital standards proposals that could have a significant impact on both international and U.S. insurers.

“The IAIS is developing group solvency and capital standards for large multinational insurer groups that could end up impacting many insurers and groups,” Brill said. “Depending on what these new standards look like—and the types of products and behaviors they incentivize—it’s not hard to imagine that the standards could impact the types of products insurers are willing to offer in the marketplace and the prices at which they’re willing to offer those products.”

Webinar participants discussed the IAIS’s development of insurer group capital standards, which have been divided into three parts: a finalized basic capital requirement (BCR), a proposed higher loss absorbency (HLA) capacity requirement for global systemically important insurers (G-SIIs), and a proposed insurance capital standard (ICS) for both G-SIIs and internationally active insurance groups.

The panelists, all members of the Solvency Committee, were Novian Junus, a principal and consulting actuary with the life insurance consulting practice of the Seattle office of Milliman; Ned Tyrrell, international technical policy adviser for the NAIC; and Henry Siegel, a semi-retired actuary.

Junus said that current BCR estimates are based on a simple design that utilizes a market-adjusted valuation approach.

Siegel talked about the IAIS’s recently released proposal for HLA, which would increase a G-SII’s required capital based on a number of risk factors, including its non-traditional and non-insurance products and activities. The primary purpose of the HLA is to help reduce the probability of and impact on the financial system of the distress or failure of a G-SII. “We would hope the IAIS would articulate a rationale for why those factors were chosen,” he said.

Tyrrell focused on ICS, and noted the IAIS Executive Committee’s February 2015 agreement on the ultimate goal of a single ICS: a common methodology by which one ICS achieves comparable outcomes across jurisdictions.

Two Comment Letters on Solvency Issues

Also this month, the Solvency Committee submitted comments to the IAIS on the Higher Loss Absorbency Capacity for Global Systemically Important Insurers (G-SIIs) public consultation document dated June 25, 2015, and submitted comments to the NAIC on the Discussion Draft on Approaches to a Group Capital Calculation dated July 23, 2015.

Task Force Submits Comment Letter to CASTF

THE PRICE OPTIMIZATION TASK FORCE submitted a comment letter to the NAIC’s Casualty Actuarial and Statistical (C) Task Force (CASTF) providing input on the recommendations section of its “Price Optimization White Paper.”

The Casualty Practice Council formed the task force earlier this year to focus on the actuarial and public policy issues concerning price optimization. As the CASTF begins drafting the final section of the white paper, “Recommendations and Next Steps,” the Price Optimization Task Force recommended that current rate statutes and regulations provide state regulators with the ability to stop unfairly discriminatory pricing practices for personal lines insurance products, regardless of whether final prices are selected considering price-optimized results, pure judgment, or some other technique.

And while the draft white paper provides an excellent overview of various definitions of price optimization, the letter stated, the absence of a common definition of “price optimization” could create confusion, as demonstrated by the fact that the state bulletins issued thus far describe the practice somewhat differently.

It outlined necessary elements for price optimization as:

1. Model(s) or assumptions to estimate costs.
2. Model(s) or assumptions to estimate market conditions (this may include separate models for new business conversion, policyholder retention, competition, etc.).
3. Target business objectives and requirements.
4. Constraints (e.g., limiting answers to those that fall between the current price and the cost-based indication).
5. An algorithm that integrates items 1-2 in order to achieve item 3 and fulfill item 4.

Judgment plays a key role throughout the ratemaking process, the letter stated, and even when price optimization is used, it is used as guidance in making the final rate-setting selections. The final selections should be the focus of the rate review; the ability to use judgment in arriving at final selections is important, it said.
Letters From Early Academy Leaders Still Resonate

In honor of our 50th anniversary, throughout this year we are reprinting communications from early Academy presidents. This month’s letter is from the 1968 Yearbook and comes from Thomas E. Murrin, who details the then-nascent work on accreditation and liaisons with the NAIC.

In reporting briefly on Academy affairs for the year 1967, I think it appropriate first formally to recognize and acknowledge the significant leadership and contributions of Henry Rood, who was my predecessor as first president of the Academy. He was one of the principal architects of the Academy’s formation and contributed much time and effort to Academy affairs. It was indeed an honor to have had an opportunity to succeed Mr. Rood in serving the Academy as president in 1967.

One of the principal areas of activity during the year was the extensive and time-consuming efforts of Chairman Wendell Milliman and the other members of the Admissions Committee. Approximately two hundred new members were admitted to the Academy during the year. In addition, arrangements were made to provide for the first interim examination in accordance with the Bylaw provision governing admissions. In this connection Chairman Julius Vogel and the other members of the Committee on Education and Examination spent many long hours in developing the comprehensive and representative examination that was given in September.

Another very active phase of Academy affairs during the year was the work of the Accreditation Committee under the chairmanship of Andrew Webster. A bill for accreditation of actuaries was passed during the year in Indiana, to be effective January 1, 1968. This bill embodies the concepts developed by the Committee and represents a significant precedent in the area of accreditation of actuaries. While legislation was not introduced in any other states, many studies and conferences regarding the desirability of additional legislation or administrative orders were conducted by the Committee, which continues to be most active in this area. Likewise, it is closely following federal developments, including the bill introduced by Senator Javits. The Committee has also maintained liaison with the N.A.I.C. through its Committee To Study Accreditation of Actuaries, which completed its work at the November, 1967, meeting of the N.A.I.C.

The Committee on Review and Evaluation, of which Walter Rugland is chairman, also contributed significantly to the activities of the Academy during the year. This committee’s work was in two principal areas: (1) the further development and clarification of the future examination policy of the Academy which culminated in a proposed revision of Article I, Section 2b, of the Bylaws, and (2) the development of a joint committee with the other five actuarial organizations in North America with respect to coordination of examination policy matters. As a result, a joint Committee of Review and Evaluation has been established to provide a continuing review of policy matters relating to the education and examination of actuaries and to study these matters and, when appropriate, make recommendations on them to the governing bodies of the organizations represented on the joint committee.

In summary, the officers, directors, and the various committees of the Academy were most active during 1967 in their service to the Academy. The dedication and diligence of these associates contributed very effectively to the progress that the Academy enjoyed during my term as president, and I wish to express my thanks to them for their excellent work and sincere dedication. At the Board of Directors meeting prior to the Annual Meeting, Mr. L.H. Longley-Cook submitted his resignation as a Vice-President and Board Member because he has established residence outside the United States. This resignation was accepted with regret, and my report would be incomplete without an expression of the Board’s appreciation as well as my personal appreciation for his pioneering work in the original planning and establishment of the Academy and for his diligent service in the administrative work of the Academy.

Thomas E. Murrin
National Law Review also cited the issue brief in its Health Care Law Update, and the issue brief also was cited by Strategic Health Care, Navigant Health Care, Insurance & Financial Advisor and AHIP Coverage.

Senior Health Fellow Cori Uccello was quoted in a McClatchyDC story, “Medicare and Medicaid Face Growing Pains at Age 50.” The story appeared in more than 25 newspapers nationwide, including the Miami Herald and The Sacramento Bee.

Life and Health Advisor reprinted “Medicare@50: Is It Sustainable for 50 More Years?” one of three Medicare@50 papers released by the Academy as part of its “Aging Securely” initiative to commemorate the federal program’s 50th anniversary. The release of the Academy’s first three Medicare@50 papers was reported in The Katy News (Texas).

Tim Leier, chairperson of the Academy’s Social Security Committee, was quoted in the Ledger Gazette on the need for Congress to address the projected depletion of the Disability Insurance Trust Fund later next year. Leier noted that how lawmakers respond to the urgency of the problem “will be a great test to show us how Congress will go about solving the long-term issues facing the rest of Social Security.”

A Modern Healthcare story about the announcement by CMS that the release of data on the ACA’s risk-corridor program will be delayed quoted Cathy Murphy-Barron, Academy vice president for health issues, who said, “CMS has never collected any of this data before” and that “any time you deal with data, it takes longer than you think.” The story was also picked up by Business Insurance.

A story by the Georgia Health Care Association on health policy changes expected in 2016 cites the Academy issue brief, Potential Implications of the Small Group Definition Expanding to Employers with 51-100 Employees.

A link to the Academy’s issue brief, An Actuarial Perspective on the 2015 Social Security Trustees Report, was posted in BenefitsLink.com’s Retirement Plans Newsletter and in the Social Security Report.

BenefitsLink.com’s Retirement Plans Newsletter also posted a link to the Academy’s issue brief Alternatives for Pension Cost Recognition: Issues and Implications, and a link to the Academy’s comment letter on proposed regulations on suspensions of benefits under the Multiemployer Pension Reform Act of 2014.

A link to the Academy’s issue brief Medicare’s Financial Condition: Beyond Actuarial Balance was posted in BenefitsLink.com’s Health & Welfare Plans Newsletter.
Life Products Committee’s Nonforfeiture Modernization Work Group to LATF. The work group has been working on examples of nonforfeiture calculations for various life and annuity products currently in the insurance marketplace and will present its findings to LATF in November. The NAIC’s fall meeting is scheduled for Nov. 19-22 outside of Washington, D.C.

An Academy Alert was issued following the meeting, and the Academy held a post-NAIC webinar on Aug. 27 at which Bahna-Nolan and others outlined meeting highlights. The Academy also hosted its professionalism breakfast on Aug. 15; see “Professionalism Counts,” page 6.

Health Actuarial (B) Task Force (HATF)
Shari Westerfield, vice chairperson of the Health Practice Council (HPC), provided the Health Actuarial (B) Task Force (HATF) with an overview of recent Academy health activities. She noted that in addition to the Academy’s work with the NAIC on long-term care (LTC) issues, the Academy has groups working on papers related to LTC financing reform, its Medicare@50 series (see page 1), and health care delivery and payment reforms. Additionally, she noted that the recent restructuring of the HPC has been changed from a federal and state structure to one that is organized along product types.

Brad Spenney, chairperson of the Cancer Claim Cost Table Work Group, updated HATF on work to perform updates to the current valuation standard of 1985 cancer-claim cost tables. Graduation methods have been discussed within the group, and they agreed to use a generalized linear model (GLM) graduation method to graduate data—all data has been graduated except for length of stay. Still to be completed is the finalization of graduation of tables, determining loading methodology, and the drafting of the work group report.

Long-Term Care Actuarial (B) Working Group
Warren Jones, chairperson of the LTC Terminations Work Group, presented to the Long-Term Care Actuarial (B) Working Group on LTC intercompany experience data, the granularity of the group’s analysis, and the mortality selection. Results of the group’s voluntary lapse study by policy duration and attained age also were presented.

Al Schmitz, chairperson of the LTC Principle Based Reserve Work Group, gave an update on the draft report that has been produced and is currently going through final peer review. This report will include considerations of stochastic modeling and suggested next steps, and the model is intended to be illustrative and not inclusive of all policy features that may be offered by an insurer, or inclusive of detailed modeling considerations.

Karl Volkmar, chairperson of the LTC Credibility Monograph Work Group, reviewed the group’s original objectives and outlined the eight sections of the draft monograph that is currently undergoing Academy review and is expected to be complete in the next several weeks.

Solvency Committee Activities
Jeffrey Johnson, member of the Solvency Committee, gave a presentation to the ComFrame Development and Analysis (G) Working Group (CDAWG) on the practical implications of using a 99.5 percent Value at Risk (VaR) over a one-year time horizon for valuation purposes. The presentation went over what a 99.5 percent VaR is in general terms, current VaR practices, the consistency and credibility of 99.5 percent VaR, and the significance of the one-year time horizon. It noted that not all U.S. capital requirements are based on VaR measures, although some risks are calibrated using confidence intervals (percentiles), and that depending on management’s objectives, companies may use multiple metrics.

During the CDAWG meeting, the Academy requested clarification regarding the absence of the cash flow approach based on the Solvency Committee’s comments to the working group on the NAIC’s revised group capital assessment proposal.

CDAWG stated the cash flow approach has not been discarded and will be reconsidered in future capital assessment proposals. Currently, the working group is using existing business models and regulatory tools, like risk-based capital, for its group capital assessment proposal.

C1 Work Group Reports to Risk-Based Capital Working Group
Nancy Bennett, senior life fellow, and Jerry Holman, co-chairperson of the C1 Work Group, presented the work group’s report, “Model Construction and Development of RBC Factors for Fixed Income Securities for the NAIC’s Life Risk-Based Capital Formula” to the NAIC’s Investment Risk-Based Capital Working Group on C-1 factors for corporate bonds, and recommended a set of base Risk-Based Capital (RBC) and Asset Valuation Reserve (AVR) factors for the Life RBC formula.

The recommended factors reflect loss given default experience for corporate bonds from 1983 to 2012. The recommendation increases the number of RBC factors to 14 from six, to better align the capital requirements with credit risk experience. In addition, an analysis of the changes from the current factors, including a numerical quantification of each assumption, was presented.

The NAIC exposed the report for 45 days, and the next steps include responding to questions, developing adjustments to the factors for concentration risk and the number of issuers in an insurer’s portfolio, beginning a review of the capital requirements for structured securities, and providing support to the NAIC to assist with implementation.

Panel Addresses ‘All Things Earthquake’
At a special event hosted by the NAIC’s Center for Insurance Policy and Research titled “All Things Earthquake,” Academy volunteer Rob Walling participated in a stakeholder panel addressing the challenges and intricacies associated with pricing for earthquake risks, especially in less-familiar settings like the Cascadia Subduction Zone and situations involving man-made earthquakes.

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**NAIC Fall Meeting**
Nov. 19-22
National Harbor, Md.
(Washington, D.C. area)
IN THE FIRST SIX MONTHS OF THIS YEAR, 508 new members joined the Academy. The new 2015 members are a young group, with an average age of 31, and 30 percent are women. At the half-year mark, the Academy had 18,891 members.

The majority (349) are employed by an insurance organization or organizations serving the insurance industry, while 143 are consulting actuaries. Five identified themselves as government employees, seven listed “miscellaneous,” and there was one nonprofit and one university member.

Health was the most popular area of practice (192), followed by life (125), casualty (115), pension (48), and risk management (nine), while 17 new members listed their practice area as “other.” (Two did not identify an area.)

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Emmanuel E. Acquaah
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Aaron G. Alexander
Alana Consuelo Andersen
Robert Anderson
Joshua Andrews
Carter M. Angell
Emily D. Angyal
Viktor Antonius
Surekha Archer
David A. Arft
Mary F. Arrowsmith
Robert A. Astleford
Stephanie Aube
Kyle Babirad
Julie Grace Bacon
Ronald K. Bailey
Robert E. Balmer
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Cloe Cerracchio
Noah Champagne
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Zhe-Hao Chan
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Cuwei Chen
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Xi Chen
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Cory Guscano Gusland
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Nang Vilay Homphomsiltham
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Brian Y. Hong
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Benjamin C. Hsieh
Jiayue Hu
Miao Hu

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Committees Release Issue Brief on Alternatives for Pension Cost Recognition

The Pension Committee and Pension Accounting Committee released an issue brief on alternative expense methodologies and their theoretical rationales and implications.

The issue brief, Alternatives for Pension Cost Recognition—Issues and Implications, provides a discussion of an area of emerging practice. Its objective is to inform actuaries and other interested parties about alternative expense methodologies, and their theoretical rationales and implications.

The issue brief states that:

- It is common to develop pension cost based on a single aggregated discount rate; i.e., that is used to develop projected benefit obligation.
- Alternative approaches have been identified that represent more “granular” applications of yield curve rates.
- Use of such alternatives may reduce the amount of recognized pension cost, but also have implications for expected gains/losses to be recognized at year-end.
- There are varying views about what yield curves represent that impact expectations for year-end gains/losses and thus may act to justify different levels of cost recognition.

For U.S. pension accounting, the present value of benefits based on service to date—i.e., the projected benefit obligation (PBO)—is typically calculated based on the application of yield curve spot rates to projected benefit cash flows.

A single discount rate that produces that same present value is then determined and disclosed. The most common approach has been to also use that same single rate in determining other cost components such as service cost and interest cost. Alternative approaches have been proposed for the recognition of various components of pension cost. These involve more granular applications of interest rates for developing service cost and interest cost. The measurement of PBO, as described above, does not change.

The issue brief also looks at some of the strengths and weaknesses of an aggregated approach.

In comparison to the current “aggregated” (single rate) approach, alternative approaches might result in a lower cost amount being recognized during the measurement period. But because every dollar of service cost and interest cost recognized is, by definition, reflected in the expected year-end value of obligations, a change in recognized cost also changes the expected year-end obligation and thus affects the gain or loss that results when obligations are re-measured at year-end.

Multiemployer Subcommittee Comments to IRS on Proposed Pension Regulations

The Multiemployer Subcommittee sent a comment letter to the Internal Revenue Service and Treasury Department on proposed regulations on suspensions of benefits under the Multiemployer Pension Reform Act of 2014.

The subcommittee asked Treasury to consider whether some items required in the proposed regulations might not be necessary for determining whether an application should be approved or denied.

It also offered suggestions on annual plan sponsor determinations, suspension not materially in excess of the level necessary to avoid insolvency, reasonable actuarial assumptions, and on initial value of plan assets.

Medicare@50, continued from page 1

Further, the projected Hospital Insurance deficit over the next 75 years is 0.68 percent of taxable payroll, which is down from 0.87 percent in 2014. The Supplementary Medical Insurance (SMI) trust fund is expected to remain solvent because its financing is reset each year to meet projected future costs. According to the 2015 trustees’ report, SMI spending is expected to grow from 2 percent of gross domestic product (GDP) in 2014 to 3.4 percent in 2035, and then more slowly to 3.8 percent of GDP by 2089.

Additional papers in the Medicare@50 series will be released in the future. Learn more about the Academy’s Medicare analysis by visiting the public policy section of our website, and about sustainability in the June 2015 white paper, Sustainability in American Financial Security Programs.