

2009 NAIC Summer National Meeting

# LHATF Adopts Revised Model Standard Valuation Law

Health Actuarial Opinion Changes Near Approval

**T**HE LIFE AND HEALTH ACTUARIAL TASK FORCE (LHATF) of the National Association of Insurance Commissioners (NAIC) adopted a revised model standard valuation law at the NAIC summer national meeting June 11 in Minneapolis. The model law would set the foundation for the implementation of principle-based reserving for life and health insurance throughout the states.

In addition to contributions from regulatory and industry work groups, Academy committees and work groups have been working on revisions to the model law over the past five years and have submitted numerous proposals, recommendations and amendments to vari-

ous NAIC subgroups. Academy volunteer groups are also actively involved in the development of the accompanying valuation manual, which is designed to guide implementation of principle-based reserves. In its adoption of the model law, LHATF also recommended that both items be adopted together by the NAIC.

In the past year, LHATF has worked through issues such as the inclusion of a minimum reserve basis, the confidentiality of the required experience data and actuarial memorandum, and the principles defining a principle-based reserve. As recently as the spring NAIC meeting in March, there was discussion of the model law's definitions

SEE NAIC MEETING, PAGE 6

# TRACE Unveiled to Entire Profession

**F**OLLOWING THE INITIAL ROLLOUT OF TRACE to Academy members, the Academy has made the online continuing education (CE) credit tracking tool available to the entire U.S. actuarial profession. As of June 30, non-Academy member actuaries have full access to the easy-to-use service that meets the entire profession's need for a quick, convenient and secure self-reporting system.

Non-Academy members can access the online record-keeping tool by going to [www.MyTRACE.org](http://www.MyTRACE.org), assigning themselves a user name and a password, and logging right in. Academy members should still access TRACE through their member [log-in](#) page on the Academy website.

The online CE tracking tool incorporates pull-down menus that are pre-stocked with information on events that offer CE credit (including credit for enrolled actuaries). Since it was created with the entire profession's U.S. Qualification Standards in mind, in addition to listing Academy CE events, TRACE will include information that is submitted to the Academy regarding CE events sponsored by any of the other U.S.-based actuarial organizations. At the same time, the program gives actuaries the ability to manually enter other non-association organized activities. All actuaries should keep in mind that data accuracy is still the responsibility of the actuary. ▲

TRACE  
*tracking your CE*



2

**Save the Date**

Academy annual meeting planned

2

**Academy Adds CFO**

Accounting, membership departments undergo integration

4

**VACARVM Implementation**

Academy/SOA partner in education effort

5

**COPLFR Comments**

ASOP No. 36 revisions evaluated



## JULY

- 8 Audiocast on the ABCD and the disciplinary process (Academy, CCA)
- 9-12 NCOIL summer meeting, Philadelphia
- 23 Council of U.S. Presidents meeting, Charlottetown, Prince Edward Island, Canada
- 23-26 NAAC meeting, Charlottetown, Prince Edward Island, Canada

## AUGUST

- 5 Academy Executive Committee meeting, Minneapolis

## SEPTEMBER

- 14-15 Casualty Loss Reserve Seminar (Academy, CAS, CCA), Chicago
- 21-22 ASB Meeting, Washington
- 21-24 NAIC fall meeting, Washington
- 23 Seminar on principle-based capital (Academy, SOA), Anaheim, Calif.

## OCTOBER

- 15 Council of U.S. Presidents meeting, Colorado Springs, Colo.
- 16-17 NAAC meeting, Colorado Springs, Colo.
- 19 Joint orientation meeting, Denver
- 20 Academy Board of Directors meeting, Denver
- 25-29 SOA annual meeting, Boston
- 26 Academy annual meeting, Boston

## NOVEMBER

- 1-4 ASPPA annual conference, National Harbor, Md.
- 1-4 CCA annual meeting, Tucson, Ariz.
- 9-12 Life and Health Qualifications Seminar (Academy, SOA), Arlington, Va.
- 12-15 IAA meeting, Hyderabad, India
- 15-18 CAS annual meeting, Boston
- 19-23 NCOIL annual meeting, New Orleans

## DECEMBER

- 2 Academy P/C Loss Reserve Opinion Seminar, Baltimore
- 2-3 ASB meeting, Washington
- 5-8 NAIC winter meeting, San Francisco
- 8 Academy Executive Committee meeting, Washington
- 9 Qualification Standards audiocast (Academy, CCA)

# Academy NEWS Briefs

## Help Ring in New Academy Year

**T**HE ACADEMY WILL HOST ITS ANNUAL MEETING and luncheon Monday, Oct. 26 in Boston. In conjunction with the Society of Actuaries annual meeting, the Academy's meeting and luncheon is open to all Academy members.

During the luncheon, new volunteers will be elected to the Academy's Board of Directors, including Bruce Schobel, who will be installed as the new Academy president. The Academy will also present its annual awards: the 2009 Jarvis Farley Service Award and the 2009 Robert J. Myers Public Service Award. The luncheon will be headlined by keynote speaker Doris Kearns Goodwin, a world-renowned historian and Pulitzer Prize-winning author. She is most known for her decades of reporting on politics and baseball.

You can register for the luncheon through the SOA website at [www.soaannualmeeting.org/registration.aspx](http://www.soaannualmeeting.org/registration.aspx). Academy members wishing to attend only the Academy meeting may purchase tickets for \$55 per person.



Doris Kearns Goodwin

## Academy Adds CFO

**T**HE ACADEMY WELCOMED Steven Knell in June as its first chief financial officer. This new position was created by the Academy Board of Directors to direct and manage the implementation of more efficient accounting processes integrated with the Academy's membership needs.

Knell organized and managed a similar transition as the vice president and chief financial officer for the Armed Forces Communications and Electronics Association (AFCEA), a 35,000-member organization based in Fairfax, Va., where he has worked the past five years. While with AFCEA, he also managed a \$24 million operating budget for the 56-employee association staff. Knell has

worked in association and nonprofit finance since receiving his master's degree in accountancy from George Washington University in 1990.

Knell brings a broad industry outlook with over a decade of experience managing employee benefit plans and preparing a variety of financial reports—while reporting to a board of directors in an organizational structure similar to that of the Academy. A member of the American Institute of Certified Public Accountants, he is the first CPA employed by the Academy. He is also an avid outdoorsman.

"I am delighted that Steve is on board," said Academy President John Parks, "and I look forward to what I know will be his many contributions to the Academy and its members."

## Life and Health Qualifications Seminar

Nov. 9-12, 2008, Arlington, Va.

The Life and Health Qualifications Seminar provides state- and country-specific basic education that may not have been provided as part of the Society of Actuaries examination process or acquired through subsequent testing or alternative education. It can also serve as a basic education refresher or as a source of continuing education for more experienced actuaries.

For more information or to register, visit [www.actuary.org/seminar/](http://www.actuary.org/seminar/).

Links to documents underlined in blue are included in the online version of this issue at [www.actuary.org/update/index.asp](http://www.actuary.org/update/index.asp)

## IAA ROUNDUP

The International Actuarial Association (IAA) met May 27-30 in Tallinn, Estonia, to discuss the IAA council and committee work. The IAA's Actuarial Standards Subcommittee discussed whether to recommend that the IAA Professionalism Committee upgrade International Actuarial Standard No. 2 (IAS 2) to a model international actuarial standard of practice under the due process structure. However IAS 2 will not be up for an IAA vote until after the release of the international accounting standard on insurance contracts (Phase II), which is expected to occur in 2010. The subcommittee also reviewed the progress of a stochastic modeling monograph, providing comments to the author in late June while eyeing a final release date in mid-September.

## IN THE NEWS

Academy spokespersons were busy in May offering reporters actuarial perspectives on the 2009 Social Security and Medicare trustees' reports in the days surrounding their release. Academy Senior Health Fellow **Cori Uccello** contributed to two CNNMoney.com reports on May 11 and 12. She

said that the burden of fixing Medicare will likely need to be shared by taxpayers, health care providers and Medicare beneficiaries alike.

Uccello also [appeared](#) live on FOX Business on May 12 with host Stuart Varney to discuss the financial challenges facing the nation's retirement programs. She said that "about 3 percent of the whole economy is devoted toward Medicare spending"—including one in every six federal revenue dollars—a figure that could nearly triple by 2050 and dramatically increase the strain on the federal budget and the economy.

Both the CNNMoney.com reports and the FOX Business segment referenced the Academy's advocacy [statement](#) in support of increasing Social Security's retirement age, a common focus of interviews with Academy President-elect **Bruce Schobel**. His comments on the retirement age and the facts supporting the Academy's advocacy statement were the subject of a May 14 *National Underwriter Life & Health* Web article that became the site's most-read article that week.

Schobel also discussed raising the retirement age in a May 31 *Dallas Morning News* cover story, calling it a demographic

solution to a demographic problem. He also said that acting now would be in everyone's best interest because delaying action only limits the available options.

Schobel also contributed to online articles by *U.S. News & World Report* on May 13 and CBS MoneyWatch on May 15. Among other observations, Schobel noted that it is unlikely that restoring Social Security's financial soundness would result in expanded benefits. It's more likely that benefits would be cut, and as a result, he said, future generations may need to rely more on personal savings and employer-provided retirement plans.

Academy Senior Pension Fellow **Frank Todisco** addressed various retirement planning issues in May. Todisco was quoted in the May issue of the *Kiplinger's Retirement Report* on the benefits of immediate fixed annuities. Comparing them to defined benefit pension plans, he said that an immediate annuity protects against the risk of living longer than your retirement funds would otherwise provide for.

Todisco was also the featured guest during the May 20 Elder Law Radio podcast on Social Security. Todisco chatted with host Harry Margolis about

what consumers should know about Social Security when planning for retirement. He told Margolis that Social Security is particularly important for women because statistics show that they are more likely to face the prospect of living alone during old age. The program is run by ElderLawAnswers, an online organization dedicated to providing seniors, their families and attorneys with information about crucial legal issues.

Academy Property and Casualty Extreme Events Committee Co-chairperson **Shawna Ackerman**, a principal and consulting actuary in Pinnacle Actuarial Resources' San Francisco office, contributed to a May 30 Associated Press (AP) report on the availability and affordability of insurance coverage in at-risk areas as the 2009 hurricane season begins. Although many insurers are continuing a trend of limiting exposure in coastal areas, a process that began in 1992 after Hurricane Andrew, Ackerman said that she was unaware of any mass nonrenewals or changes to existing policies that are being initiated in 2009. The AP report was published online by nearly 700 news organizations and ran in more than 100 newspapers nationwide, including over a dozen top-100 newspapers by circulation.

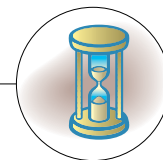
To find out about other actuaries in the news or for external links, visit the Academy's newsroom, <http://actuary.org/newsroom/news.asp>.

## SPEAKERS BUREAU

The Academy Council on Professionalism's **Tom Bakos**, a consulting actuary in Ridgway, Colo., discussed the Code of Professional Conduct during the Society of Actuaries Life Spring Meeting in Denver on May 18. ▲

## HEALTH BRIEFS

- **Mark Wernicke**, vice president for Humana Inc. in Green Bay, Wis., has joined the Academy's Small-Group Task Force and the Academy's Federal Health Committee.
- **Kevin Russell**, principal for Mercer in Phoenix, is the chairperson for the newly formed Academy Health Care Receivable Factors Work Group. Other Academy members forming that group are **Rowen Bell**, forecasting actuary for Health Care Service Corp. in Chicago; **Donna Novak**, president and CEO for NovaRest Inc. in Sahuarita, Ariz.; **Norman Zwitter**, valuation actuary for Blue Cross Blue Shield of Tennessee in Chattanooga; **Peter Howard**, director for Kaiser Permanente in Arcadia, Calif.; **Robert Jordan**, chief actuary for Neighborhood Health Plan in Boston; **Roy Strewchuk**, vice president and chief actuary for Blue Cross Blue Shield of Texas in Richardson, Texas; **Jin-Feng Lin**, director for PricewaterhouseCoopers in Chicago; and **Susan Mateja**, corporate actuarial director for senior products for Humana Inc. in Louisville, Ky.
- **Eric Smithback**, consulting actuary for Milliman in Chicago, has been appointed as the new chairperson of the Academy's Stop Loss Work Group. **Michael Frank**, president of Aquarius Capital in Port Chester, N.Y., and **Jack Oldenburg**, an actuary with Symetra Life Insurance Co. in Bellevue, Wash., have also joined the work group.



## Academy, SOA Explain VACARVM

**T**HE ACADEMY AND THE SOCIETY OF ACTUARIES teamed up in May to prepare actuaries for compliance with Actuarial Guideline (AG) No. 43 (commonly referred to as VACARVM), the principle-based reserving valuation guide for variable annuity products that was adopted by the National Association of Insurance Commissioners (NAIC) last September. The guideline becomes effective Dec. 31, 2009.

Moderated by Todd Erkis, chairperson of the Academy's Life PBA Practice Note Work Group, the Academy and the SOA hosted a two-day educational seminar in Denver May 19-20 that covered a variety of topics of interest to actuaries implementing AG 43.

Tom Campbell, vice president of the Academy's Life Practice Council, began with an overview of the details of the new guideline. Jim Lamson, chairperson of the Academy's Annuity Reserves Work Group, discussed detailed implementation issues, including methodology and the standard scenario calculation. Lamson reviewed the process to calculate risk-based capital and reserves on policies that were in effect prior to the valuation date. He noted the importance of performing stochastic projections and the reserve and total-asset-requirement calculations as soon as possible after the valuation date.

The progress of a draft practice note on C3 Phase II and AG 43 was presented by Tim Gaule and Marc Slutzky, co-chairpersons of the Academy's Variable Annuity Practice Note Work Group. The [practice note](#), which was released in July, updates a 2006 practice note on C3 Phase II and provides information on how actuaries could (or currently do) comply with AG 43. Larry Bruning, chairperson of the NAIC's Life and Health Actuarial Task Force, and Mike Dubois, a member of the Academy's Annuity Reserves Work Group, also discussed lessons learned from C3 Phase II, which has been in place since 2005. The speakers acknowledged that C3 Phase II's risk-based capital calculations require significant resources—an issue likely to be shared with variable annuity reserving calculations after AG 43.

Campbell and Sheldon Summers, chairperson of the Academy's Reinsurance Work Group, talked about incorporating reinsurance into VACARVM calculations—reviewing the current treatment of reinsurance, proposals for treatment under principle-based reserving, and reinsurance provisions in the draft valuation manual being developed by the NAIC. Other topics addressed at the seminar included hedging issues and ways to model hedging in VACARVM calculations, as well as generating economic scenario sets and other modeling issues.

The seminar ended with a presentation by Erkis, who reviewed the results of an informal survey conducted during the seminar covering actuaries' expectations and preparedness in getting ready for the implementation of AG 43. Results of the



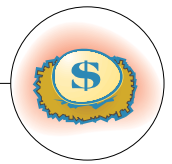
Academy member Jim Lamson presents during the Academy/SOA seminar on VACARVM.

survey showed that the majority of attendees have started preparing for AG 43 and plan to be ready by the end of the third quarter of 2009. Most attendees' employers were planning to use either a modeling system for both standard scenario and stochastic calculations or a valuation system for the standard scenario and a modeling system for stochastic calculations. A large majority of those surveyed planned to run the scenarios published by the Academy's Life Capital Adequacy Subcommittee, which are available on the [website](#).

The Academy and the SOA offered the information a second time in a webcast on June 23. Slutzky and Gaule again presented details of the draft practice note on C3 Phase II and AG 43. Erkis also presented the results of the survey conducted during the seminar in Denver. Handouts from the original seminar and the survey results are available on the SOA [website](#).

—DIANNA PELL





## IRS Asks for Input on Future Priorities

### IT'S NEVER TOO EARLY TO PLAN FOR THE FUTURE.

In the spirit of that sound retirement advice, the Academy's Pension Committee provided input on proposed Internal Revenue Service (IRS) priorities for the coming fiscal year. In a June 3 letter to the IRS, the committee outlined a list of key issues that it would like to see the agency address in the next year.

The letter was sent in response to the IRS invitation for public comment on the topics it identified as possible subjects for guidance during the July 1, 2009, to June 30, 2010, fiscal year. General topics included funding relief, multiemployer plan rules, hybrid plan rules, nondiscrimination testing and benefit restrictions. The Pension Committee also stressed that it is crucial that the IRS provide proposed guidance early, so comments can be made and final guidance issued on a timely basis.

The need for guidance on adjusted funding target attainment percentage certifications following the passage of the Worker, Retiree

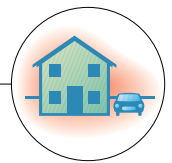
and Employer Recovery Act of 2008 (WRERA) last December was highlighted by the Pension Committee as particularly urgent. The mechanics of credit balances, which expenses must be included in the target normal cost, changes in funding methods, and prescribed assumptions were also identified as key items related to funding relief that need guidance.

To see the entire list of priority items identified by the Pension Committee, read the committee's [letter](#) on the Academy website.

—JESSICA THOMAS

### PENSION BRIEFS

➔ **Robert Mishler**, senior manager for KPMG in New York, has joined the Academy's Pension Accounting Committee.



## COPLFR Comments on ASOP Revisions

**THE ACADEMY'S COMMITTEE ON PROPERTY AND LIABILITY FINANCIAL REPORTING** submitted public comments in June to the Actuarial Standards Board (ASB) pointing out a potential conflict with a proposed revision to Actuarial Standard of Practice (ASOP) No. 36, *Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves*.

The Academy committee offered general praise for the revised ASOP draft, which was released for comment in March, indicating that the changes reflect "an improvement over the current version's flow, clarity and content." Specifically, it affirmed ASB revisions that clarified the original intended scope of the ASOP in light of changes in the revised Qualification Standards that broadened the use of "actuarial opinion" to include some opinions to which the ASOP wouldn't apply.

The most significant concern raised by the committee surrounded the intended measure of reserves in proposed Section 3.4a. As the committee understood the revisions, the intent of the guidance is to have the actuary state the measure used to determine the carried reserves. Opinions relating to the ASOP, the letter explains, must follow National Association of Insurance Commissioners (NAIC) guidance that requires company management to determine and record its best estimate of its reserves. However, the committee was concerned that citing the "management's best estimate" as the intended measure would be at odds with ASOP No. 43, *Property/Casualty Unpaid Claim Estimates*, which doesn't consider "best esti-

mate" to be a sufficient identification of the intended measure.

The letter also said it was unclear if the actuary should rely on the representation of the principal. "Or would the actuary be expected to review the support for the recorded reserves and form a judgment as to the intended measure?" the committee asked.

The committee also recommended that the effective date of the final ASOP be no sooner than for 2010 year-end reporting. ▲

### CASUALTY BRIEFS

➔ **Robert Miccolis**, director for Deloitte Consulting in Philadelphia, has been named the chairperson for the Academy's recently formed Task Force on Credit Crisis. Other Academy members forming the task force are **Robert Eramo**, president of Risk Assessment and Strategies in New York; **John Gibson**, principal for PriceWaterhouseCoopers in New York; **Athula Alwis**, an actuary with Freedom Specialty, a Nationwide Co., in New York; **Michael Schmitz**, a consulting actuary with Milliman in Brookfield, Wis.; **Paul Struzziari**, a consulting actuary with Milliman in Garden City, N.Y.; **Donald Mango**, chief actuary for Guy Carpenter and Co. in Morristown, N.J.; **David Ruhm**, chief actuary for the First American Corp. in Santa Ana, Calif.; **Thomas Struppeck**, president of Longhorn Analytics in Austin, Texas; and **Oakley Van Slyke**, an actuary in San Clemente, Calif.

## Actuarial Update

### ASSOCIATE EDITORS

William Carroll  
Patrick Collins  
Andrew Erman  
Rade Musulin  
Geoffrey Sandler  
Donald Segal

### EDITOR

Tim Dougherty  
([editor@actuary.org](mailto:editor@actuary.org))

### DESIGN AND PRODUCTION

Bono/Tom Studio Inc.

### MARKETING AND PUBLICATION

#### PRODUCTION MANAGER

Cindy Johns

## American Academy of Actuaries

### PRESIDENT

John Parks

### PRESIDENT-ELECT

Bruce Schobel

### SECRETARY-TREASURER

Andrea Sweeney

### VICE PRESIDENTS

Al Bingham  
Thomas Campbell  
Gary Josephson  
James Rech  
Kathleen Riley  
Thomas Terry

### INTERIM EXECUTIVE DIRECTOR

Mary Downs

### DIRECTOR OF

#### COMMUNICATIONS

Steven Sullivan

### ASSISTANT DIRECTOR FOR

#### PUBLICATIONS

Linda Mallon

### EXECUTIVE OFFICE

The American Academy of  
Actuaries  
1850 M Street NW  
Suite 300  
Washington, DC 20036  
Phone 202-223-8196  
Fax 202-872-1948  
[www.actuary.org](http://www.actuary.org)

Statements of fact and opinion in this publication, including editorials and letters to the editor, are made on the responsibility of the authors alone and do not necessarily imply or represent the position of the American Academy of Actuaries, the editors, or the members of the Academy.

©2009 The American Academy of Actuaries. All rights reserved.

## NAIC Meeting, continued from page 1

of life insurance, accident and health insurance, and deposit-type insurance. These issues were resolved in time for the summer meeting.

The model law will now go to the Life Insurance and Annuities Committee of the NAIC. The committee may wait until LHATF further develops the valuation manual before adopting the revised model law, so that both items can be moved as one package for eventual adoption by the states.

Already nearing NAIC adoption are revised instructions for the health annual statement actuarial opinion after they were approved by the NAIC's Blanks Working Group in Minneapolis. The instructions would require a qualified health actuary to be appointed by a board of directors, prescribe language for each section (any deviation from which to be indicated in a "check box" section), and call for a supporting actuarial memorandum to accompany a health actuarial opinion.

The NAIC is expected to adopt the revised instructions at the fall national meeting in September to become effective for the Dec. 31, 2009, annual statement filing. The Academy's Committee on State Health Issues is preparing an educational document to explain the changes to the new instructions and to provide guidance on how to comply with them. The Academy will also include discussion of these changes at its Life and Health Qualifications [Seminar](#) Nov. 9-12 in Arlington, Va. Other sources of information include educational sessions from the Society of Actuaries at the Health Valuation [Boot Camp](#) Aug. 12-13 in Seattle and the 2009 Valuation Actuary [Symposium](#) Sept. 23-24 in Anaheim, Calif.

## Life Notes

- ➔ Academy members presented a number of [reports](#) on behalf of Academy committees and work groups at the LHATF meeting, including materials on developing the 2008 commissioners' standard ordinary mortality table, setting prescribed default costs on existing fixed-income investments in Section 20 of the valuation manual, valuing interest rates applicable to guaranteed lifetime income benefits for fixed deferred annuities, the implementation of economic scenario generators, and an update on nonforfeiture improvement.
- ➔ The NAIC's PBR Working Group took comments from the Academy's Life Governance Team, among other parties, on an exposure draft of corporate governance requirements for

inclusion in the valuation manual and exposed a new draft of the requirements.

- ➔ Barbara Lautzenheiser presented the Academy Annuity Illustrations Work Group's comments on an American Council of Life Insurers draft proposal for annuity illustration guidelines to the NAIC's Annuity Disclosure Working Group. The Academy work group generally agreed with the ACLI's proposal but suggested some additional requirements and revisions to clarify the text. ▲

## LIFE BRIEFS

- ➔ **Nick Pasyanos**, vice president and actuary for New York Life Insurance Co. in Sleepy Hollow, N.Y., has joined the Academy's Life Reserves Work Group.
- ➔ **Elizabeth Rogalin**, senior manager for KPMG in New York, has joined the Academy's Life Financial Reporting Committee.

## Qualification Standards

*Have the examinations required to satisfy the Basic Education Requirement of the General Qualification Standard been changed?*

The revised Qualification Standards no longer require an actuary to meet certain examinations but rather to obtain membership in an actuarial organization and to meet certain other criteria, as described below:

- Be a member of the Academy, a fellow or associate of the SOA or the CAS, a fellow of the CCA, a member or fellow of ASPPA, or a fully qualified member of another IAA-member organization;
- Have three years of responsible actuarial experience, which is defined as work that requires knowledge and skill in solving actuarial problems; and
- Be knowledgeable, through examination or documented professional development, of the [law](#) (as defined in the Code of Professional Conduct) applicable to the statement of actuarial opinion.

There are [additional experience requirements](#) for actuaries who issue statements of actuarial opinion in an area covered by a specialty track offered by the SOA or in an area of practice covered by the exams of the CAS or ASPPA.