Professionalism and Objectivity: More Than Just Words—A Commitment

Kenneth A. Kent

As a longtime member of the Academy’s Council on Professionalism I have grown to appreciate the opportunity for collaboration with actuaries from each of our profession’s disciplines. Our meeting focus is on issues facing actuaries without the bias of employer or industry pressures and concerns. An underlying goal of the Council’s activities is in maintaining the excellent standing our profession holds with the public we serve. The professionalism we comport in our work is the foundation for U.S. actuaries’ independence from external regulation.

There are continuous challenges to our profession and the work of actuaries in many areas which are regularly overcome though the recognition of our Code of Professional Conduct and Actuarial Standards of Practice. This structure and the support for the profession is dependent on our ability to step away from our daily work and jobs, to objectively explore the work performed in each of the practice areas our profession touches upon. This is only achieved through the donation of time by over 1,200 actuaries and their employers, volunteering to provide objective and unbiased content to support our work.

In January, I chaired my first meeting of this Council as the Academy’s new Vice President for Professionalism. To provide for fresh input into our committee processes we invited a guest speaker to address the Council members on the topic of professional ethics.

Anita Cava, a professor of ethics from the University of Miami, joined us for a discussion about ethics and critical thinking that goes into the decisions we are called upon to make in professional life. Defining critical thinking as anticipating consequences and understanding long-term results, Ms. Cava challenged us to have unwavering respect for our professional standards and work diligently in recognizing our ethical blind spots. We all have them.

Blind spots include implicit biases that shape our views and decisions even when our intent is to be objective and unbiased. Blind spots include external pressures, and business goals that dominate a decision-making process and cause “ethical fading” where the potential unethical or problematic nature of a decision or its consequences disappears from our consciousness. Ms. Cava emphasized that professional conduct takes moral muscles and courage in the face of business pressures to make appropriate ethical decisions.

One very specific way in which all current Academy members, by virtue of becoming and remaining members, are familiar with the active commitment to professionalism comes from our annual membership renewal in the Academy. On renewal of membership, we explicitly agree to “comply with the Code of Professional Conduct of the American Academy of Actuaries, the Actuarial Standards of Practice promulgated by the Actuarial Standards Board, 2015 marks the Academy’s 50th anniversary. In conjunction with the Annual Meeting and Public Policy Forum, to be held Nov. 12-13 in Washington, we will hold a gala dinner the night of the 12th. Please mark your calendars and plan on attending. Other activities to mark the Anniversary will include a commemorative booklet, an interactive timeline on our website, and video interviews with past presidents and others who were instrumental in the founding and development of the Academy as the professionalism and public policy voice of the U.S. actuarial profession. Watch here and in This Week for updates.

Academy Kicks Off 50th Anniversary Celebrations

2015 Marks the Academy’s 50th anniversary. In conjunction with the Annual Meeting and Public Policy Forum, to be held Nov. 12-13 in Washington, we will hold a gala dinner the night of the 12th. Please mark your calendars and plan on attending. Other activities to mark the Anniversary will include a commemorative booklet, an interactive timeline on our website, and video interviews with past presidents and others who were instrumental in the founding and development of the Academy as the professionalism and public policy voice of the U.S. actuarial profession. Watch here and in This Week for updates.

Law Manuals Available
Order your P/C Loss Reserve and Life and Health Valuation law manuals

Legislative Year in Review
Changes that affected the profession in 2014

Getting Ready for ORSA
Webinar covers what to expect

State PBR Laws
Academy encourages states that have not yet acted
Academy NEWS Briefs

Litigation Update

JANUARY SAW several developments in a lawsuit that Mark Freedman, former president of the Society of Actuaries, has filed seeking to halt the Actuarial Board for Counseling and Discipline (ABCD) from considering complaints against him, as initially reported in the December 2014 issue of Actuarial Update.

On Jan. 9, the Academy filed its opposition to Freedman’s Motion for Preliminary Injunction.

On Jan. 16, the Academy filed a motion to dismiss the lawsuit, and a memorandum in support explaining the Academy’s position on the matter.

The Academy has created a page on its website to provide members with a central source to find updates on the matter. Further developments will be posted there as well as announced to the membership as they occur.

Law Manuals Now Available

THE 2014 Property/Casualty Loss Reserve Law Manual is now available. Updated annually, the Property/Casualty Loss Reserve Law Manual is designed to help appointed actuaries comply with NAIC Annual Statement requirements for statements of actuarial opinion.

It can be ordered online or by mail/fax.

The 2015 Life and Health Valuation Law Manual is also now available for purchase. The 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. Purchase options include web access or CD-ROM, for an individual or a group. The manual can be ordered online or by mail/fax.

Annual Meeting Highlights Published

ATTENDEES of the Academy’s Annual Meeting and Public Policy Forum had many opportunities to educate and inform themselves about the most critical issues currently facing the U.S. actuarial profession.

The Academy has published Highlights of the Annual Meeting, including:

- A pension session devoted to assessments of retirement system plans and proposals according to the principles of the Academy’s Retirement for the AGES framework;
- Updates from congressional staff on the operation of, and congressional efforts to extend, the Terrorism Risk Insurance Act;
- A preview from congressional staff on the future of health-related legislation, including the Affordable Care Act, long-term care proposals and Medicare, in the wake of the recent midterm elections;
- Academy, consumer, and industry representatives speaking on the feasibility of a new non-forfeiture law for life insurance and annuities;
- An examination of the issues that price optimization and disparate impact portend for actuarial rate setting in the casualty field;
- An update on international insurance regulation, including speakers from the NAIC, Federal Reserve Board of Governors and the Financial Stability Oversight Council;
- A cross-practice session examining lifetime income options with representatives of the Treasury Department’s Office of Tax Policy, think-tank experts and a state insurance regulator; and,
- A discussion of how to identify and protect yourself from the risk of insider trading in your dealing with public officials, based on recent news media stories involving actuaries, hosted by two attorneys who have been on opposing sides on the issue.

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 login page on the Academy website.
**IN THE NEWS**

The Academy’s recently released assessments from its **Retirement for the AGES** initiative have received widespread media attention. A *Bloomberg View* [editorial](https://www.bloomberg.com/view) asks how U.S. pension plans might be able to move away from low-ranked defined benefit and defined contribution plans toward top-ranked models such as the New Brunswick Shared Risk Model. *Bloomberg* posed the question to Senior Pension Fellow Don Fuerst, who said that establishing laws and regulations that protect companies from market shocks and other risks may entice employers to try alternatives. The story also ran in *LifeHealthPro* and other media outlets. Additional news coverage of the AGES assessments included:

- [Bankrate Retirement Blog](https://www.bankrate.com)
- [Pensions & Investments](https://www.pensionconfidential.com) (subscriber-only)
- [Plan Adviser](https://www.planadviser.com)
- [BenefitsPro](https://www.benefitspro.com)
- [Plan Sponsor](https://www.plansponsor.com)
- [Pension Rights Center](https://pensionrights.org)
- [Benefits Canada](https://www.benefitscanada.com)
- [Money News](https://www.moneynews.com)(Canada)
- [Rapid City (S.D.) Journal](https://www.rapidcityjournal.com)
- [Northern Plains News](https://www.northernplainsnews.com)
- [Pure Pierre (S.D) Politics blog](https://www.purepierre.com)

Additionally, Fuerst was interviewed by *Market Watch* regarding his working paper, “**Retirement Shares Plan: A New Model of Risk Sharing**,” published on the website of the Pension Research Council of the Wharton School of the University of Pennsylvania, *BenefitsPro* also covered the working paper.

A feature story in *BenefitsPro* highlighted the Academy’s call for federal action on aging and retirement income issues. The story quotes Fuerst and Academy President Mary D. Miller, both of whom stressed the need for the administration and Congress to examine the impact of the aging of the U.S. population on systems, programs, and policies. Additional stories on the Academy’s State of the Union news release ran in *PoliticoPro* (subscriber-only), *Benefits and Pensions Monitor, Open Retirement Income Adequacy, lifehealth.com*, and the (subscriber-only) *Retirement Income Journal*.

Senior Health Fellow Cori Uccello provided an actuarial perspective to the subscriber-only publication *Inside Health Insurance Exchanges*, after Congress enacted legislation to make the Affordable Care Act’s risk corridor program budget-neutral. Uccello noted that uncertainty persists because online exchange enrollment has yet to reach equilibrium, and the composition and health spending of the entire market may still be unknown.

“When setting premiums, therefore, insurers need to consider not only the risk profile of enrollees in their own plans, but also the risk profile of enrollees in the market as a whole,” Uccello said.

Additionally, Uccello’s blog piece “**How Will 2015 Health Insurance Premiums Compare to 2014?**” was ranked among *Health Affairs Blog*’s top 15 most-read posts in 2014.

An opinion piece in *National Review* critiquing the management of the University of California’s pension system quotes an Academy report in arguing that, in a well-run pension fund, contributions “should actually be contributed to the plan by the sponsor on a consistent basis.”

*BenefitsLink Health & Welfare Plans Newsletter* reported that the Risk-Sharing Work Group sent a [letter](https://www.benefitslink.com) to the U.S. Department of Health and Human Services regarding the risk-sharing components of a proposed rule on benefit and payment parameters for 2016.

**CASUALTY BRIEFS**

- **Gregory Chrin**, senior manager at Deloitte Consulting LLP in New York, is the new chairperson of the Medical Professional Liability Committee.
- **Stuart Hayes**, vice president, risk management services at Arch Capital Services Inc. in Farmington, Conn., is now vice chairperson of the Property and Casualty Risk-Based Capital Committee.
- **Terry Alfuth**, actuary, chief executive office and owner at Actuarial Property & Casualty Consulting LLC in Palm Beach, Fla., has joined the Casualty Practice Council.
- **Anne Petrides**, vice president at the Medical Insurance Exchange of California in Oakland, Calif, has joined the Medical Professional Liability Committee.
- **Heather Pierce**, reinsurance manager at State Farm Mutual Auto Insurance Co. in Bloomington, Ill., has joined the Property and Casualty Risk-Based Capital Committee.
- **Courtney Lehman**, actuarial analyst at Westfield Insurance in Westfield Center, Ohio, **Martin Simons**, owner at Martin M. Simons—Public Actuarial Consultant in Columbia, S.C., and **Richard Yocius**, senior vice president, actuarial services and chief actuary at the American Association of Insurance Services in Lisle, Ill, have joined the Property Lines Committee.
- **Rial Simons**, chief actuary at the Injured Workers Insurance Fund in Towson, Md., and **Chester Szczepanski**, senior vice president and chief actuary at Donegal Insurance Group in Marietta, Pa., have joined the Financial Soundness and Risk Management Committee.
- **Emily Gilde**, vice president at AIG Property & Casualty in New York, has joined the Natural Catastrophe Subcommittee.
- **Robert Flannery**, actuary in Jacksonville, Fla., has joined the Automobile Insurance Subcommittee.
- **Raji Bhagavatula**, principal at Milliman, Inc. in New York, **Chester Szczepanski**, senior vice president and chief actuary at Donegal Insurance Group in Marietta, Pa., and **Martin Simons**, owner at Martin M. Simons—Public Actuarial Consultant in Columbia, S.C., have joined the Workers’ Compensation Committee.

**MEMBERSHIP DUES** are due Jan. 1 every year. Members can [log in](https://www.actuary.org) to the Academy website to pay dues, print an invoice, or to update their profile.
2014 Legislative Year in Review

2014 SAW A NUMBER OF SIGNIFICANT public policy developments affecting the U.S. actuarial profession, with key public policy debates focused on implementing the Affordable Care Act (ACA), stabilizing pension funding, addressing sustainability concerns with major federal programs, regulating the terrorism risk insurance market, addressing insurance capital standards and more.

Academy volunteers, with the backing of public policy staff, provided the objective, independent voice on behalf of the U.S. actuarial profession to federal and state legislators and regulators and international bodies on a host of issues.

The Academy provided members this month with its 2014 Legislative/Regulatory Review detailing federal, state, and international developments that affected the U.S. actuarial profession in 2014. Highlights of the report follow.

Casualty Issues
The Academy’s Casualty Practice Council and its committees worked on issues ranging from climate change to crop insurance in 2014, advising state and federal governments and bringing together industry and academic experts in discussion.

Among the issues they faced:

- The Obama administration continued its focus on climate change in 2014. In response, the Academy co-hosted the first Climate Risk Forum: Bridging Climate Science and Actuarial Practice at Stanford Law School. The Academy has launched a joint effort with several other organizations to develop an Actuaries Climate Index and Actuaries Climate Risk Index to monitor key climate indicators, and assess and quantify associated risks.
- The Homeowner Flood Insurance Affordability Act of 2014 rolled back some provisions of the Biggert-Waters act of 2012. The Natural Catastrophe Subcommittee addressed comments to both the Senate and House of Representatives on delaying implementation of some premium increases mandated by the law.
- Congress failed to reauthorize the terrorism risk insurance program by the end of 2014, causing the program to expire (a reauthorization passed early in 2015). The Casualty Practice Council submitted comments urging reauthorization to the House and Senate in July, and again to the Senate in December. The Academy also released an Essential Elements paper, Terrorism Risk Insurance, explaining the issue in clear terms.
- Health issues continued to dominate federal and state policy throughout 2014. This is likely to continue throughout 2015, as the Centers for Medicare & Medicaid Services (CMS) issued a letter in March extending until Oct. 1, 2016, the transitional policy that allowed issuers to continue health care insurance policies that otherwise would have been canceled because they did not meet ACA requirements. The Academy’s Health Practice Council and its committees engaged extensively with federal and state governments on implementation, as well as on issues such as long-term care insurance and the future of Medicare.
- Among the Academy’s health-related activities:
  - Health committees advised Congress and federal agencies on many aspects of implementation. These include Senior Health Fellow Cori Uccello testifying before the House Committee on Oversight and Government Reform’s Subcommittee on Economic Growth, Job Creation and Regulatory Affairs to discuss the ACA’s risk corridors; and advising the Center for Consumer Information and Insurance Oversight on revisions to its Unified Rate Review Template.
  - Efforts to permanently reform the Medicare sustainable growth rate formula continued in 2014, but only a temporary, one-year extension freezing physician payments through March 2015 became law. The Medicare Steering Committee updated its issue brief offering an actuarial perspective on Medicare’s financial condition and outlining the public policy options to address the program’s long-term financial challenges.
  - The insurance industry and state governments grappled with the emerging issue of how to accommodate the high cost of Breakthrough Therapy Designation medications, such as Sovaldi. The Medicaid Work Group provided an actuarial perspective on this evolving issue for the first time with a November letter to the CMS.

Life Issues
The issue of principle-based reserving (PBR) continued to animate much of the work of the Life Practice Council (LPC) and its committees in 2014, and the progress of PBR may accelerate in 2015. Reinsurance and captives regulation also remain vital, active issues. In 2014, the LPC and its committees:

- Continued to advise on the progress of the new Standard Valuation Law that implements PBR. Eighteen states, representing approximately 28 percent of U.S. direct written premiums, adopted the law last year. Twelve more states either introduced the legislation without success or plan to introduce it in 2015, which could bring the premium total to about 60 percent. PBR will be effective only after a supermajority of states and territories (42), representing 75 percent of written premiums, adopt the revised law. Already in 2015, the LPC has sent its Legislation-in-Brief on the law to states that have yet to adopt it.
- Worked with the NAIC on the development of Actuarial Guideline 48 (AG 48), which is designed to set standards for life insurance companies that use captives to finance XXX/AXXX reserves. The Academy’s Principle-Based Reserves Strategy Subgroup (PBRRS) sent comment letters in September and October to the Life Actuarial (A) Task Force outlining the Academy’s concerns with some aspects of AG 48. The Subgroup also sent an October comment letter on the subject to the PBR Implementation (EX) Task Force.

Pension Issues
The Academy’s Retirement for the Ages initiative was major news in 2014. A Capitol Hill briefing, followed by a May forum of retirement thought leaders, was major news in 2014. A Capitol Hill briefing, followed by a May forum of retirement thought leaders, was major news in 2014.
Academy Comments Ahead of State of the Union

THE ACADEMY ISSUED a news release in January in advance of President Obama’s seventh State of the Union address, calling on the president and the 114th Congress to focus on addressing the needs of an aging America, including retirement security and lifetime income, health care and long-term care for the elderly, and public programs such as Social Security and Medicare.

“2015 is a year of significant milestone anniversaries for several important programs in this area, including Social Security, which will turn 80, and Medicare, which will turn 50,” the release noted. “These programs arose out of the pressing needs of their time to forestall the circumstances that too often resulted in the elderly living in poverty or having no access to quality health care. Today’s needs in aging policy require no less of a commitment to action.”

The release called on the federal government to take a number of specific actions, including:

- Take immediate steps to address solvency concerns of key public programs like Social Security and Medicare to ensure that they are sustainable in light of changing demographics. The Academy also urges action to allow the disability trust fund to continue to pay full scheduled disability benefits during and beyond 2016.
- Evaluate and address the risk of retirement-income systems not providing expected income into old age, especially in light of increasing longevity. The Academy’s Retirement for the Ages initiative provides a framework for evaluating both private and public retirement systems, as well as public policy proposals.
- Encourage the use of lifetime-income solutions for people living longer in retirement. The Academy’s Lifetime Income initiative supports more widespread use of lifetime-income options.
- Improve the governance and disclosures regarding the measurements of the value of public-sector (state/municipal) employee pension plans. The Academy’s Public Pension Plans Actuarial E-Guide provides information on the nature of the risks and the complex issues surrounding these plans.
- Evaluate the relative health level of older Americans and those with disabilities, and assess the ability of Medicare and other public and private programs to meet those needs. The Academy is conducting an examination of the drivers of health care costs; Medicare, Medicaid, and private-sector payment and delivery system reform; quality of care metrics; and other issues through its Health Care Cost/Quality of Care initiative.
- Explore solutions to provide for affordable long-term care financing, and address caregiver needs and concerns through public and/or private programs.
- Address the impact of delayed retirement, either voluntary or through future retirement age changes, on benefit programs, as well as the needs it may create with increased demand for early retirement hardship considerations and disability income programs.

The release received widespread press coverage, with Academy President Mary D. Miller and Senior Pension Fellow Don Fuerst quoted in several publications (see In the News, page 3).

Webinar: Exploring the New Era of ORSA

ROWING OUT OF THE 2008 FINANCIAL CRISIS, Own Risk and Solvency Assessment (ORSA) is a process by which insurers and insurance groups can perform internal risk assessments of their current and future solvency positions under different scenarios and provide regulators with a better understanding of their ability to withstand financial stress. The reports serve as one component of a broader enterprise risk management (ERM) framework. How an ORSA might work was the subject of an Academy webinar on Jan. 6.

More than 1,300 members listened as Patricia Matson, chairperson of both the Actuarial Standards Board (ASB) and the Enterprise Risk Management (ERM)/ORSA Committee joined committee members Bill Wilkins and Mike Celichowski to provide an overview of what an ORSA might contain, including examples of key ORSA content covering life, health, and property and casualty.

Though current regulatory guidance does not prescribe a specific role for actuaries, Celichowski noted, “actuaries are well-positioned, and expected to play a large role,” thanks to their competency in specialized aspects of insurance, experience in scenario planning and the standards that protect the integrity of actuarial work.

The Academy published a paper on the role of actuaries in ORSA last year.

ERM, Wilkins explained, “is not a one-and-done process. It is continual and evolving. Once you’ve identified your risks, then what you need to do is understand and determine how much risk you can afford to manage. And the operative word there is ‘manage.’”

Though Celichowski noted that “early ORSA assessments may look very different from what will evolve over time,” the speakers were able to walk attendees through some of the specifics of what an ORSA would contain.

Matson noted a variety of internal models may be used for components of ERM, and that the ASB has recently approved a second exposure draft regarding modeling, which actuaries should familiarize themselves with as part of preparing for ORSA.

ORSA, the presenters concluded, is part of an evolution in how both insurers and regulators evaluate risk. Actuaries will play a crucial role in its development. Audio and slides from the webinar are available on the Academy’s website.
Actuarial Guideline for Life Insurance Illustrations

In response to a request made at the NAIC’s fall national meeting, the Life Illustrations Work Group sent a list of suggested principles for an actuarial guideline for life insurance illustrations to the Life Actuarial Task Force this month. The guideline recommends that a sound actuarial guideline should:

- Align with the Life Insurance Illustrations Model Regulation (Model 582) and ASOP No. 24 (Compliance with the NAIC’s Life Insurance Illustrations Model Regulation);
- Be based on sound actuarial practice;
- Apply uniformly to all illustrated index-linked features regardless of product type;
- Address all types of indexes; and,
- Be valid in all economic conditions.

Encouraging States That Have Not Yet Passed PBR Laws

The Life Practice Council took advantage of the launch of new legislative sessions across the country this month to encourage states that have not yet adopted the standard valuation law and principle-based reserving (PBR) by sending its Legislation-in-Brief to the insurance commissioners and insurance committee chairs of the 30 states yet to adopt the measure.

The paper notes that the council “supports the adoption of the revisions to the National Association of Commissioners model Standard Valuation Law that will be considered by states in upcoming legislative sessions. These revisions introduce a new framework for calculating life insurance policy reserves, which are in the best interests of consumers, the insurance industry, and regulators.”

When compared to current statutory reserve levels, principle-based reserves would be higher for some insurance products and lower for others, because PBR uses a process that more accurately reflects the actual risks assumed by life insurers rather than the current more formulaic approach that is product-specific.

The new Standard Valuation Law will become effective on the Jan. 1 following a year in which 42 states, constituting greater than 75% of all direct premiums written, have enacted the measure.

We’d Like to Hear From You

Actuarial Update, like all Academy publications, is designed to serve you. With that in mind, we’re gauging interest in making available printed copies of Actuarial Update. If you would find such an offering valuable, please email editor@actuary.org with your thoughts.

And thank you for reading.

RISK MANAGEMENT AND FINANCIAL REPORTING BRIEFS

- **David Heppen**, senior manager at Marsh & McLennan Companies, and **Daniel Hui**, audit director for AIG, both in New York, have joined the ERM Committee.

- **Jay Morrow**, senior vice president and actuary at AIG Property & Casualty in New York, and **Jeremy Williams**, vice president at CNO Financial Group in Carmel, Ind., have joined the Financial Reporting Committee.

- **James Glickman**, president and chief executive officer at Life Care Assurance Co. in Woodland Hills, Calif., has joined the Reinsurance Committee.
Advantages of Qualified Longevity Annuity Contracts

The Pension Practice Council this month sent a letter to the Treasury Department regarding the benefits of allowing qualified defined benefit pension plans to provide longevity annuities directly, rather than requiring buyers to purchase an insurance contract.

The letter was addressed to Senior Advisor to the Secretary and Deputy Assistant Secretary for Retirement and Health Policy Mary Iwry, who is himself a longtime Academy member. It commended recent final regulations regarding Qualified Longevity Annuity Contracts (QLACs), and argued that “significantly more Americans could benefit from such longevity annuities” if pension plans could provide them.

Among the advantages, the letter noted, providing a QLAC through a defined benefit pension plan would overcome some of the education challenges that have limited public acceptance of annuities, as the employer “is often a known and trusted source for the employee,” education materials about annuities could be included with plan documents, and “providing a QLAC as an optional form of settlement greatly simplifies the process of obtaining a QLAC and could expand usage.”

The council’s letter follows up on a presentation at the Academy’s Summer Summit proposing a similar annuity program for 401(k) participants, detailed in the July Update.

Late Retirement Actuarial Equivalence

The Pension Committee sent a comment letter this month to the Pension Benefit Guaranty Corp. (PBGC) regarding how pension plans should determine, in the case of a participant who retires after his or her normal retirement age, the benefit that is actuarially equivalent to the benefit that would have been payable at normal retirement age.

The committee wrote, “We understand that the PBGC has taken a preliminary position that we believe runs counter to sound actuarial practice, and that will lead in some cases to inappropriately large retirement benefits. … In brief, the PBGC is interpreting plan provisions governing actuarial equivalence in a manner that results in benefits that are not actuarially equivalent.”

The letter cautioned that the PBGC’s position on survivorship benefits might not be appropriate, and “could lead to plans needing to make many corrections to items such as past benefit payments, contributions, PBGC premium payments and financial accounting disclosure.”

Exploring Global Health Care Cost Drivers: Israel And The Netherlands

Health care cost growth is a global issue. Join us February 18 for the first webinar in a new series exploring countries’ comparative experiences with health care cost trends and the drivers of cost increases worldwide. Dr. Tuvia Horev of Ben-Gurion University of the Negev and Rian De Jonge of the Academy’s Health Practice International Task Force will offer firsthand experience of the successes and challenges that both Israel and the Netherlands have experienced as they’ve worked to identify and address particular cost drivers.

Save the Date

The American Academy of Actuaries’ 2015 Annual Meeting and Public Policy Forum
November 12-13 | Washington, DC

Don’t miss the opportunity to engage directly with policymakers and thought leaders from all practice areas as the Academy celebrates its 50th anniversary.
Essential Elements: Climate Change

The Academy has released a new paper providing an actuarial perspective on climate change. The paper is the latest installment in the Academy’s Essential Elements series, which is designed to provide a quick and easy-to-understand overview of key public policy issues of interest to Academy members, policymakers, and the general public.

The paper explains that “increased droughts in the western United States, higher rainfall and snowfall in the eastern part of the country, and greater damage from tornadoes, hurricanes, and other extreme climate events” in recent years “have resulted in higher property and casualty insurance losses incurred by insurers, which ultimately leads to higher costs to consumers and businesses.”

“As weather-related damages increase, these costs fall on insurers, businesses, and consumers.”

The actuarial profession is responding: “In order to monitor climate changes, the American Academy of Actuaries is part of a group of other North American actuarial organizations jointly developing the Actuaries Climate Risk Index,” the paper explains, “which will focus on measuring the frequency and intensity of extremes in key climate indicators based on controlled observational data of temperature, precipitation, drought, wind, sea level, and soil moisture.”

Later, the group plans to release the Actuaries Climate Risk Index, which “will assess who and what is at risk because of climate change, and quantify that risk.” The risk index “will review where people live and the surrounding infrastructure, and look for relationships between climatic and socioeconomic factors. Both indexes will function as a useful tool for actuaries, policymakers, and the general public.”

Professionalism, continued from Page 1

and the Qualification Standards for Actuaries. Issuing Statements of Actuarial Opinion in the United States promulgated by the Academy through its Committee on Qualifications.” Your explicit commitment to these membership requirements is valued by all who count on the integrity and professionalism that the MAAA credential represents.

Our profession as with any profession is dependent on the public trust. This is one reason the Academy, in all its practice council and committee work, stresses objectivity and independence from self-interest. That is why at this time of year we call on all of our volunteers and interest parties to our committees, to review and acknowledge the Academy’s conflict of interest policy.

We also call on our volunteer members to attest to completion of our continuing education policies to demonstrate the importance of remaining current on relevant content. These requirements make clear our agreement to abide by core principles of objectivity when performing work for Academy committees, councils, and task forces. They also help provide assurances about the nature of our work to policymakers and others who need objective and unbiased actuarial insight to inform their decisions regarding U.S. fiscal and societal challenges.

By performing these attestations, each volunteer is anticipated to understand and maintain objectivity in their activities. It is the public’s expectation and reliance on these various activities that is the backbone of their trust and our opportunities as a profession to remain self-regulated.

I would like to take this opportunity to thank, in advance, all volunteers and interested parties in participating in this important assignment of compliance with these important principles in the conduction of Academy activities as well as thank them for the work they are dedicating their time to perform in 2015.

If you are interested in reading more about what our volunteers and interested parties I invite you to take a look at a 2011 discussion paper released by the Council on Professionalism, Conflicts of Interest When Doing Volunteer Work, which explores the definition of conflict of interest and contains practical considerations of conflicts that may arise and how to address them.

While we only ask volunteers and interested parties to acknowledge the conflict of interest policy and attest to completing their continuing education requirements formally, they apply to all Academy members. It is through our collective and individual adherence to the Precepts of the Code of Professional Conduct that your membership in the Academy should be an indicator that our profession establishes its credibility and earns the trust from those we serve.

Kenneth A. Kent, a member of the Academy and a fellow of the Society of Actuaries and the Conference of Consulting Actuaries, and an Enrolled Actuary, is the Academy’s vice president for professionalism. 

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leaders, introduced and explained the AGES principles to government and the media. The Academy rolled out assessments of five current pension systems and proposals, with additional assessments to follow in 2015.

Federal actions affecting the work of pension actuaries in 2014 included a major change to laws governing distressed plans, new rules governing longevity annuity contracts, and a large increase in the deficit reported by the Pension Benefit Guaranty Corp.

The Academy’s Pension Practice Council:

- Sent several letters to congressional leaders, the Internal Revenue Service and the Treasury Department regarding pension funding rules in the Moving Ahead for Progress in the 21st Century (MAP-21) act. The changes delay the phase-out of the pension funding stabilization provisions in MAP-21 until 2018.

- Updated the Academy’s Social Security Reform Options monograph and its issue brief on the quantitative measures that policymakers can use while evaluating Social Security reform.

- The Social Security Committee also published an issue brief on the 2014 trustees’ report that examines the social insurance program’s long-term solvency. The issue brief states that Congress should act soon to improve the long-term financial outlook of Social Security—an issue that will continue to drive action in 2015.

- Was represented by Janet Barr, former chairperson of the Academy’s Social Security Committee, in testimony before the U.S. Senate Committee on Finance hearing on “Social Security: Is a Key Foundation of Economic Security Working for Women?” Barr urged lawmakers to consider legislative reform options in the context of the Social Security program’s competing principles of social adequacy versus individual equity.

### Academy Advises NAIC on Operational Risk

**THREE ACADEMY WORK GROUPS** sent a joint comment letter to the NAIC on operational risk issues this month. The NAIC’s Operational Risk Subgroup asked the Academy two questions, to which the Academy’s Life Capital Adequacy Committee, Property and Casualty Risk-Based Capital Committee, and Health Solvency Work Group coordinated answers.

The letter stated that an industry survey on the issues “would have limited value” because “individual companies are concerned with their specific exposures,” and thus “insurers may not be up to date with the ongoing technical developments for the current RBC factors; as such, they would have very little insight on what is embedded in the current RBC formula.” The groups also advised that strategic or reputational risk might not be appropriate for inclusion in a formal definition of operational risk.

The letter concluded, “It is important for the NAIC to consider the degree to which additional regulatory capital is the best mechanism for protecting policyholders from [operational risk]. Increasing capital requirements is not always the most effective means to mitigate the impact of certain risk events.”