

Increasing Retirement Age Key to Reform

INCREASING THE RETIREMENT AGE should be at the top of the list of Social Security reforms, Tom Terry, chairperson of the Academy's Public Interest Committee, testified at a July 8 congressional hearing on Social Security's current and future benefit expenditures.

Social Security's retirement age hasn't kept pace with longevity improvements, Terry said in his statement to the House Committee on Ways and Means Subcommittee on Social Security. When the program began in 1937, benefits were based on the assumption that workers who survived to age 65 could expect to live for 12 years, he explained. "That assumption deserves reevaluation," he said, noting that life expectancy today for a 65-year-old is about 18 years, which is approximately 50 percent longer than it was when Social Security first was implemented.

Terry testified that the Academy believes that an increase in the retirement age is a necessary change to help address Social Security's long-term financial challenges. According to the 2011 Social Security Trustees Report, the trust fund will be depleted by 2036. Terry said that the Academy believes that there is a need to address these issues immediately to close Social Security's long-range deficit and put the program on a path toward sustainable solvency.

The actuarial profession's recommendation was echoed by other experts who testified that day.



Texas GOP Rep. Sam Johnson (left), chairman of the House Committee on Ways and Means Subcommittee on Social Security, greets Tom Terry before the hearing.

SEE **SOCIAL SECURITY**, PAGE 5

Online Voting Begins Aug. 3

THE ACADEMY ELECTION for three open regular director positions on the board of directors and two bylaws amendments will open on Aug. 3 and close Sept. 2. Voting will be conducted online through a secure, third-party elections website.

Standing for election to full, three-year terms (Class of 2014) on the Academy board of directors are:

- ➔ **Mary Bahna-Nolan**, a director in the actuarial and insurance management solutions life practice in Price-waterhouseCoopers' Chicago office.
- ➔ **Ken Kent**, a consulting actuary in Cheiron's McLean, Va., office, where he specializes in public-employer and multiemployer plans.
- ➔ **Catherine Murphy-Barron**, a consulting actuary in the New York office of Milliman Inc., where she focuses primarily on health insurance and managed care consulting.

Also on the ballot will be two bylaws amendments—one approving on behalf of the Academy membership the proposed professionwide changes to the discipline process

and another that shortens what is in effect a four-year term of the presidential office by one year as a result of removing the position of penultimate past president from the Academy board of directors.

More information on the candidates and the bylaws amendments, as well as details on the nominations and elections procedures, can be found online at the Academy Election Center: <http://www.actuary.org/electioncenter/>.

Academy members of record as of July 14 will receive an email from Survey & Ballot Systems containing online voting instructions. To ensure the message is not caught in a spam filter, members should add the email address AmericanAcademyofActuaries@direct.net to their "safe sender" or email "white list." Members who have opted out of receiving Academy emails will receive election material through the mail and will be able to vote online or by mail.

The Academy's Nominating Committee also has presented a slate of candidates for vice presidents and the presidential officers to the board, which directly elects

SEE **ELECTION NEWS**, PAGE 5

2

Profession's Responsibility to the Public

Professionalism webinar draws a large audience

3

Save the Date

Nate Silver to speak at Academy's annual meeting

6

Weathering the Storm

Capitol Hill briefing looks at flood insurance

7

Summer Summit

Leaders apply ERM to Academy work



JULY

- 11 Summer Summit, Washington (Academy)
- 12 Capitol Hill briefing: Weathering the Storm—Putting the National Flood Insurance Program on Actuarial Solid Ground, Washington (Academy)
- 13 ASOP No. 41, Actuarial Communications, audiocast (Academy, CIA, CCA)
- 14–17 NCOIL summer meeting, Newport, R.I.
- 20 IAS 19—Changes to Pension Accounting Under IFRS webinar (Academy, SOA)
- 29 Casualty Actuaries of Europe summer meeting, London

AUGUST

- 4 Capitol Hill briefing: Important New Research Findings Indicate a “Wall” of Contributions Facing Defined Benefit Pensions, Washington (Academy, SOA)
- 5–6 International Association of Black Actuaries meeting, Boston
- 11 Academy Executive Committee meeting, Washington
- 11–13 46th Actuarial Research Conference, Storrs, Conn. (SOA)
- 29–Sept. 1 NAIC summer meeting, Philadelphia

SEPTEMBER

- 14–15 Actuarial Standards Board meeting, Washington
- 15 CUSP meeting, Chihuahua, Mexico
- 16–17 NAAC meeting, Chihuahua, Mexico
- 21 Professionalism webinar: Code of Professional Conduct (Academy, ASPPA, CAS, CCA, SOA)
- 29–Oct. 2 IAA meeting, Zagreb, Croatia

OCTOBER

- 16–19 SOA annual meeting, Chicago
- 23–26 CCA annual meeting, Las Vegas
- 24 Academy annual meeting, Las Vegas
- 28 Board of Directors meeting, Washington

NOVEMBER

- 3–6 NAIC fall meeting, Washington
- 6–9 CAS annual meeting, Chicago

To continue receiving the *Update* and other Academy publications on time, remember to make sure the Academy has your correct contact information. Academy members can update their member profile at the member log-in page on the Academy [website](http://www.actuary.org).

Academy NEWS Briefs

Webinar Examines Profession’s Responsibility to the Public

THE ACADEMY’S COUNCIL ON PROFESSIONALISM hosted a webinar June 29 to examine the actuarial profession’s responsibility to the public, as set forth in the Code of Professional Conduct. The Code of Professional Conduct, which was adopted by the five U.S.-based actuarial organizations in January 2001, contains 14 precepts that set the standard of professional conduct for all actuaries, explained presenters Ken Kent, chairperson of the Joint Committee on the Code of Professional Conduct, and Karen F. Terry, chairperson of the Committee on Professional Responsibility.



“Precept 1 is the keystone of the code,” said Kent. “It is the only place where the public is mentioned, yet it is a critical component of all we do.”

On the surface, the precept seems relatively simple, Terry said, but the phrase in the middle—“to fulfill the profession’s responsibility to the public”—raises a number of questions:

- What is the source of the profession’s responsibility to the public?
- What is a profession?
- Who is the “public”?
- What is the profession’s responsibility?
- How do we fulfill it and remain relevant?

The presenters offered their perspective on these questions and how they relate to an actuary’s day-to-day activities.

“If you leave today’s discussion with more questions than you started, we’ve probably accomplished our goal,” said Terry.

Kent and Terry also discussed Precept 13 and the parameters it sets for how the profession polices itself.

“The regulators look to us to be sure we are in compliance with the laws and regulations,” said Terry. “It is part of our professional responsibility,” she added.

With more than 500 registered sites and an average of five actuaries in attendance at each site, more than 2,500 actuaries engaged in what post-event comments indicated was an enjoyable, thought-provoking session. Participants submitted more than 60 questions during the course of the 90-minute webinar.

“We recognize the topic of this professionalism webinar was somewhat out of the ordinary, so the council was gratified by the enthusiasm with which members embraced this topic,” said

John Gleba, vice president for professionalism. “The response, I believe, indicates that actuaries are as involved in the public service aspects of their practice as they are in ensuring their technical, analytical, communications, and leadership skills meet the profession’s high standards.”

The webinar was cosponsored by the American Society of Pension Professionals and Actuaries, the Casualty Actuarial Society, the Conference of Consulting Actuaries, and the Society of Actuaries. An archived version of the webcast and speakers’ slides are available [online](http://www.actuary.org/pdf/prof/code_of_conduct.pdf). The Code of Professional Conduct is available online at http://www.actuary.org/pdf/prof/code_of_conduct.pdf. ▲



Ken Kent and Karen Terry field questions from webinar listeners.

→ CONTINUED ON PAGE 3

Annual Meeting Keynote Speaker Announced

NATE SILVER—a statistician, political scientist and analyst, and writer—will be the keynote speaker at the Academy’s annual meeting and luncheon on Oct. 24 in Las Vegas.

Silver has been called a “number-crunching prodigy” and “spreadsheet psychic” by *New York Magazine*. He first gained attention as a baseball statistician by using mathematical models to accurately predict player performance and season winners and losers. Silver then began applying statistics to prognosticating election results—with stunning accuracy. He predicted the outcome of the 2008 presidential election by correctly identifying the winner in 49 states and the District of Columbia. Silver is the founder of FiveThirtyEight.com (now a licensed feature of the *New York Times* online), an award-winning political website that publishes statistical data and projections on a variety of issues. He is the coauthor of several books on statistical analysis and has contributed to ESPN.com, *Sports Illustrated*, *Slate*, and numerous other publications. In 2009, Silver was named to *Time*’s list of the “World’s 100 Most Influential People.”

All Academy members are invited to attend the annual meeting and luncheon, which also will feature the ceremonial transition of President-Elect Dave Sandberg in succeeding outgoing President Mary Frances Miller; the introduction of new leadership on the Academy’s board of directors; and the presentation of the Academy’s Jarvis Farley Service Award and Robert J. Myers Public Service Award.

This year’s meeting is being held in conjunction with the annual meeting of the Conference of Consulting Actuaries at the JW Marriott Las Vegas Resort & Spa. ▲

IN THE NEWS

Public Pension Plans

The Academy was mentioned in an op-ed in the May 3 *Investor’s Business Daily* for initiating efforts to improve standards to provide stakeholders with a better understanding of the long-term costs of public pension benefits. The Academy board of directors [asked](#) the Actuarial Standards Board in October 2008 to develop standards for consistently measuring the economic value of pension plan assets and liabilities.

Academy Pension Accounting Committee Chairperson **Steve Alpert**, a principal and consulting actuary for Mercer in New York, discussed how public pension plan funding would be affected by a shift to a fair-value accounting approach in a piece in *aiCIO Magazine* on May 8. Alpert said that such a shift could cause a substantial increase in plan liabilities.

Retirement Planning

The Academy provided cost-of-living statistics comparing

retired singles and couples in a May 4 Reuters personal finance column. The Academy said the cost of living for single retirees is about 40 percent higher than for couples (on a per-person basis) because of economies of scale. Academy Pension Committee member **Lane West**, a consulting actuary with Stanley Hunt DuPree & Rhine Inc. in Greensboro, N.C., also was cited in the article. West provided longevity figures for 65-year-old males, females, and couples.

Retirement Benefits

In the time surrounding the U.S. Supreme Court’s decision in *Cigna v. Amara*, many media outlets focused on the importance of understanding retirement benefit plans. A number of publications, including the *Wall Street Journal* on May 7 and Reuters on May 17, mentioned the Academy’s Pension Assistance List (PAL) [program](#) as a free source for workers who need help checking pension calculations.

Social Security

Retirement Age

The Academy’s [position statement](#) urging policymakers to address Social Security’s financial challenges, in part by increasing the retirement age to

account for longevity improvements, was mentioned in a May 11 Bureau of National Affairs report that discussed public comments by congressional leaders and the White House on raising the debt ceiling and cutting spending.

Trustees’ Reports

In MSNBC.com’s preview of the 2011 Social Security Trustees Report on May 12, Academy Social Insurance Committee Chairperson **Janet Barr**, a consulting actuary for Milliman in Chicago, discussed the Social Security disability insurance (DI) trust fund and projections made a year earlier that concluded that it would be exhausted by 2018. Barr said that in similar situations in the past, provisions were made so that the old-age and survivors insurance (OASI) trust fund could lend money to the DI fund.

Academy Senior Health Fellow **Cori Uccello** was quoted in Bloomberg on May 13 after the release of the trustees’ reports. Uccello said that the longer policymakers wait to address the financial challenges facing Medicare and Social Security, the more painful the options become. She was also

→ CONTINUED ON PAGE 4

P/C Effective Loss Reserve Opinion Seminar: Tools for the Appointed Actuary

Nov. 16–17, Baltimore

Seminar sessions on the first day will cover foundational topics, while sessions on the second day will focus on more advanced subjects. Participants may register for either or both days. The seminar is presented annually by the Academy’s Committee on Property and Liability Financial Reporting.

For more information, contact Gabriel Swee
(swhee@actuary.org; 202-223-8196)

quoted in the *Minneapolis Star Tribune* on May 13. Uccello said that according to the trustees' report, for the Medicare program to remain solvent for the next 75 years, payroll taxes would need to be increased immediately by 24 percent, or current benefits would need to be reduced by 17 percent.

The Academy also hosted Capitol Hill briefings on the [Social Security](#) and [Medicare](#) trustees' reports on May 26 and 27, respectively. Social Security Administration Chief Actuary **Stephen Goss** joined Barr to discuss Social Security's financial challenges and reform options, while Academy Health Practice Council Vice President **Tom Wildsmith** joined Uccello to discuss Medicare's financial condition and reform options. Comments made by panelists at both briefings were discussed in a May 31 *National Underwriter Life & Health* report.

CLASS Act

A May 12 policy brief by *Health Affairs* cited the Academy's critical issues [paper](#) on the Community Living Assistance and Supports

Services (CLASS) Act. The Academy listed policy options that could help address sustainability issues with the CLASS program.

The Academy's adverse selection [concerns](#) with the CLASS program were cited in a May 18 Bureau of National Affairs article that discussed a new Congressional Research Service report on the voluntary federal long-term care program.

Medicare Reform Options

The Academy's new [issue brief](#), which explores options to improve Medicare's financial condition, was the lead source for a May 25 Reuters backgrounder on Medicare reform options.

SPEAKERS BUREAU

Academy President **Mary Frances Miller** delivered the keynote address during the May 24 meeting of the Actuaries Club of Philadelphia. Miller discussed the Academy's efforts to ensure that the profession has a voice on public policy issues.

To find out about other actuaries in the news and for external links, visit the Academy's [newsroom](#). ▲

Preparing for Change Under PBA for Life Products: Life Company Reserves and Capital Seminar

Sept. 14, 2011

Omni Orlando Resort at ChampionsGate, Fla.

The seminar will feature an in-depth discussion of several hot topics and specific implementation challenges related to the principle-based approach (PBA) for statutory reserves for life products.

Topics will include:

- ➔ Results/conclusions from the NAIC VM-20 Impact Study
- ➔ The structure and process of NAIC's feedback loop
- ➔ Latest revisions to VM-20 and the related practice note
- ➔ The status of VM-20 adoption
- ➔ Changes to valuation processes and controls in a PBA world
- ➔ Practical aspects of VM-20: controls, assumptions, documentation, and governance
- ➔ Taxes under PBA
- ➔ Professionalism and PBA

This seminar is jointly sponsored by the Academy and the Society of Actuaries.

[Click here](#) to register or to learn more.

Foundation Publishes 2010 [Annual Report](#)

Read about the impacts made by The Actuarial Foundation.



THE ACTUARIAL FOUNDATION®

CASUALTY BRIEFS

- ➔ **Alejandra Nolibos**, a consulting actuary for Towers Watson, has joined the Opinion Seminar Subcommittee as a faculty member.
- ➔ **William Von Seggern**, associate actuary for Fireman's Fund Insurance Co. in Novato, Calif., has joined the Academy's Casualty Practice Council in his capacity as chairperson of the Terrorism Risk Insurance Subcommittee.

P/C Risk-Based Capital: State and International Solvency Regulation

Webinar Recording Available on CD-ROM

Learn about the latest developments concerning regulatory capital requirements for U.S. P/C insurance enterprises. Presenters at the May 31 webinar discussed:

- ➔ The ongoing revision of P/C risk-based capital requirements;
- ➔ The NAIC Solvency Modernization Initiative;
- ➔ Solvency II; and
- ➔ International Association of Insurance Supervisors (IAIS) developments

[Click here](#) to download the CD order form. To learn more about the webinar, visit our [website](#).

The projected insolvency of Social Security will affect nearly everyone entering retirement today and the majority of the current workforce, Sylvester J. Schieber, an independent consultant, told the House panel.

“We ought to fix it before we get to the cliff. You don’t put the brakes on at the cliff. You put the brakes on as you’re coming to the cliff,” Schieber said.

“Act soon” was one of the suggestions for restoring balance to Social Security offered by Charles Blahous, a research fellow at the Hoover Institution. The vast majority of the program’s projected growth will occur by 2035, he said, and any benefit changes that are implemented after 2035 won’t do much “to address the looming tax burdens facing younger workers.”

Blahous advocated increasing the retirement age, providing incentives for delaying retirement, and increasing penalties for early retirement.

C. Eugene Steuerle, a senior fellow at the Urban Institute, also suggested raising the retirement age as one of the steps toward modernizing the program to meet the needs of today’s society. Social Security has been a great success, he said, but at the margins it isn’t serving the public well. He encouraged the panel to consider a reform package that would provide more benefits later in life when people have less ability to work, and fewer benefits in the earlier years of retirement.

Several of the witnesses suggested changing the consumer price index (CPI) methodology used to determine the annual cost-of-living allowance (COLA) for Social Security.

“Adjusting the CPI downward would improve the financial con-

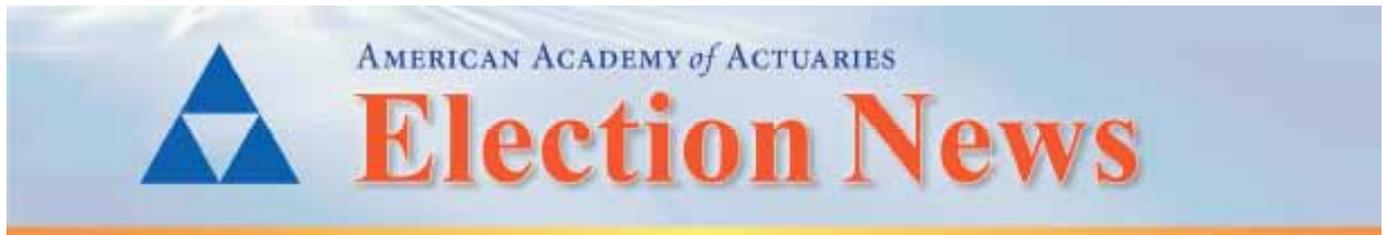
dition of the Old-Age, Survivors, and Disability Insurance (OASDI),” Terry said in written comments submitted at the time of his testimony. The CPI that is currently applied to the COLA calculations reflects price increases for urban wage earners and clerical workers, approximately 32 percent of the population. In his written testimony, Terry discussed several alternatives, including:

- The CPI-E, which is designed to reflect the different consumption patterns of consumers ages 62 and older;
- The CPI-U, which reflects the consumption patterns of all urban consumers (about 87 percent of the population);
- The C-CPI-U, a version of the CPI-U based on a “chain-weighted” formula that reflects changes in the distribution of consumer purchases along 211 broad categories of goods and services; and
- The Superlative CPI, which takes into account the tendency consumers to substitute products whose prices have increased more slowly for those whose prices have increased more rapidly.

In response to a question from Rep. Kenny Marchant (R-Texas) on the CPI, Terry said that changing to a chained CPI (C-CPI-U) likely would result in lower cost-of-living adjustments to retiree benefits, which could close as much as 25 percent of Social Security’s long-term imbalance.

Barbara Bovbjerg, director of education, workforce, and income security at the U.S. Government Accountability Office, and Joan Entmacher, vice president for family economic security at the National Women’s Law Center, also testified at the hearing.

A video of the hearing is available online at the [C-SPAN video library](#). ▲



➔ CONTINUED FROM PAGE 1

those positions at its own annual meeting, scheduled for Oct. 28. The slate includes:

President-Elect	Cecil Bykerk
Secretary	Stephen Rosen
Treasurer	John Schubert
Vice President/Life	Cande Olsen
Vice President/Pension	John Moore
Vice President/Risk Management and Financial Reporting	Maryellen Coggins

Vice presidents whose terms expire in a year and who are continuing in service are Tim Wisecarver, casualty; Tom Wildsmith, health; and John Gleba, professionalism.

“The Academy board of directors made several changes to expand the nominating process this year,” Academy President Mary Frances Miller said. “In addition, the board agreed as a test to conduct this election online. We hope that moving the election from the annual meeting to a secure, online ballot will expand participation and involvement from Academy membership.” ▲

LIFE BRIEFS

- ➔ **Brian Emanuel**, associate actuary for Principal Financial Group in Des Moines, Iowa; **Timothy Magnotta**, senior actuary for ING in Windsor, Conn.; and **Dwayne McGraw**, head of valuation-retirement services for ING in Windsor, Conn.; have joined the Academy’s Annuity Reserves Work Group.
- ➔ **Jo Beth Stephenson**, actuary for the Texas Department of Insurance in Austin, Texas, has been named vice chairperson of the Academy’s Life Valuation Subcommittee.

Placing Federal Coverage on Solid Ground

IN THE CONTEXT OF A YEAR OF RECORD and near-record flooding throughout parts of the Mississippi and Missouri rivers, stretching from the Canadian border to the Gulf, the Academy held a Capitol Hill briefing July 12 to spotlight the National Flood Insurance Program (NFIP).

More than 30 congressional staff, members of the media, and other interested parties listened to Academy Flood Insurance Subcommittee Chairperson Stuart Mathewson [detail](#) the history and operation of the NFIP and discuss various proposals to reform the federal program as it approaches a statutory sunset date on Sept. 30, 2011.

The Academy supports the long-term reauthorization of the NFIP because it would help stabilize the market, Mathewson told briefing attendees. If Congress doesn't take action, Mathewson warned, there will be significant consequences.

Short-term extensions of the NFIP cause uncertainty in the market, Mathewson explained, and, specifically, short-term lapses of the program increase administrative costs and can cause a dislocation in real estate markets. Doing nothing at all and allowing the program to lapse would be tragic, Mathewson said, because there would be no flood insurance.

"The private market has shown no indication that they would like to be in that market," Mathewson said, adding that without flood insurance, the public's reliance on post-event government aid would increase dramatically.

Since its inception in 1968, the NFIP's three main goals have been to identify flood risks, to coordinate flood plain management, and to provide flood insurance to areas that have a high risk of flooding, Mathewson told briefing attendees. "An additional long-term goal is to reduce the demand for and reliance on government aid after a disaster," he said.

In the early years of the NFIP, rates were kept artificially low to encourage participation in the program, Mathewson said. To make the NFIP more financially sound, the program initiated a series of rate increases for all subsidized policies in 1981. While the federal program was self-supporting from the mid-1980s until August 2005, that all changed with Hurricane Katrina.

SEE **FLOOD BRIEFING**, PAGE 10



Stuart Mathewson discusses the National Flood Insurance Program at a briefing on Capitol Hill.

House Passes Flood Bill

Hours after the Academy's July 12 Capitol Hill briefing on flood insurance, the House passed H.R. 1309, the "Flood Insurance Reform Act of 2011." In a May 4 comment letter on H.R. 1309 to the House Financial Services Committee, Flood Insurance Subcommittee Chairperson Stuart Mathewson wrote that reauthorizing the National Flood Insurance Program (NFIP) for at least five more years would help stabilize the market for flood insurance. Mathewson noted that the subcommittee supports efforts to provide a stronger financial base for the NFIP and was encouraged by provisions in the bill that move toward a rate structure that will better match potential loss payments with premium income.

"The process of transitioning from the NFIP's existing rate structure to one that employs actuarially sound rates will necessarily involve addressing the program's existing Treasury debt, which was incurred following the catastrophic losses suffered in the 2005 Gulf Coast hurricanes," Mathewson wrote. H.R. 1309 does not address this issue directly, he added, but the outstanding debt must be resolved for the program to become financially sound.

Senate Flood Action

Sen. Roger Wicker (R-Miss.) on May 26 introduced S. 1091, the "Consumer Option for an Alternative System to Allocate Losses (COASTAL) Act." The COASTAL Act's reauthorization provisions are based on those contained in the flood bill passed by the Senate in 2008. S. 1091, which is still in committee, would reauthorize the NFIP for five years and establish a procedure to allocate claims between wind and water losses for "indeterminate" insurance claims ("slab claims," in which no physical structure remains) following a major hurricane. The current version of the bill also includes a provision that would remove limits on state contributions for updated flood maps.

In a July 11 comment [letter](#) on S. 1091 to the Senate Banking, Housing, and Urban Affairs Committee, Mathewson reiterated the subcommittee's concern that the NFIP's \$17.75 billion Treasury debt be addressed.

"A significant portion of the NFIP premium currently goes to paying off the debt and interest on the debt. At this rate, it will be decades until the debt is paid off, during which time the NFIP's ability to accumulate reserves for future catastrophes will remain compromised. Improving the NFIP's financial stability may require either a specific load to the premiums for annual debt service or waiver of the debt. It is critical that this issue be addressed in this legislation," he wrote.

"The National Flood Insurance Program is critical to protecting home and business owners in the U.S. and should be strengthened and extended for a sufficiently longer reauthorization to allow the program to establish a sound financial footing," Mathewson said in [written testimony](#) submitted to the Senate Banking, Housing, and Urban Affairs Committee for a June 23 hearing on the reauthorization of the NFIP. "Steps should be taken to assure that the true costs are accurately apportioned to all property owners at risk. In addition, the current debt should be addressed, so that the program can use its premium income to pay the future losses that will invariably occur."

Summer Summit Applies ERM to Academy Work

MORE THAN 60 ACADEMY LEADERS gathered in Washington for the annual Summer Summit on July 11 to examine the opportunities and risks associated with the Academy's work on public policy and professionalism through an Enterprise Risk Management (ERM) framework. The Academy ERM Task Force set the direction with a framework drafted for exposure at the summit.

"We are breaking new ground in thinking about how to take the discipline and methodology of risk management and apply it to the Academy's work," Dave Sandberg, Academy president-elect, said in his opening remarks at the Summer Summit. "The topics that we discuss today shouldn't be new. We have already been doing much of this instinctively, but we have not had a formalized process."

Before looking at the draft Academy ERM Framework, task force member Dave Ingram provided an overview of Enterprise Risk Management. "ERM is about making plans for the possible futures," he said. There are four main approaches to risk management: loss controlling, risk trading, risk steering, and diversification. The Academy needs all four of these in its tool kit, Ingram said, because different risks require different approaches.

One of the ERM Task Force's first steps was to determine what "best practice" components are part of a broad ERM program, Steve Preston, a regular director and member of the task force, explained to summit attendees. The task force identified 15 major ERM elements and organized them into five groups to create the Draft Academy ERM Framework.

"The draft ERM Framework is aspirational and should be viewed as a long-term target," Preston said. It takes a very high-level look at ERM, he said, and before going into more detail, the task force wanted to get feedback from the Academy leadership.

Prior to the summit, the task force sent a risk assessment survey to summit registrants to find out how they ranked the significance of 20 risk factors and the Academy's handling of those factors.

"Our list of 20 was not meant to be comprehensive," said Jeff Petertil, chairperson of the ERM Task Force, as he reviewed the results of the survey. "The risks were quite different in type. With some the world ends with a bang, and with others it ends with a whimper, and some show considerable upside risks."

The survey results and the feedback from the summit will inform the task force recommendation to the board for how to effectively embed ERM into the Academy's existing organizational structure, Petertil explained.

"While the ERM Task Force intends to address how the Academy manages traditional financial and operational risks, the focus of the summit is on reputational (franchise value) risks and opportunities," the ERM Framework reads, teeing up the question of the day for the summit participants: "How should we communicate and measure accountability to our membership and to the public on how we manage our strategic priorities?"

In a two-step process at the summit, cross-practice groups of attendees first reviewed and discussed the proposed risk management framework of 15 Academy-specific elements and then reviewed key strategic council initiatives in light of those elements/questions.

"While we are already aware of many of the risks we face at the practice council level and are accustomed to thinking them through, we are not doing it in as structured and formalized a manner as we



Steve Preston (center left) and Dave Sandberg (right) speak with attendees at the Summer Summit.

have been discussing during this summit," said Tom Wildsmith, vice president of the Academy's Health Practice Council.

Academy President Mary Frances Miller agreed. "When you look at the framework, it can be overwhelming," she said. "But if you step back and take a deep breath, I think we all recognize that we are already doing a lot of what is in this framework." Miller told the attendees that their input will help guide the Academy leadership as it moves forward with the ERM initiative.

The Academy ERM Task Force followed up the Summer Summit with a full-day meeting July 12 to begin working through the summit's work product. The task force is scheduled to deliver a report to the Academy board of directors at the board's October meeting. ▲

Next Steps

With feedback from Summer Summit participants, the Academy Enterprise Risk Management Task Force subsequently proposed a draft five-point checklist for practice councils and committees to apply to ongoing and new projects as the next step in advancing the use of an ERM framework by the Academy:

- 1 Value Generation** Identify the short- and long-term benefits of undertaking the project and opportunities it may result in, versus the required resources.
- 2 Risk Identification** Identify the major risks, based upon potential future scenarios/events. Have these risks been discussed previously during the year?
- 3 Risk Mitigation** Identify specific actions that could be taken to reduce the possibility, or severity, of adverse outcomes for each risk.
- 4 Risk Organization** Identify who is primarily responsible for each risk and corresponding risk-mitigation tasks.
- 5 Risk Communication** Document items 1–4, including how ongoing progress will be monitored and communicated to the Academy board, practice councils, and committees.

The Academy ERM Task Force will work closely with the practice councils to gain feedback on this new direction as it prepares its report to the Academy board.



Work Group Looks at ACOs

THE FOCUS OF THE ACADEMY'S HEALTH CARE QUALITY WORK GROUP turned to Accountable Care Organizations (ACOs) this spring after congressional staffers expressed an interest in learning more about ACOs during the annual Capitol Hill visit earlier this year by members of the Health Practice Council.

"An ACO is a group of health care providers, such as physicians and hospitals, that works together to manage and coordinate care for a group of patients—across the entire spectrum of care for those patients—and accepts responsibility for the quality and cost of that care," the Health Care Quality Work Group explains in its new [issue brief](#), *An Actuarial Perspective on Accountable Care Organizations*. "The ACO structure is intended to encourage more integrated care for patients, resulting in quality improvements and reduced costs."

The issue brief provides an overview of ACOs and outlines a number of issues that stakeholders should evaluate as ACOs are implemented. It examines some of the challenges and successes that programs already in existence or in the early stages of development have experienced.

The work group also released a [fact sheet](#) on the Medicare Shared Savings Program (MSSP), a public-sector ACO created by the Affordable Care Act (ACA). The fact sheet provides a basic overview of the MSSP and how ACOs are addressed in the ACA, and it examines some of the actuarial considerations that should be addressed when designing and implementing ACOs.

The work group offered more technical comments on the MSSP in a June 6 letter to the Centers for Medicare & Medicaid Services (CMS). Responding to the proposed rule released by CMS in April, the work group raised a number of concerns and offered suggestions for ways to increase the program's potential for success.

"The process of creating ACOs will be complex," wrote Michael Thompson, chairperson of the Health Care Quality Work Group. The proposed rule provides a strong framework for moving forward with implementation, he asserted, but organizations—particularly new organizations—may have difficulty complying with the rules' requirements within the time allowed. In addition, potential ACO organizers may be discouraged from participating in the shared savings program because the rule places the burden of the initial investment and the risks associated with forming an ACO on the provider community.

Thompson urged CMS to consider easing some of the restrictions in the short term to help ensure the success of the shared savings program. If early adopters are successful, other organizations will be more likely to participate, he wrote, which in turn would assist in the long-term success of the program. ▲

Academy Submits Testimony on Medicare Report

THE SOONER CORRECTIVE MEASURES are enacted to improve Medicare's long-term financial outlook, the more flexible the approach and gradual the implementation can be, Tom Wildsmith, vice president of the Academy's Health Practice Council, and Cori Uccello, Academy senior health fellow, said in written [testimony](#) submitted to the House Committee on Ways and Means Subcommittee on Health for a June 22 hearing on the 2011 Medicare Trustees Report. Wildsmith and Uccello discussed the trustees' findings and provided insight into how several Medicare-related provisions included in various debt- and deficit-reduction proposals would affect access to and quality of care.

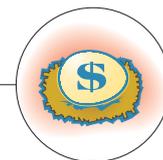
"Improving the sustainability of the health system as a whole requires slowing the growth in overall health spending rather than shifting costs from one payer to another," Wildsmith and Uccello stated. ▲

Risk-Sharing Mechanisms Examined

IN A NEW [ISSUE BRIEF](#), *Risk Adjustment and Other Risk-Sharing Provisions in the Affordable Care Act*, the Academy's Risk Sharing Work Group offers an overview of the Affordable Care Act's permanent and temporary risk-sharing mechanisms for health insurers participating in, and in some cases outside, state health insurance exchanges. The issue brief describes the risks that health insurers face and examines how three risk-sharing mechanisms—risk adjustment, reinsurance, and risk corridors—help mitigate these risks. ▲

HEALTH BRIEFS

- ➔ **Mintu Pal**, an actuary in Laurel, Md., has joined the Academy's Health Practice International Task Force.
- ➔ **Benjamin Lynam**, an actuary in Long Beach, Calif., has joined the Academy's Medicaid Work Group.
- ➔ **Kenneth Clark**, a consulting actuary for Milliman in Chicago, has been appointed chairperson of the Academy's Medicare Supplement Work Group.
- ➔ **Jaron Arboleda**, associate actuary for MIB Solutions in New York, has joined the Academy's Long-Term Care Valuation Work Group.
- ➔ **Joe Bawazer**, senior actuarial analyst for OptumInsight Consulting in Chicago, has joined the Academy's Medicare Steering Committee.
- ➔ Joining the Academy's Long-Term Disability Work Group are **John Bettano**, director, group life pricing for Prudential in Roseland, N.J.; **Alex Kogan**, second vice president, group actuarial for Guardian Life Insurance Co. in New York; and **Fengkun Zhao**, senior actuary for Aetna in Hartford, Conn.



Guidance Needed on JBEA Regs

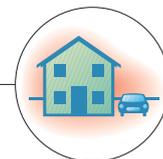
THE CONTINUING EDUCATION REQUIREMENTS in the final regulations issued by the Joint Board for the Enrollment of Actuaries (JBEA) on March 29 require additional guidance, the Pension Committee wrote in a June 29 [letter](#) to the JBEA. The new regulations “recognize the dramatic changes that have taken place in the delivery of continuing education over the past two decades,” observed John Moore, chairperson of the Pension Committee. But additional clarification is needed on the application of these rules for continuing education completed in 2011 before the regulations were issued, he added. “Individuals need to know whether any continuing education programs that they attended on or after Jan. 1, 2011, qualify as formal programs,” he wrote.

The Pension Committee also asked for guidance on the “common practice of large firms cosponsoring (for continuing education purposes) webinars that are being offered by national actuarial bodies.” Often a large, multilocation actuarial firm will register for a webinar and receive one dial-in code, and then rebroadcast the webinar live to multiple locations within its organization. The actuarial body provides the webinar content, and the actuarial firm monitors attendance, collects sign-in sheets, and issues certificates of attendance to participants. The committee asked the Joint Board to confirm that this model of delivering continuing education is acceptable under the new regulations and, if not, what changes would be necessary so that it would be acceptable. ▲

GASB Proposes Changes to Pension Standards

THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) has issued two exposure drafts proposing changes to the financial reporting of pensions by state and local governments: [Accounting and Financial Reporting for Pensions](#) and [Financial Reporting for Pension Plans](#). GASB proposes amending the existing pension standards to improve how the costs and

obligations associated with the public pensions plans are reported. *Accounting and Financial Reporting for Pensions* primarily relates to reporting by governments that provide pensions to their employees. *Financial Reporting for Pension Plans* addresses the reporting by the pension plans that administer those benefits. Comments on the exposure drafts are due Sept. 30. ▲



Webinar Looks at P/C RBC Requirements

ATTEENDEES AT THE MAY 31 CASUALTY WEBINAR, P/C Risk-Based Capital: State and International Solvency Regulation, got a glimpse of possible future improvements to insurance solvency regulations as well as a look at ongoing revisions to the National Association of Insurance Commissioners' (NAIC) P/C Risk-Based Capital (RBC) requirements.

The two primary goals of solvency regulation are to protect the interests of insurance policyholders and to facilitate an efficient marketplace for insurance products, said presenters Alex Krutov, chairperson of the P/C Risk-Based Capital Committee, and Allan Kaufman, former president of both the Academy and the Casualty Actuarial Society and a current member of the Academy's P/C Risk-Based Capital Committee.

The P/C insurance industry isn't a likely source of systemic risk that would affect the entire economy, they noted, but the industry can be harmed by events like the recent financial crisis, which demonstrated that proper solvency capital requirements must be in place and that the efficacy of regulations continually must be reassessed.

The stronger the connection between capital standards and risk, the more smoothly the insurance markets function, Krutov and Kaufman said. They also noted that risk-based capital requirements that are too lax or requirements that are too strict may increase the likelihood of damage to insurance markets.

NAIC Chief Executive Officer Terri Vaughan reviewed the NAIC's involvement in solvency modernization and described the current U.S. solvency regulatory framework. Vaughan said that the NAIC plans to improve its current RBC framework by adding missing risk charges. She also reported that the NAIC likely will make all major policy decisions by Dec. 2012.

Gabriel Bernardino, chairperson of the European Insurance and Occupational Pensions Authority, and Yoshihiro Kawai, the secretary-general of the International Association of Insurance Supervisors (IAIS), also presented at the webinar.

For a CD of the presentation slides and the recorded audiocast go to <http://www.actuary.org/pdf/casualty/CPCWebinarCDROMOrder-Form.pdf>. ▲

Actuarial Update

ASSOCIATE EDITORS

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

EDITOR

Olivia Marshall
(editor@actuary.org)

DESIGN AND PRODUCTION

BonoTom Studio Inc.

DESIGNER

Paul Philpott

PUBLICATIONS AND MARKETING

PRODUCTION MANAGER

Cindy Johns

American Academy of Actuaries

PRESIDENT

Mary Frances Miller

PRESIDENT-ELECT

David K. Sandberg

SECRETARY

Stephen H. Rosen

TREASURER

John J. Schubert

VICE PRESIDENTS

Timothy L. Wisecarver
Thomas F. Wildsmith
Arthur V. Panighetti
Ethan E. Kra
John Gleba
Henry W. Siegel

EXECUTIVE DIRECTOR

Mary Downs

DIRECTOR OF COMMUNICATIONS

Mark Cohen

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

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.

©2011 The American Academy of Actuaries. All rights reserved.

To cover the losses incurred during Hurricane Katrina, the flood insurance program's debt ceiling was raised from \$1.5 billion to more than \$20 billion. Mathewson described the current \$17.75 billion debt to the Treasury as a "lead anchor" for the program. "From an actuarial standpoint, what this means is that it is very difficult to get to a financially sound place when you owe \$17.75 billion and you are taking in less than \$4 billion in premiums, some of which goes to expenses and debt interest and the rest goes to cover losses," he said.

According to government estimates, approximately 80 percent of NFIP policyholders today pay full-risk rates and 20 percent pay subsidized rates. Full-risk rates are based on the expected value of annual losses, while subsidized rates are less than expected losses, Mathewson said. Both rates include expenses and a small contingency load, but neither has a provision for the cost of capital to cover catastrophic events.

The NFIP also needs to address market penetration, Mathewson said. There are two different types of flooding scenarios: riverine/flash flooding and coastal flooding from hurricanes. Hurricane-prone states currently account for 69 percent of NFIP policies, northeast coastal states account for 11 percent, and the remaining 20 percent of the policies are in noncoastal states.

"This year has clearly shown what can happen in noncoastal states," said Mathewson.

Accurate flood maps are essential to setting appropriate flood insurance rates, said Mathewson, but this can be challenging because flood hazards change more than other types of hazards. The NFIP

uses the Federal Emergency Management Agency's (FEMA) flood maps to identify special hazard areas and set flood insurance premium rates. In recent years, FEMA's traditional paper maps have been replaced with digital maps. Improved technologies, such as satellite imaging, make it easier to identify flood hazards and update maps more quickly. Up-to-date maps will allow the NFIP to better assess flood hazards and set adequate and equitable premiums, Mathewson said.

To further inform public debate on the issue, the Academy also released a new [monograph](#), *The National Flood Insurance Program Past, Present ... and Future*. The monograph examines key challenges facing the program and identifies ways to strengthen and reform it. ▲

Life and Health Qualifications Seminar

Nov. 7–10, Arlington, Va.

The Life and Health Qualifications Seminar offers 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 also can serve as a basic education refresher or as a source of continuing education for more experienced actuaries.

For more information or to register, visit <http://www.actuary.org/seminar/2011/index.asp>.

Registration is open for the 2011 American Academy of Actuaries Annual Meeting and Awards Luncheon

JW Marriott Las Vegas Resort & Spa

Held this year in conjunction with the
Conference of Consulting Actuaries
Annual Meeting

Keynote Speaker:
Nate Silver



AMERICAN ACADEMY
of ACTUARIES

