Health Practice Council Annual Capitol Hill Visits

Academy Makes House (and Senate) Calls

The Academy’s annual Capitol Hill visits are important for any number of reasons: a chance for Academy members to touch base with key policymakers and acquaint them with the work of the Academy; an opportunity to gauge the likelihood of passage of key initiatives; a down payment on future Academy offers to volunteer its expertise in matters of importance.

But they are also kind of cool.

Take it from a newbie: “The whole atmosphere was fun and really interesting. I’d never been inside the Capitol before, and there I was attending meetings,” said Cathy Murphy-Barron, vice chairperson of the Academy’s Uninsured Work Group and a first-time participant in this year’s Health Practice Council Hill visits.

Even veterans like John Schubert, the Academy’s vice president for health issues, who has been doing Capitol Hill visits for more than a decade, still find the process exciting. “These are the people making decisions that affect all of us,” Schubert said. “It’s great to be able to talk with them. And to get to know them so that, down the road, we will be involved in the process when the tough decisions have to be made.”

On March 1-2, five teams consisting of 12 Academy members met with policymakers in 25 congressional offices, the White House, the Treasury Department, the Labor Department, the Government Accountability Office, the Congressional Budget Office, and the Congressional Research Service.

More than in previous years, the discussions with Hill staffers—especially those working for the Senate leadership—were limited to a few key issues, said Grady Catterall, a member of the Academy’s Health Practice Council. “They wanted to focus on what they felt could be accomplished during the current session.”

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NAIC Spring Meeting Activity

At the March 9-12 spring meeting of the National Association of Insurance Commissioners (NAIC) in New York, the Academy briefed regulators (and in some cases moved forward) on a number of current Academy projects.

Members of the NAIC’s Life and Health Actuarial Task Force (LHATF) heard an overview from the Academy’s Life Financial Soundness/Risk Management Committee on the activity in each Academy work group involved in the principles-based initiative (in which principles of risk management, asset adequacy analysis, and stochastic modeling, along with the actuary’s professional judgment, are used to set reserves and determine capital adequacy). Similarly, the Academy continued its efforts to update other NAIC groups on the

See NAIC, Page 5
Pay Dues Online

If you haven’t renewed your Academy membership, now’s the time to pay your 2007 dues to avoid a late fee and possible interruption of Academy publications.

You can use our fast, efficient online dues system 24/7. Just go to www.actuary.org/dues.asp and log in. If you have questions about your membership status or about paying dues, contact Rachel Rusch, the Academy’s assistant director for membership relations and administration, (rusch@actuary.org; 202-785-7871).

Web Interface Links to documents underlined in blue are included in the online version of this issue at www.actuary.org/update/index.asp.

April

4 Academy Council on Professionalism meeting, Washington
5 Academy Executive Committee meeting, Washington
10 Academy Social Insurance Committee meeting, Washington
11-12 Academy Social Insurance Committee Capitol Hill visits, Washington
13 Academy Life Reserves Work Group meeting, Chicago
13-14 North American Actuarial Council meeting, Mexico City
15-18 IAA meeting, Mexico City
16 CIA pension seminar, Toronto
16 Academy Disease Management Work Group meeting, Washington
16-18 SOA life insurance conference, Atlanta
18-20 SOA retirement industry conference, Atlanta
18-20 SOA investment actuary symposium, Philadelphia
22-23 IAA Roundtable on Mortality, Portland, Ore.
25 Academy webcast on principles-based reserves risk-based capital issues
30 FASB roundtable on valuation guidance, Norwalk, Conn.

May

3 ASPPA Great Lakes Benefit Conference, Chicago
4 Academy Life Reserves Work Group meeting, Chicago
5 Academy Pension Practice Council meeting, Philadelphia
6 Academy Pension Committee meeting, Philadelphia
7-8 CAS reinsurance seminar, Philadelphia
9 Academy seminar on principles-based reserves, Phoenix
10-11 SOA spring life meeting, Phoenix
13-17 Fourth annual International Health Colloquium, Cape Town, South Africa
14 Academy Life Capital Adequacy Subcommittee meeting, Chicago
21-23 IAA PBSS Section Colloquium, Helsinki, Finland
22 Council of U.S. Presidents meeting, Washington
22-23 Academy Board of Directors meeting, Washington
24-25 ASPPA Employee Benefits Conference, Washington
30-June 1 Employee benefits spring meeting (CCA, SOA), Tampa, Fla.

June

1-4 NAIC summer meeting, San Francisco
3-4 Academy/Health annual meeting, Boston
with after-tax dollars every time, assuming the investor's tax bracket doesn’t increase and the pre-tax rates of return are the same.”

Margaret Meister, chief financial officer and chief actuary with Symetra Life Insurance Co. in Bellevue, Wash., was the subject of a feature story about the actuarial profession that ran in the Feb. 25 Seattle Times. A sidebar article directed readers to the Academy’s website for more information on the profession.

Nancy Bennett, chairperson of the Academy’s Invested Asset Work Group and vice president, risk management, for Ameriprise Financial in Minneapolis, was quoted in web-edition National Underwriter articles on Feb. 16 and Feb. 20. In the articles, Bennett discussed work group efforts to better understand the concerns of interested parties, including the development of a questionnaire for insurers (see story, Page 4).

ON THE MOVE

Jim Murphy, chairperson of the Academy’s Consumer-Driven Health Plans Work Group and a member of the Academy’s Health Practice Council and its Medicare Steering Committee, has been promoted to senior vice president and chief actuary, with responsibilities for underwriting functions as well as the actuarial department, at American Community Mutual Insurance Co. in Livonia, Mich. Murphy, a former Academy vice president for health issues, was previously vice president and chief actuary at American Community Mutual.

Annette Goodreau has been promoted to senior vice president and chief actuary for HCC Insurance Holdings Inc. in Houston and will have responsibility for all actuarial activities of HCC and its subsidiaries. She was formerly senior vice president of the company’s U.S. property and casualty insurance company subsidiaries.

Conserving Retirement Resources

When they retire, many people are put in the position of having to manage the largest amount of money they will ever see at one time. Since that money has to see them through retirement, this is often the most important financial decision of their lives.

To provide guidance, the Woman’s Institute for a Secure Retirement (WISER) and the Actuarial Foundation have developed a new consumer guide, Don’t Run with Your Retirement Money: Understanding Your Resources and How Best to Use Them. Available free online, the guide lists resources for retirement income and discusses how to figure out how much money will be needed in retirement, dealing with lump-sum distributions, and the impact of drawing down assets during retirement. The guide also contains practical information on annuities, self-managed investing, and accounting for taxes.

To download a free copy of the booklet, go to www.actuarialfoundation.org/consumer/wiserlumpsumFinal.pdf.
Academy Work Group Analyzes Options for NAIC Rating the Risk in Hybrid Securities

It’s a question whose intricacies Solomon might have appreciated: How should hybrid securities be treated when calculating the risk-based capital (RBC) of investors?

Think about it. It’s an issue that has all the elements: a complicated asset that eludes easy analysis, political sensitivity, and most important of all, serious financial implications.

For that reason, the Academy’s Invested Asset Work Group is treading a fine line as it works, at the request of the National Association of Insurance Commissioners (NAIC), to develop a long-term mechanism for assessing the risk in this relatively new asset class.

According to a definition drafted by the Academy work group and approved by the NAIC at its winter national meeting in San Antonio in December, hybrid securities are “securities whose proceeds are accorded some degree of equity treatment to the issuer by one or more of the nationally recognized statistical rating organizations and/or which are recognized as regulatory capital by the issuer’s primary regulatory authority.”

“Put more simply, hybrid securities contain risk elements of debt securities and elements of equities,” said Nancy Bennett, chairperson of the Academy work group and vice president, risk management, for Ameriprise Financial in Minneapolis.

Questions about the treatment of RBC for hybrid securities first arose in March 2006, triggered by a request from the New York Insurance Department to the NAIC’s Securities Valuation Office (SVO). The SVO classified a particular hybrid security as common equity, resulting in a 30 percent RBC charge for that hybrid. The new classification promptly created major disruption in the hybrid market because of confusion about the amount of capital required for hybrid securities.

At its fall national meeting in St. Louis, the NAIC adopted a short-term solution that clarified the RBC treatment for hybrid securities. In the interim solution, the RBC is based on ratings from nationally recognized statistical ratings organizations, also known as ratings agencies, notched down to capture certain risks that the NAIC believes are not captured by the ratings agencies. While the NAICs interim solution was considered a vast improvement over treating hybrids as equity, the issue continues to be a sensitive one for insurers and Wall Street investment firms.

“The NAIC’s action last March significantly increased the capital requirements for investors in hybrid securities,” Bennett said, explaining that investors had previously treated hybrids as debt securities (with required capital that was consistent with other debt securities). “The entire hybrid market virtually shut down.” Congress’ interest was piqued, Bennett added, because of the disruption to capital markets.

At the same fall meeting, the NAIC asked Bennett's group to develop recommendations for a more comprehensive long-term approach that would be incorporated into RBC formulas for life insurance, health insurance, and P/C insurance (the NAIC wants hybrid RBC to be identical in all three RBC formulas).

It’s been a contentious task.

“This is a significant effort, and the Academy must deal with the concerns of both industry and regulators,” Bennett said. However, the Academy’s goal is clear: “We want to provide an independent, unbiased view of the risks of these hybrids and recommend an appropriate charge for capital. Our perspective is that of the investor, rather than the issuer of the hybrid,” Bennett said.

Disgruntlement surfaced early on, with industry representatives complaining that they...
were being excluded from work group conference calls and meetings.

“We’re taking a blank-sheet approach in reviewing the risk of hybrids. A lot of people simply want to go back to the way things were, and we’re getting a lot of pressure to include interested parties who aren’t Academy members in the Academy’s process,” Bennett said, defending her decision to limit work group discussions to Academy members. In the past two months, the Academy has invited and received substantial input from interested parties, Bennett said. As the Academy presents its recommendations to the NAIC, she added, there will be ample opportunity for industry and other interested parties to provide comment and input.

“The NAIC has vowed that its process would be open,” Bennett said. “The decision on hybrid RBC rests with the NAIC. The Academy will simply be making a recommendation to the NAIC based on our analysis of the risks of hybrid securities. The Academy has no vested interest in the outcome, except to ensure that the capital requirements appropriately reflect the risks of hybrid securities.”

At the NAIC’s spring meeting in New York last month (see story, Page 1), Bennett’s work group presented a verbal update on its efforts so far. Among other things, the work group has been studying the various types of hybrids and the risks each entails for the investor. The group is comparing the RBC treatment for hybrids with the RBC treatment for bonds, collateralized mortgage obligations, preferred stock, and other securities. Bennett is cautiously optimistic that her work group will have a preliminary report completed by the NAIC’s June summer meeting in San Francisco.

Even after this particular analysis is completed and passed along to the NAIC, the Academy’s work will continue to have legs as the findings are applied on a larger scale, Bennett said. “We’re viewing this project as a testing ground for extending the principles-based approach for capital requirements to the asset side,” she explained.

In another LHATF session, the Academy’s Life Reserves Work Group sought (and received) a re-exposure of the December draft model regulation and actuarial guidelines for principles-based valuation of life insurance products, now combined into one document. At the same session, members of the Academy’s Valuation Law and Manual Team presented LHATF with three possible alternative approaches to principles-based reserving for use by companies with small-risk products.

Members of the Academy’s Variable Annuity Reserves Work Group presented their recommended changes to a September 2006 exposure draft of actuarial guideline VACARVM (commissioners annuity reserve valuation method for variable annuities), but LHATF took no action. LHATF also heard progress reports on projects undertaken by various Academy groups, including the Economic Scenario Work Group, the Nonforfeiture Improvement Work Group, and the Joint Academy/SOA Preferred Mortality Project Oversight Group.

The Academy’s Invested Asset Work Group updated the NAIC’s Hybrid Risk-Based Capital (RBC) Working Group on its efforts to develop a long-term means for classifying RBC charges for hybrid securities (see story, Page 4). The NAIC working group is seeking to replace temporary rules that were passed at the committee level at the NAIC’s fall meeting and adopted by the NAIC’s executive committee at the winter meeting.

In the health arena, the Principles-Based Work Group of the Academy’s State Long-Term Care Work Group gave a progress report on principles-based reserving issues to the NAIC’s Accident and Health Working Group. The Academy was asked by the NAIC to participate in the drafting of a revision to the Actuarial Opinion Model Regulation and instructions to make them consistent with similar regulations for life and property/casualty insurance.

Finally, the Academy’s Workers’ Compensation Subcommittee submitted comments to the NAIC’s Casualty Actuarial Task Force on its proposed surveys of industry and state regulators regarding data collection on large-deductible coverage. The NAIC will use the survey results in deciding whether to create a standard reporting format on annual statements for large-deductible data.

To access all Academy reports to the NAIC, go to the Academy’s website, www.actuary.org.
Comment on IASB Paper on Insurance Contracts

The Academy’s new International Financial Reporting Standard Task Force is seeking volunteers to comment on the International Accounting Standards Board (IASB)’s discussion paper on accounting for insurance contracts. The paper was exposed for comment late last month. Actuaries involved in life, property/casualty, and health practices are needed to help prepare the Academy’s comments.

Since the Financial Accounting Standards Board (FASB) is expected to invite comments on the same document, task force volunteers will also be responsible for drafting a response to FASB. The IASB and FASB papers are the first steps in completely revising generally accepted accounting principles (GAAP) accounting for insurance liabilities.

Interested in volunteering? Contact Tina Getachew, the Academy’s Risk Management and Financial Reporting Policy Analyst (getachew@actuary.org).

Calculating Catastrophe RBC

In a Feb. 20 letter to the National Association of Insurance Commissioners (NAIC), the Academy’s P/C Risk-Based Capital (RBC) Committee offered its recommendations on a procedure for extracting catastrophic loss and premium components from the current method of calculating RBC. The letter also reports on catastrophic risk charges included in capital requirements in other nations and as calculated by rating agencies.

In its correspondence, the committee referred to the International Actuarial Association’s recent suggestion that incorporating catastrophe risk charges based on publicly available financial data wouldn’t be an appropriate method for reflecting catastrophe risk in RBC formulas. Instead, it is generally preferred that catastrophe charges be calculated considering:

- Exposure to catastrophes,
- Catastrophic reinsurance structure,
- Internal/external catastrophe risk models containing a verification process.

Currently, catastrophe risk is partly taken into account in the RBC formula in the premium charge (underwriting risk minus net written premiums). All the loss and expense ratios in the current formula consider catastrophe risks as far as they are incorporated in historical data reported in the company annual statement, as well as the consolidated data for the industry. This raises the risk of double-counting catastrophe exposure.

In general, the committee reported to the NAIC’s Capital Adequacy Task Force, other countries use a principles-based approach that allows the company actuary significant latitude in establishing reserves. Catastrophe risk isn’t explicitly included in any formula-based capital requirement but is reflected in implicit charges for catastrophes. Similarly, the letter states, the analysis done by rating agencies involves considerable individual judgment, an approach that can’t be easily utilized by regulators seeking unbiased results based on a fixed formula.
Regulating the Use of Genetic Information

RESPONDING TO RECENT INITIATIVES IN CONGRESS to regulate the use of genetic information in health insurance underwriting, the Academy sent letters in February to all members of the House and the Senate discussing actuarial aspects of the issue.

The letters specifically refer to H.R. 493 and S. 358, virtually identical bills under consideration in the House and in the Senate under the same title, Genetic Information Nondiscrimination Act of 2007. Reminding lawmakers that risk classification is key to the soundness of the voluntary individual medical insurance market, the Academy suggests that a ban on the use of any genetic information by insurers—particularly if the definition of genetic information is overly broad—could lead to adverse selection, which could ultimately raise the cost of insurance for everyone.

“The underwriting process in the individual medical expense market would be severely hampered if prohibited genetic tests were broadly defined to include information obtained from physical exams or routine laboratory testing,” the letters state.

The letters, signed by Academy Health Vice President John Schubert, also discuss whether a positive test result on a genetic test constitutes a pre-existing condition. Noting that the Health Insurance Portability and Accountability Act of 1996 specifies that genetic screening unrelated to a diagnosis may not be treated as a pre-existing condition, the letters suggest that a similar approach might be appropriate for individually purchased medical expense insurance.

HEALTH BRIEFS

- The Academy’s Health Practice Council has two new groups in search of a few good volunteers. The State Mandated Coverage Task Force, chaired by James Oatman, senior vice president for Assurant Health in Milwaukee, has been created in response to an increase in state legislation mandating health coverage. The Health Principles-Based Work Group, chaired by Shari Westerfield, actuary, financial regulatory services, for Blue Cross Blue Shield Association in Chicago, will be tackling issues that affect health, beyond long-term care, as the principles-based approach continues to progress through the National Association of Insurance Commissioners. If you are interested in joining one of these groups, contact Geralyn Trujillo, the Academy’s state health policy analyst (Trujillo@actuary.org; 202-223-8196).
- Grady Catterall, senior staff actuary for Kaiser Permanente in Rockville, Md., has joined the Academy’s Federal Health Committee and its Uninsured Work Group.
- Zenaida Samaniego, chief actuary for the U.S. Department of Labor in Washington, has joined the Academy’s State-Mandated Coverage Task Force.
- Scott Allen, senior actuary for Coventry Health Care in Atlanta, has joined the Academy’s Small-Group Market Task Force.

HILL VISITS, continued from Page 1

Catterall said. “The emphasis was on what was doable this year, rather than on what they thought would be nice to do at some point in the future.”

“With the change in the majority on the Hill, particularly with a Republican president, it was clear that different directions were being set,” agreed Schubert. “There may be a lot of action this year but not a lot of progress.”

With that said, there were no major surprises as to the main topics of discussion. These included reauthorization of the State Children’s Health Insurance Program (which is jointly financed by the federal government and state governments and administered by the states), Medicaid, long-term care, individual market issues, mental health parity, health care information technology, issues related to Medicare Part D, and genetic nondiscrimination.

What was a little surprising (and very gratifying), Schubert said, was the quality of the discussions. “This year, the dialogues seemed to have more substance,” Schubert said. “I think there was a trust factor at work there, built up over the years—they trust us to give them an honest opinion.”

“All the people we met with knew of the Academy, so we didn’t have to spend time explaining who we were or what we do,” agreed Murphy-Barron.

For instance, Academy volunteers received a specific request for alternative language for genetic testing legislation, based on a letter the Academy sent out several weeks before the Hill visits to all members of the House and Senate discussing actuarial aspects of the issue (see story, above).

Academy volunteers were also able to point to projects already in the pipeline on the cost exemption provision in proposed mental health parity legislation, on individual market issues, and on Medicare financing options.

In addition to Catterall, Murphy-Barron, and Schubert, other health actuaries who participated in the visits were Mike Abroe, Patrick Collins, Darrell Knapp, Karl Madrecki, Mark McGuire, Jim Murphy, Jeff Petertil, Geoff Sandler, David Shea, and Cori Uccello.
ASB Moves Toward a Paperless System

At its Feb. 21-23 meeting, the Actuarial Standards Board (ASB) took action on several items of note.

In an effort to streamline the process of getting information to the actuarial profession, the ASB decided to distribute documents through its website, www.actuarialstandardsboard.com, mailing paper copies only on request. This will ensure that actuaries have access to Actuarial Standards of Practice (ASOPs), exposure drafts, and other documents in a more timely fashion. Individuals who don’t have Internet access may request copies of documents by contacting Doreen Evans, the ASB’s editorial and administrative assistant (202-223-8196; evans@actuary.org).

All signed comments received on exposure drafts have always been available for review in paper form upon request to the ASB. As part of its move toward a paperless system, the ASB decided that it will now post these comments on the website as well. The guidelines for accepting comments remain as before: Comments for which the author cannot be determined won’t be considered by the ASB nor posted on the website, and comments won’t be edited, amended, or truncated in any way. Comments will be posted on the website in the order they are received. They will be removed when another exposure draft is issued or when final action on a proposed standard is taken. The ASB’s website is a public website, and all comments will be available to the general public.

At the same meeting, the ASB approved a second exposure of the proposed ASOP Property/Casualty Unpaid Claim Estimates. The comment deadline is May 1. To download a copy, go to www.actuarialstandardsboard.com/exposure.htm.

The ASB also approved a revision of ASOP No. 24, Compliance with the NAIC Life Insurance Illustrations Model Regulation. The revised document will take effect for any work performed on or after June 30. Until that time, the old version will be in force. To download either version, go to www.actuarialstandardsboard.com/asops.htm.

For more ASB news and information, check out the March issue of Boxscore, which is enclosed with this issue of the Update. It’s also available online on the ASB website.

New Members Join ASB


Beer is a visiting professor of insurance and actuarial practice at the School of Risk Management, Insurance, and Actuarial Science at St. John’s University in New York. A former president of the Casualty Actuarial Society and a former member of the Academy’s board of directors, Beer now serves on the board of the Actuarial Foundation.

Kass began his actuarial career with Mutual of New York in New York before moving to a Cleveland-based employee-benefit consulting firm. He later established and managed his own consulting firm, designing pension plans and multiemployer plans for a wide range of clients. He has served on the Academy’s Pension Committee and its Pension Accounting Committee, and was elected to the Society of Actuaries (SOA) Pension Section Council in 2006.

Meilander is currently vice president and corporate actuary with Northwestern Mutual in Milwaukee, where he is responsible for valuation, modeling, and risk management activities. He led the SOA task force that developed the Commissioners’ Individual Disability Table and served as chairperson of the ASB’s Life Operating Committee.

Departing from the ASB, with its thanks, are Robert Miccolis, Lew Nathan, and William Reimert.