A Different Vision

By Tom Wildsmith, President, American Academy of Actuaries

As I BEGIN MY PRESIDENCY, I’d like to share some personal thoughts with you. The leaders of some actuarial organizations have been talking a lot lately about “competition.” It seems that commercial competition has become central to their vision of how the various actuarial organizations relate to each other. My concern is not with any particular program or activity. Rather, it is with a specific approach to thinking about how actuarial organizations serve the profession.

Actuaries, and their employers, routinely compete with one another commercially. But the organizations that support the profession are not themselves commercial enterprises. They are nonprofit, tax-exempt professional associations. When the leaders of any actuarial organization view their mission primarily in commercial terms, they are taking an approach that I believe distorts the historical purpose of these organizations. This approach isn’t inevitable— it’s a choice that has been made by certain leaders in recent years. It’s time for a different vision, one that reconnects with our reason for existence. The organizations we lead exist to serve the public by strengthening the actuarial profession.

The Academy does not compete with other actuarial organizations. We have a fundamentally different mission than that of any other U.S.-based organization. When we

Annual Meeting and Public Policy Forum Marks Academy’s 50th Anniversary

The Academy’s Annual Meeting and Public Policy Forum, held in Washington Nov. 12-13, drew a very appreciative audience, including some of our original charter members and past presidents, celebrating the Academy’s 50th anniversary.

Tom Wildsmith succeeded Mary D. Miller to become the Academy’s 51st president (see story, p. 2), new board members’ terms began, and attendees celebrated in great style at a gala dinner at the National Museum of Women in the Arts.

Practice-specific breakout sessions included forums on casualty, health, life, pension, and risk management and financial reporting issues, and attendees also participated in a lively two-hour plenary session with a game show-style format that looked at potential situations involving actuarial ethical considerations.

The meeting’s keynote speakers were Gene Dodaro, comptroller general of the United States and head of the Government Accountability Office, who spoke on the sustainability of government programs; Richard Berner, director of the Treasury Department’s Office of Financial Research (OFR), who spoke on the risk outlook and financial security; and North Dakota Insurance Commissioner

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50TH ANNIVERSARY MOVIE/BOOK/TIMELINE

As part of its Golden Anniversary, the Academy released a movie; a book, Charting the Course; and a timeline of its history. See page 3.
Tom Wildsmith Succeeded Mary D. Miller to become the Academy’s 51st president at the Annual Meeting and Public Policy Forum in Washington, and several new members began their terms on the Academy’s Board.

Miller, in her final address before handing over the gavel as president, thanked the efforts of the Academy’s many volunteers. “Much work has already been done in the months leading up to this event, and more work will continue in the coming year,” she said.

She welcomed to the stage the Academy charter members who were in attendance, and about a dozen past presidents who were also on hand to mark the 50th anniversary milestone.

Wildsmith noted in his inaugural speech that when it comes to professionalism, education, research, and actuarial science are vital, but are not enough. “Lots of people are smart; [but] we have the standards and institutions necessary to assure the public that we can, as a profession, be trusted,” he said.

“We have inherited a 50-year legacy of professionalism and service,” he noted. “As we enter the Academy’s next half-century, let’s commit to passing that legacy on.

“Just as wisdom is more than mere knowledge, professionalism is more than mere skill,” and actuaries have an “obligation to the public that at times can trump these other responsibilities,” he said. “Professionalism is not just mechanical compliance with a checklist of technical rules. It’s a moral and ethical commitment to doing the right thing.”

Volunteer Service Awards
The Academy also gave out its annual service awards at the meeting.

Andrea Sweeney received the Jarvis Farley Service Award for serving as a volunteer on nearly 20 committees over 15 years, and Michael Boerner was honored with the Robert J. Myers Public Service Award for his extraordinary contribution to the public good through his service with the Texas Department of Insurance and leadership at the NAIC.

In addition, April Choi, Ellen Kleinstuber, Patricia Matson, and Lisa Slotznick were recognized with the Academy’s Outstanding Volunteerism Awards.

Canada-U.S. Cross-Border Discipline Agreement

The Academy and the Canadian Institute of Actuaries (CIA) have continued our close relationship in preparing and releasing a Frequently Asked Questions (FAQs) document that reflects our common understanding of how the long-standing Cross Border Discipline Agreement (Agreement) works in both the United States and Canada.

While the Agreement has rarely been used, we want to anticipate and address common questions from the joint perspective of our two national associations. You can find the Cross-Border Agreement here and the FAQs and their answers here.

Academy NEWS Briefs

Wildsmith Becomes Academy’s President

Academy President Tom Wildsmith gives his inaugural address.
Academy Marks 50th Anniversary With Gala Dinner Celebration

The Academy’s 50th Anniversary was the theme of a Gala Dinner as part of the Annual Meeting and Public Policy Forum. Entertainment was provided by the renowned political satire troupe the Capitol Steps at the Nov. 12 event, which was held at the National Museum of Women in the Arts.

In a celebratory evening, the Academy recognized charter members and past presidents, and accepted congratulations and gifts from other actuarial organizations including the Casualty Actuarial Society, Society of Actuaries, Canadian Institute of Actuaries, Institute and Faculty of Actuaries (U.K.), and Conference of Consulting Actuaries.

Academy Releases Movie, Book, Timeline

In recognition of its 50th Anniversary, the Academy released a movie celebrating its Golden Anniversary, an online timeline highlighting milestone events and dates in the Academy’s history; and an historical overview of the actuarial profession in the United States, Charting the Course. This hardcover book, which will also be available for download in an e-reader format, will be available for purchase from the Academy’s website and tells the story of the Academy’s founding, including surprising details, such as the fact that James Donovan, portrayed by Tom Hanks in Steven Spielberg’s new film Bridge of Spies, once lobbied for a federal charter for the Academy.

Professionalism ‘Game Show’ Plenary Tackles Ethics Questions

A spirited Nov. 13 professionalism plenary session on actuarial ethics gave panelists and attendees alike a variety of hypothetical scenarios that actuaries could face in their daily work and operations.

Created for the Academy and moderated by ProEthics’ Jack Marshall, the session, “The Unpredictable Actuarial Ethics Game Show,” used the format of a game show in which three Academy board members were given situations, which they had not been provided in advance, that had ethical challenges. Marshall gave them points for the best answers, which were not always cut. Many attendees also participated in the discussion, in an interactive discussion that engaged the entire audience.

The panelists were Kenneth Kent, chairperson of the Council on Professionalism; Catherine Murphy-Barron, vice president of the Academy’s Health Practice Council; and Joeff Williams, chairperson of the Life and Health Qualifications Seminar Committee.

Scenarios posed in the context of the actuarial professional code included whether to report instances of alcoholism or domestic abuse, measuring professional standards in relation to society’s at large, and other potential ethical quandaries an actuary might face.

“Rules rule!” Marshall said, noting that for professionals in all fields, including actuaries, trustworthiness is the most valuable asset.

Williams said afterward that the panelists appreciated the audience’s involvement, with attendees playing off each other and agreeing and disagreeing among themselves to posed situations that did not always have obvious answers.

“That improved the quality of the session and made our jobs easier,” he said, adding that the idea of being presented with situations that have not been given ahead of time could be useful in future events.

“That’s one of the biggest challenges I sometimes find in professionalism topics,” he said. “Actuaries are very answer-driven ... we’re trained to use our analytical skills to get the right answer.”

But, he noted, there are often “gray areas,” in which actuaries “should know their guidelines, but stay true to the Code of Conduct and principles and concerns, including the client’s and the public’s,” when deciding on an outcome.
Contingencies, HealthCheck Released

HE DIGITAL EDITION of the November/December issue of Contingencies is now available. The cover story, “Rising Tides,” outlines the author’s view of the potential serious economic disruption looming as a result of higher sea levels unless action is taken soon. Feature stories include “Resilient Communities: Standing Up to Mother Nature,” which offers details on how better materials and building codes can help businesses prepare for extreme events and rebuild after them; “End-of-Life Care in an Aging World: A Global Perspective,” which looks at the impact of changing demographics on health care systems; and “Communicating Longevity Risk,” the second in a two-part series on how mutual understanding is necessary to communicate policies and solutions in a way the public will find meaningful. Click here for the latest issue of the Academy’s flagship magazine.

The November issue of HealthCheck recaps the Academy’s “Aging Securely” Capitol Hill briefing, held in Washington late last month, and the concurrent release of several Medicare and long-term care papers; a Health Practice International Committee issue brief; and the Academy’s Nov. 4 international health care webinar—the last in a series with the Academy’s Health Practice International Committee and the International Actuarial Association Health Section—that focused on Canada and Chile.

LHQ Seminar Draws a Capacity Audience

THE ACADEMY’S SOLD-OUT Life and Health Qualifications Seminar took place in Arlington, Va., just prior to the Annual Meeting and Public Policy Forum in mid-November. The seminar, now in its 15th year, is the most efficient way for actuaries to acquire required basic education and continuing education (CE) to be qualified to sign NAIC Life and Health annual statements of actuarial opinion (SAOs). It’s also a popular way to earn CE credits under the U.S. Qualification Standards for those who already have the basic education needed to issue SAOs and want the personal attention and expertise given to the attendees by the experienced faculty.

In addition to lectures with questions and answer sessions, attendees worked on two case studies a day for three days, which were “by far the most valuable element,” said Joeff Williams, chairperson of the LHQ Seminar Committee. “They are an attempt to give a real-world example ... to help them see how to think through an issue, and more about asking questions as opposed to getting one right answer,” Williams said.

Just over half the attendees took a test at the end of the seminar as part of meeting the U.S. Qualification Standards, Williams said.

IN THE NEWS

The Academy’s new Social Security Game was highlighted as part of the weekly “Best of the Web” roundup in the “Upshot” column of The New York Times for the week of Nov. 20. USA Today reported on the findings of The Challenge of Longevity Risk: Making Retirement Income Last a Lifetime, a joint project of the Academy, the U.K. Institute and Faculty of Actuaries, and the Actuaries Institute of Australia. The story highlights some risks associated with longevity and asset decumulation. The story also ran in The Atlanta Journal-Constitution, The Huffington Post, and Credit.com.

Business Insurance was the first media outlet to publish coverage of the Academy’s Annual Meeting and Public Policy Forum, in a story that quoted keynote speaker Adam Hamm’s address on cybersecurity issues. Inside Cybersecurity also covered the address. A piece by The Center for Financial Stability analyzed the keynote speech on the risk outlook and financial stability by Richard Berner, director of the Office of Financial Research, at the forum. Links to Berner’s full remarks, as well as other highlights and photos from the meeting, are available here; slides from many sessions are available here to members who attended the meeting.

The Academy’s presidential transition and award ceremonies held at the Annual Meeting were reported in PropertyCasualty360, Insurance News Net, and BenefitsLink.com. PolitiFact cited the Academy’s nonpartisan issue brief, Drivers of 2016 Health Insurance Premium Changes, in a story that fact-checks statements by a presidential primary candidate regarding expected 2016 rate increases. WUSF Public Media (Tampa, Fla.) also highlighted the PolitiFact story.

A Society for Human Resource Management article cited the Academy’s analysis in a health care item about California’s small group market expansion.
**ASB Posts Two Exposure Drafts for Comment**

The Actuarial Standards Board (ASB) recently released exposure drafts of two actuarial standards of practice (ASOPs) that apply to all practice areas: **ASOP No. 21**, *Responding to or Assisting Auditors or Examiners in Connection with Financial Audits, Financial Reviews, and Financial Examinations*, and **ASOP No. 23**, *Data Quality*. Both of these were last revised in 2004.

ASOP No. 21 was updated to bring it into line with changes in the regulatory and operating environment, such as Sarbanes-Oxley, the NAIC's Model Audit Rule, and the increased focus on risk in audits and examinations. The ASB is looking for feedback on whether the proposed revision appropriately reflects these changes and whether the new scope, which limits the ASOP to financial audits, financial reviews, and financial examinations, is clear and appropriate. In addition, the ASB would like to know whether the proposed revision accurately describes the responsibilities of the reviewing and responding actuaries, and whether it gives appropriate guidance for actuaries in both of those roles in financial audits, financial reviews, or financial examinations. Comments are due by Dec. 31, 2015.

The proposed revision of ASOP No. 23 clarifies that the standard also applies to actuaries preparing data for other actuaries to use in an actuarial work product, improves consistency in the use of defined terms, and limits documentation requirements for adjustments or modifications made to the data to those expected to have a significant effect. The exposure draft would also require an actuary not rely on data or related information if it became apparent that they were unsuitable for use. In addition, the exposure draft would add several disclosure requirements. The actuary would have to disclose any unresolved questionable data or related information uncovered on review that may have a significant effect on the analysis, as well as any significant steps taken to improve the data. If the actuary did not review the data, the draft would require the actuary to disclose why a review was not performed and any resulting limitations on the use of the actuarial work product.

The ASB would like feedback on whether the proposed revision provides appropriate guidance for an actuary preparing data for another actuary’s use and whether it provides appropriate guidance for working with nontraditional data sources. Comments are due by Feb. 29, 2016.

Please take this opportunity to submit comments on these two ASOPs; time spent reviewing and commenting on an ASOP exposure draft can count as professionalism continuing education.
CADEMY VOLUNTEERS gave several presentations at the NAIC’s Fall 2015 National Meeting near Washington, D.C., in late November, interacting with state regulators on a wide variety of specific insurance-related topics as well as overall professionalism aspects of actuarial practice.

Highlights included:
- Academy Senior Property/Casualty Fellow Jim MacGinnitie testified at the NAIC’s public hearing on “The Pricing of Automobile Insurance.”
- MacGinnitie also spoke at the P/C Risk-Based Capital (RBC) Working Group, the Investment Risk-Based Capital Working Group, and the Capital Adequacy Task Force meetings about the P/C RBC Committee’s ongoing examination of bond risk factors used in the P/C risk-based capital formula.
- The Joint American Academy of Actuaries Life Experience Committee and Society of Actuaries Preferred Mortality Oversight Group provided an update on guaranteed issue, simplified issue, and preneed to the Life Actuarial Task Force (LATF).
- The Annuity Reserves Work Group (AWRG) provided a non-variable annuity principle-based reserving (PBR) update to the LATF’s VM-22 Subgroup.
- The Nonforfeiture Modernization Working Group made a presentation on the gross premium nonforfeiture method to the LATF.
- The Deposit Fund Subgroup of the AWRG submitted comments to the LATF on rules for separate accounts that fund guaranteed minimum benefits under group contracts related to the synthetic GIC model regulation.

Post-NAIC Webinar: Join the Academy at noon EST on Dec. 7 for a follow-up post-NAIC webinar hosted by the Life Practice Council. The webinar will include an account of the LATF meeting, updates on variable annuity and life RBC issues, and other major topics. Register today.

Professionalism Outreach
Academy professionalism representatives provided updates at each of the actuarial task force meetings this month at the NAIC to brief regulators on Actuarial Standards Board (ASB), Actuarial Board for Counseling and Discipline (ABCD), and qualification issues. They also provided opportunity for candid conversations with regulators at a breakfast meeting.

Immediate Past President Mary D. Miller, ASB Chairperson Tricia Matson, ABCD member John Purple, and Committee on Qualifications member Tom Campbell presented. Matson reviewed actuarial standards of practice (ASOPs) of interest to the task forces and upcoming standards work of the ASB. Purple noted that the ABCD has received more Requests for Guidance (RFGs) on the subject of qualifications, which he attributed to the focus the NAIC and the Academy have been providing on this important regulatory concern. Miller highlighted the progress on the Academy’s development of an attestation form, which regulators have supported and provided feedback on, that will allow actuaries submitting statements of actuarial opinion to document their qualifications under the U.S. Qualification Standards. The Academy expects a working version of the form to be available by the end of the year.

At the LATF meeting, chaired by Mike Boerner of the Texas Department of Insurance, Miller noted that he had received the Academy’s Robert J. Myers Public Service Award the previous week and the audience gave Boerner a standing ovation. Later in the NAIC meeting itself, Boerner also received their Robert Dineen Award for Outstanding Service for his contributions to state-based insurance regulation.

Actuarial Foundation Participating in Dec. 1 ‘Giving Tuesday’
THE ACTUARIAL FOUNDATION will be participating in this year’s Giving Tuesday. All of this year’s donations, no matter the size, will help by directly benefiting the Foundation’s youth education programs. Please consider celebrating Giving Tuesday with a year-end, tax-deductible gift of education to young people. Click here to participate.

LIFE BRIEFS
- Jeff Johnson is vice president of the Life Practice Council.
- Donna Megregian is chairperson of the Life Illustrations Work Group.
- Larry Gulleen is vice chairperson of the Reinsurance Practice Note Work Group.
- Francis Radnoti is vice chairperson of the Life Illustrations Work Group.
- Brian Bayerle, Timothy Gaule, and Sonia Reigles have joined the Life Valuation Committee.
- Laura Hanson and Donna Megregian have joined the Life Products Committee.
- Bruce Fuller and John Shaw have joined the Reinsurance Practice Note Work Group.
- Amy Eby and Grace Senat have joined the Life Reserve Work Group.
- John Adduci has joined the Annuity Reserves Work Group.
- Rex Durington has joined the PBR Financial Analysis and Review Work Group.
International Health Care Webinar Looks at Canada, Chile

Attendees from 300 sites and 21 different countries tuned in Nov. 4 to the final webinar in the “Exploring Global Health Care Cost Drivers” series hosted by the Academy’s Health Practice International Committee and the International Actuarial Association Health Section.

The fourth webinar in the series featured Jonathan Callund, managing director, Callund y Compañia Ltda. of Chile; and John Have, president, Have Associates of Canada. It was moderated by Susan Mateja, chairperson of the Academy’s Health Practice International Committee.

Speakers provided a look at the health care systems in Canada and Chile, focusing on the factors driving health care costs in each country; the challenges facing their systems in the years ahead, including providing long-term care, addressing inefficiencies, strengthening access, and improving transparency; and the role of actuaries in those respective systems.

Slides and an audio recording are available to logged-in Academy members on the health webinar page.

Comment Letter Studies Collectability of ACA Risk Corridor Payments


The committee in general agrees with the working group’s direction regarding accounting guidance. The letter suggests some modifications to the draft:

➢ So that users of financial statements “understand the magnitude of the unrecognized risk corridor assets to which insurers would be received in the absence of concerns about funding and collectability,” the committee suggests the addition of a statement “disclosing what risk corridor payments for 2015 would be based on their financial results, notwithstanding collectability concerns.”

➢ The committee points out that Congress can appropriate partial funding for 2015 risk corridor payments even without fully funding the 2014 risk corridor payments, so specific language reflecting that possibility should be amended. A similar provision for 2016 risk corridor payments is suggested as well.

The letter also requests changes in the guidance to clarify the implications for previous-year risk corridor levels.

New Issue Brief Surveys LTC Reform Across Seven Countries

The Health Practice International Committee released a new issue brief exploring the similarities and differences with respect to long-term care (LTC) reform in Austria, Germany, Israel, Japan, Korea, the Netherlands, and the United States.

Noting that “[w]orldwide demand for LTC is expected to grow by as much as 400 percent in coming decades because of longevity increases and advances in medical technologies and treatment,” the issue brief outlines various funding models and benefit structures for LTC supports, and explores the settings in which those supports take place, including family members, friends, and communities.

The issue brief studies several different structures for LTC supports, ranging from the Netherlands’ universal LTC insurance program, available to all citizens, to the United States’ framework of public programs (Medicare and Medicaid) working in conjunction with private entities (private insurance, as well as informal care provided by family or friends).

“Finding solutions to the looming LTC funding challenge is emerging as a major issue around the world,” the issue brief notes—and so members of the committee urge countries around the world to develop comprehensive strategies to address this issue. This effort will require reframing existing challenges in a manner that facilitates progressive change to the roles of public and private resources and fosters more innovative approaches,” the issue brief concludes.

Health Briefs

Joe Liss and Gail Stone have joined the Medicaid Subcommittee.

Norm Storwick has joined the Comparative Effectiveness Work Group.

Health BrieF

Bill Hallmark is vice president of the Pension Practice Council.

Tim Geddes and Josh Shapiro are vice chairpersons of the Pension Practice Council.

Tom Lowman has joined the Pension Committee and the Pension Practice Council as chairperson of the Public Plans Subcommittee.
Two Amendment Proposals on the Valuation Manual

The Life Reserves Work Group submitted an amendment proposal to the NAIC regarding the removal of references to the “seriatim reserve” in the Valuation Manual (VM) and another amendment proposal regarding the definition and clarification of the term “modeled reserve” in the VM-20.

In the amendment proposal regarding the removal of references to the “seriatim reserve” in the VM, the letter notes that several references to the outdated “seriatim reserve” remain, despite the fact that the addition of the net premium reserve (NPR) to VM-20 led to the calculation of the deterministic reserve on an aggregate basis, not a seriatim basis.

The amendment proposal regarding the definition and clarification of the term “modeled reserve” also hinges upon the addition of the NPR to VM-20. Before the NPR was added, “the minimum reserve was equal to the greater of the deterministic reserve and the stochastic reserve. Hence, the minimum reserve at that point was a fully modeled reserve.” This is no longer necessarily the case, because the NPR is a prescribed reserve, not a modeled one. The proposal accordingly suggests the use of “modeled reserve” rather than “minimum reserve” in several sections of the VM.

The proposal points out that the term “modeled reserve” is used several times in the current VM-20 draft without an explicit definition. Thus, the proposal suggests such a definition: “The term ‘modeled reserve’ means the deterministic reserve on the policies determined under Section 2.A.2 plus the greater of the deterministic reserve and the stochastic reserve on the policies determined under Section 2.A.3.”

LPC Seeking Volunteers With ALM, Modeling Experience

The Life Practice Council (LPC) is looking to form a new work group of actuaries with asset liability management (ALM) or valuation modeling experience to help determine whether additional guidance or educational material is needed for actuaries who will be involved in principle-based reserves (PBR) modeling, model governance, and assumption setting.

In making this assessment, the work group will review the guidance contained in actuarial standards of practice (existing standards or current exposure drafts) and information contained in practice notes (existing or current exposure drafts), white papers, study notes, or other published research and commentaries. The LPC is seeking volunteers with background in some or all of the following:

- Software design and customization for either in-house models or commercial software.
- Implementation and maintenance of actuarial models
- Assumption setting (base assumption plus margins).
- Design and oversight of model controls and other governance elements (e.g., assessing model risk, model limitations, auditing models and output).

If the work group concludes that the collective body of information on the model governance of actuarial models is sufficient, then no further efforts are anticipated. If the work group concludes that additional material is needed for the actuary involved with the development, use, management and/or oversight of PBR models, it anticipates the group will draft the necessary documents. The LPC would like to form this work group soon, with the goal of completing the work within the next six to 12 months. Time commitment for most work group members would initially be limited to a weekly one-hour conference call, with some preparation. Depending on the group's assessment, a greater time commitment might be needed by some members in the form of writing and editing documents.

If you are interested in joining the work group or have any questions, please contact Public Policy Senior Administrative Assistant Leiloni Hayward at hayward@actuary.org.

RBC Capital Committee Investigates Feasibility of Applying Life Modeling Work for Consistency

The Property and Casualty Risk-Based Capital Committee submitted a comment letter this month to the NAIC's Capital Adequacy (E) Task Force on the ongoing examination of the bond risk factors used in the P/C risk-based capital (RBC) formula. This letter was in response to a request from the task force to the committee to provide an update on its analysis of the P/C and Life RBC formulas during the NAIC’s Fall National Meeting.

The committee identifies three possible approaches to reviewing the bond factors:

1. Maintain the current bond factors and provide the rationale for the status quo;
2. Follow the recommendation of the Academy’s Life C1 Work Group regarding bond factors without modification; or
3. Leverage the modeling work completed by the Academy’s C1 Life Work Group adjusting the modeling for known differences between property/casualty and life RBC formulas.

After stipulating that the first option may not be preferable due to a desire to periodically update the factor calibration and recommending that the second option not be pursued because “structural differences in the P/C and Life RBC formulas would result in different charges for the same bond if the same factors are used in both formulas,” the committee notes it is “investigating use of the Life C1 Work Group analysis, subject to certain adjustments … [that] when used with the P&c formula will produce comparable risk charges for the same credit risks as in the Life formula.”
Adam Hamm, who chairs the NAIC’s cybersecurity task force and spoke on how state regulators are addressing cybersecurity issues.

In the closing keynote for the Annual Meeting on Nov. 13, Dodaro addressed the financial security of critical national systems such as Medicare and Social Security. He painted a grim picture of the future if no action is taken to shore up these systems, noting, “The federal systems are on a long-term unsustainable financial path.”

Debt-to-GDP, a key metric of a country’s financial health, sits at 74 percent, he noted, well above the 38 percent 30-year historical average. And with the surge of seniors entering the Social Security and Medicare rolls, that figure is poised to climb above 100 percent in the coming decade—an unsustainable level not seen since the second World War.

Dodaro briefly outlined two ongoing shifts that threaten long-term financial sustainability: the aging of our population, and increasing longevity. Taken in tandem, these two drivers are changing the landscape for important financial security systems like Social Security and Medicare. Other federal systems including the Pension Benefit Guaranty Corp. and the National Flood Insurance Program also face serious funding shortfalls.

An engaging speaker on sobering topics, Dodaro discussed the possible effects of failures in long-term financial security programs, including a lower standard of living for those Americans near the bottom of the economic ladder, and “intergenerational warfare” over looming Social Security benefit reductions. We face “strains on the social fabric” down the line if we don’t act soon to address these issues, Dodaro said.

Responding to a question from an attendee, Dodaro explained how the Government Accountability Office maintains its independence while investigating thorny matters of financial security. He spoke about the transparent nature of the work his team does, which “keeps [the GAO] in the middle,” outside of partisan divides.

In laying out the rigorous quality control system for his office’s research, Dodaro discussed the core values that drive the GAO’s work: accountability, integrity, and reliability.

In his Nov. 12 keynote address, Berner spoke about financial stability in the context of insurance and pensions. The smooth functioning of both of those systems is critical to the economy and to the stability of the financial system, he said, and because OFR’s mission is to promote financial stability, “we need to better understand how insurance and pension activities are evolving” including where risks may be and how best to manage them.

Berner—who was confirmed in January 2013 as the first director of the OFR, when he began a six-year term—outlined OFR’s mission and discussed its risk outlook, stress-testing, and risk management, and how the office evaluates tools for assessing the resilience of the system.

“Financial stability occurs when a financial system can provide its basic functions even under stress,” he said. “We want to ensure that when shocks do hit, the financial system continues to provide its basic functions to facilitate economic activity.”

“What I call ‘guard rails’—or incentives that affect behavior—are needed to increase the cost of, and thereby constrain, the risk-taking that can create financial vulnerabilities,” he said.

He said that if the Legal Entity Identifier (LEI) system—which has become fully operational in just a few years—had been in place in 2008, industry regulators and policymakers would have been better able to trace the connections of Lehman Brothers and others across the financial system. Because of this, he said he has called for mandating LEI’s use for regulatory reporting.

In his presentation, Hamm said that cyber attacks are creating increasing financial and liability risks for U.S. businesses and consumers, with the insurance industry quickly becoming a source of risk transfer.

Half the 7 billion people on earth are active mobile phone users, and 100 million emails a minute are created. “If you own a computer, smartphone or any mobile device, you are at risk every day,” he said.

NAIC formed the cybersecurity task force—its largest committee—and is developing guidance to provide to regulators, who Hamm said need to be aware of information that’s at risk and work together to make sure state computer networks and the NAIC are state-of-the-art.

The task force has adopted a consumer “bill of rights”; the task force plans to take that information and incorporate it into the model laws and regulations that it will be working on at the end of this year and into 2016, Hamm said.

**Protecting the Solvency of U.S. Insurers**

Following Berner’s presentation, two plenary session panels featuring NAIC officials looked at the future of risk management tools and gave an overview of developing domestic and international capital standards.

In the first panel—which was moderated by Actuarial Standards Board Chairperson Tricia Matson—Todd Sells, director of financial regulatory policy and data at the NAIC, and Elisabetta Russo, enterprise risk management adviser at the NAIC, outlined lessons learned from the first year of the own-risk and solvency assessment (ORSA) reports for U.S. life, health, and casualty insurers; expected changes to the life, health, and casualty risk-based capital formulas and capital adequacy requirements; recommendations from the
International Monetary Fund to strengthen the financial stability of the U.S. insurance and pensions systems for the future; and pension risk management tools.

Asked about stress testing, Sells said, “I think that stress testing is something that is likely to happen ... for the group capital calculation as that moves forward.”

In the cybersecurity area, “it’s not a new thing for financial examinations to cover IT systems,” Sells said. “Now there’s more of an entire consideration of all the risks around cybersecurity issues.”

The second panel—moderated by Jeff Schilsog, the Academy’s new vice president of the Risk Management and Financial Reporting Council—featured Ned Tyrell, international technical policy adviser with NAIC, and Matti Peltonen, a supervisory insurance valuation analyst in the insurance policy section of the Federal Reserve System’s Board of Governors, both of whom talked about efforts to develop domestic and international capital standards that could affect U.S. insurers.

Group capital standards being developed by the Federal Reserve, the NAIC, and the International Association of Insurance Supervisors could have profound effects on domestic and international insurers, Schilsog said.

Peltonen noted the challenge of different jurisdictions using different valuations and standards, which is a reason for more field testing and stress testing to better deal with those challenges.

Tyrell questioned one-year time horizons in the context of events such as earthquakes or hurricanes, or even asbestos-related situations. “We need a little bit more thought in this area,” he said, adding that stress testing also is something that is under consideration going forward.

Plenary Sessions
In an opening day plenary session, four business journalists gave a candid overview of the actuarial-related beats they cover, including health care and insurance issues, and took questions from the audience about how they perceive those issues, and the political climate, stand heading into the 2016 presidential election year.

At the Nov. 13 plenary on climate change, Washington state Insurance Commissioner Mike Kreidler discussed the work he has driven on that topic and its effect on insurers. In several bipartisan surveys undertaken with fellow commissioners, he found that very few insurers had issued risk assessments on the effects of climate change—less than 10 percent. He noted that large insurers are doing better than small ones on addressing these risks but contends the research is still “woefully inadequate.”

Kreidler laid out three key initiatives that he hopes to see gain traction in the coming years: insurance companies need to do a better job of assessing risks, they need to be responsive, and the Commissioner needs to have more tools.

Pension News

Pension Cost Webinar Looks at Cost Recognition

MORE THAN 500 ATTENDEES from almost 200 registered sites tuned in to the Academy’s “Alternatives for Pension Cost Recognition” webinar on Nov. 10, in which panelists gave an overview discussion of an area of emerging practice to inform actuaries and other interested parties about alternative expense methodologies. Academy members can access the webinar’s slides and audio on the members’ log-in page.

PPC Submits Comments to Treasury and IRS on Advantages of QLACs

THE PENSION PRACTICE COUNCIL (PPC) submitted comments to the Treasury Department and Internal Revenue Service on the final regulations concerning Qualified Longevity Annuity Contracts (QLACs) and their advantages.

QLACs can enhance the retirement security of many Americans by providing lifetime income that begins only after a certain age, which may be as late as age 85, thereby protecting individuals against outliving their retirement savings. In the letter, the PPC argues that more Americans could benefit from this type of longevity annuity, especially if the QLACs provide variable and indexed annuities.

The PPC concludes that the final regulations issued by Treasury and the IRS “provide a welcome addition to the options available to retirees for providing financial security throughout their retirement years. We appreciate that the regulation allows the Commissioner to issue additional guidance that would allow variable annuities to be considered QLACs” and urge that such guidance be issued as described in its letter.
Solvency Committee Comments on Group Capital Calculation Draft

The Solvency Committee submitted comments to the NAIC on the Group Capital Calculation Recommendation exposure draft. The Oct. 30 comment letter was on the Group Capital Calculation Recommendation that was exposed by NAIC's ComFrame Development and Analysis (G) Working Group (CDAWG).

The committee strongly recommends that the NAIC pursue a hybrid approach to a group capital calculation, including both a factor-based component, like the proposed risk-based capital (RBC) methodology, and a stress testing methodology, as appropriate, as detailed its comments on the July 2015 Discussion Draft on Approaches to a Group Capital Calculation and the November 2014 U.S. Group Capital Methodology Concepts Discussion Paper.

The committee supports a hybrid approach because it offers a potential path that draws the best features from RBC and stress testing methodologies. For example, the letter states, state regulators could use an RBC methodology to establish a minimum required level of capital that applies to all U.S. insurers. A stress testing methodology could then be used to establish a prudent capital level above this minimum.

Such an approach could maximize the advantages of each methodology while minimizing the disadvantages. In addition, a well-designed RBC-based minimum could give regulators the flexibility to design a stress testing or similar prudent capital methodology that takes adequate account of the significant economic differences between life insurers and property and casualty insurers.

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ter job of mitigating risks from climate change; regulators need to encourage sustainable building standards to assure more resilient communities; and insurance company security portfolios need to undergo scrutiny to ensure they have been constructed to be sustainable for the long term.

Fellow panelist Samantha Medlock, deputy associate director for climate preparedness for the White House Council on Environmental Quality, also addressed the need to assure long-term sustainability in light of climate change. After laying out observed phenomena such as rising sea levels and temperatures, she asserted, “Climate change is real. It’s happening.”

The rest of her remarks were devoted to how the administration is addressing that reality, including urging states to adopt stricter regulations to contend with so-called 100-year floods that are occurring with increasing frequency.

In discussing a proposed framework for federal responses to climate change risks, Medlock outlined three key agreements agreed to by the White House, the Department of the Treasury, and other key federal and local stakeholders:

1. Recognize the need to share data and information about climate change and its risks among federal and local agencies.
2. Recognize the need for strong building codes and thoughtful land-use regulations. Regulations save lives and buy down risk, Medlock noted.
3. Recognize the need for more incentives to state and local governments to take action on climate change, and to reverse the disincentive for action. Too often, municipalities and states that take no action to mitigate the risk of climate change benefit from federal funds to rebuild after a disaster, Medlock said.

Breakout Sessions

Attendees took in a packed two-day program of practice-specific sessions, which included three separate programs each on property and casualty, health, life, and pension issues, and a business-skills course presented by Second City Works, the business training arm of the famed Chicago-based comedy theatre and school of improvisation, The Second City.

Breakout casualty panels looked at:

- Price optimization, with a panel of regulators from some of the states that have acted to limit price optimization activities by insurance companies, and who are working with the NAIC on the issue. They also discussed how various states define “price optimization.”
- How cybersecurity relates to the Terrorism Risk Insurance Act (TRIA), what insurers are doing to protect their clients against potential cyberattacks, what new products are being designed, and how the reinsurance market is responding to this growing threat.
- What the changing personal automobile insurance market will look like in the future, with the advent of self-driving cars, ride-sharing, car sharing, and telematics.

Breakout health session attendees heard:

- Panelists from the Center for Medicare & Medicaid Innovation and the Patient Centered Outcomes Research Institute give overviews of organizations and highlighted projects they are undertaking with regard to payment and delivery system reform and comparative effectiveness research.
- Updates on Affordable Care Act implementation, including regulatory changes related to rate filings, calculators, and the risk-sharing mechanisms under the ACA.
- While there is general consensus on the desire to address long-term care (LTC) needs, finding solutions will require more in-depth analysis of the various options. Panelists covered the current status of policy discussions as well as financing and delivery options that could help reform the LTC system.

Life breakout sessions covered:

- What to expect when principle-based reserving (PBR) and the Valuation Manual (VM) go live, including what will be done to ensure that the reporting and regulatory review mechanisms are ready.
How PBR intersects with professionalism, including a brief an overview of the core professionalism documents followed by a wide ranging discussion of topics such as judgment, whether the professionalism documents provide enough guidance for PBR, and the importance of documentation.

The handling of life-captive solutions, including for XXX/AXXX, which examined AG48’s emerging effects on captive structures, while for variable annuities the focus was on the VA framework recommendations now in discussion at NAIC.

Pension sessions included:

- A panel on what has happened in the multiemployer field since passage of the Multiemployer Pension Reform Act nearly a year ago, how the Pension Benefit Guaranty Corp. and Treasury Department have approached the new policy prescriptions, and what new reforms Congress may be considering.
- A panel on lifetime income challenges, which noted that employer-sponsored defined benefit plans can provide individuals with a source for lifetime income, but plans have created challenges for the employers who sponsor them, and noting that as a result many employers have shifted to defined contribution plans.
- A session on public plan funding and risk disclosures. The Academy supports meaningful disclosures for public pension plans, and this session looked at the appropriate disclosures related to the funding and risks of public pensions that will better inform decision-makers and allow stakeholders to better evaluate plans. For attendees, slides from most of the sessions can be accessed here.

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engage in similar activities, such as webinars or research, the purpose is not to engage in commerce or maximize revenue. Our activities are intended to support the Academy’s professionalism and public policy mission. (The Academy is primarily funded by member dues. Our programs are not designed with an eye toward raising revenue.)

As the U.S. national organization, we also don’t compete with the national associations of other countries. We understand that no nation stands alone in today’s world, and U.S. actuaries are affected by developments in other countries. This is reflected in our active involvement in the International Actuarial Association and our sincere support for the development of a robust actuarial profession around the globe.

The Academy serves the public in a particularly direct way. The qualification standards, Code of Conduct, standards of practice, and discipline process all help protect the interests of those who rely on our work. Our public policy work directly serves the public good. The other U.S.-based organizations have different, but equally important, roles. The founders of those organizations recognized that the public benefits from an actuarial profession that is well educated, intellectually rigorous, and that has a growing body of tools and techniques available—just as the public benefits from advances in economics, architecture, or medicine. This public benefit is why organizations like ours are granted tax-exempt status.

Viewing the relationship between these organizations primarily through the lens of commercial competition is a new habit, which has become prominent only in the past two or three years. Prior to that, generations of leaders saw the role of the various organizations they served through the lens of service to the profession and, ultimately, the public. This isn’t because they were too naïve to understand the realities of leading a successful professional organization. These are the men and women who built the profession we have today. They simply had a different vision. If we are to be faithful stewards of the profession they built, we must recapture their vision.

It matters how our leaders think about and talk about the role of our professional associations. The current focus by some on commercial success, as if we were business enterprises, is not just novel; it’s bad for the profession. It has led to needless conflict and rancor. Instead of producing increased efficiency, it has proved a tremendous distraction to leadership from all of the major U.S.-based actuarial organizations. More important, it takes our focus away from the profession that we are all dedicated to serving. The servant is not greater than the master. None of our organizations is more important than the profession we serve or the public, which depends on that profession. As leaders, we’re here to serve the profession—not to build businesses on the back of the profession using the dues and volunteer time of our members.

If our strategies ever place more emphasis on growing our own organizations than on the health of the actuarial profession, then we have betrayed the legacy of prior generations. We are servants of the actuarial profession. That’s the heritage that’s been passed down to us. It’s a legacy worth preserving, and the path to a stronger, more effective profession.

Editor’s note: Tom Wildsmith became president of the Academy this month. The thoughts expressed in this article are the author’s alone. They do not necessarily represent the views or opinions of any other individual or organization.