URGENT ACTION IS NEEDED to address Social Security’s and Medicare’s solvency problems, the Academy stressed during its May Capitol Hill briefings on the 2011 Social Security and Medicare trustees’ reports. The Social Security Trustees Report released in May projects that the Social Security trust fund will run out of money in 2036—one year sooner than was projected in last year’s report. The Medicare Trustees Report, also released in May, states that the Hospital Insurance (HI) Trust Fund will be depleted in 2024, five years earlier than projected last year.

The longer Congress waits to tackle Social Security’s long-term solvency challenges, Janet Barr told congressional staffers during the May 26 Social Security briefing, the more painful the solutions will be.

Barr, chairperson of the Academy’s Social Security Committee, and Stephen Goss, chief actuary at the Social Security Administration (SSA) and a member of the Social Security Committee, presented an overview of the Academy’s recently released issue brief, *An Actuarial Perspective on the 2011 Social Security Trustees Report*. Barr and Goss reviewed the metrics used to describe Social Security finances, and discussed the principles for reform. They also examined four specific reform options (including increasing the Social Security normal retirement age), and presented a summary and comparison of two reform proposals that currently are under consideration by policymakers.

The Social Security trust fund projections are somewhat weaker than anticipated a year ago, Goss said, because recovery from the 2007–2009 recession has been slower than anticipated. Demographic trends are also a factor, as there has been a slight increase in life spans and a slight drop in birthrates in the past year.

“If reform is enacted now, people have a chance to plan,” Barr said. Changes to the program could be phased in gradually so there wouldn’t be a sudden increase in the tax rate or drop in benefits. If Congress takes action to bring the trust fund into actuarial balance in 2011, it will have to raise the Social Security tax (OASDI) rate from 12.4 percent to 14.55 percent or cut benefits by 13.8 percent—or some combination of the two. If Congress waits until 2036 to make changes to the program, the numbers go to 16.4 percent and 23 percent respectively, she said.

If Social Security benefits payments exceed Social Security revenues, we know that as time goes on, we will start having problems again, said Barr. That’s why the Academy believes that any modifications to the Social Security system should include sustainable solvency as a

Joint Discipline Proposal Unveiled

THE PRESIDENTS OF THE FIVE U.S.-BASED ACTUARIAL ORGANIZATIONS have introduced a proposal to improve the current discipline process. The proposal aims to increase efficiency and provide greater consistency of discipline outcomes.

In a joint letter to the members of the Academy, ASPPA College of Pension Actuaries, Casualty Actuarial Society, Conference of Consulting Actuaries, and Society of Actuaries, the presidents of each of the five organizations wrote that the proposal intends to improve the current framework by streamlining the discipline and appeals processes.

“Under the proposal, future disciplinary recommendations will be submitted for determination to a single, representative joint disciplinary panel; all appeals will be considered by a joint appeal panel,” they wrote.

SEE BRIEFINGS, PAGE 5

SEE DISCIPLINE, PAGE 6
**Product Recall Video**

**ACTUARY KEVIN BINGHAM** talks about the risk of a product recall and how to plan for it in the Academy’s newest YouTube video. Bingham, a principal at Deloitte Consulting LLP in Hartford, Conn., is chairperson of the Academy’s Medical Malpractice Subcommittee and is the co-author of “Product Recall: Covering Your Bottom Line,” which appeared in the March/April 2011 issue of Contingencies.

**GET INVOLVED**

Interested in becoming a more active member of the Academy? Take a moment to complete the 2011 Academy Volunteer Survey, which is available online until July 15. You can access it through the email you received on June 16 or from the member log-in page on the Academy website. The web-based survey is user-friendly and takes only a few minutes to complete.

“The Academy depends on its volunteers, both as a critical element in conducting the work of the Academy and as an important element in keeping the focus of the Academy’s work aligned with the needs of our members,” said Academy President Mary Frances Miller.

The survey allows you to indicate the volunteer groups on which you are interested in serving and to describe your particular areas of experience and expertise. This information will help the Academy match as many members as possible to committees seeking volunteers. A list of the Academy committees and task forces and a short description of each group’s primary activities are provided within the survey for easy reference.

You also can indicate if you are interested in serving on the Academy Advisors panel. The panel provides perspective to the Academy leadership’s decision-making by responding to short, periodic online surveys. And there is a space for you to indicate that you have an interest in writing articles for Academy publications.

“Volunteering for the Academy offers the benefits of professional growth, career development, networking opportunities, developing relationships with leaders within the profession, expanding your knowledge of issues that affect our work and practices, and, in some cases, earning continuing education (CE) credit,” Miller said.

Last year’s volunteer recruitment efforts led to the placement of more than 100 Academy members on various committees and approximately 285 members on the Academy Advisors panel. In addition, more than 50 members volunteered for the Pension Assistance List (PAL), a nationwide referral service created by the Academy to help individuals understand their pension benefits.

If you have questions about volunteering for the Academy, contact Stephanie Blanding.
membership services coordinator, at volunteer@actuary.org or 202-223-8196.

**BETTER LATE THAN NEVER**
You still can renew your Academy membership for 2011, although a 20 percent late fee is assessed after May 1. It’s easy to make your dues payment online: Just log in to the Academy website, click “Pay dues” on the member welcome page, and follow the instructions. If you have any questions about paying dues or about your membership status, contact Mary McCracken, the Academy’s membership database administrator, at membership@actuary.org or 202-223-81960.

**IN THE NEWS**
Academy Senior Health Fellow Cori Uccello was quoted in Health Plan Week on April 4 and in Employee Benefit Adviser on April 13. Uccello discussed the Academy’s March 28 statement warning policymakers that they will need to enact alternatives to help limit adverse selection if the individual coverage mandate is stripped from the Affordable Care Act. She said the individual mandate is likely to be the most effective approach to insuring a broad cross section of risk in the pool, adding that the Academy has supported strengthening the individual mandate. The Academy issued the statement after the U.S. Government Accountability Office released a report examining possible alternatives to the mandate. See the April Update for additional coverage.

The Academy’s April 4 Capitol Hill briefing on retirement risk was the subject of an April 5 Bulletin of National Affairs report. The briefing featured Academy Pension Practice Council Vice President Ethan Kra, senior partner and chief actuary at Mercer in New York, and Lane West, a consulting actuary with Stanley Hunt DuPree & Rhine in Greensboro, N.C., and a member of the Academy’s Pension Committee. Kra and West identified several public options to promote risk pooling and encourage personal savings.

During the briefing, Kra and West provided a hypothetical example to illustrate “timing risk,” the risk that a worker’s retirement will commence during a down market and he or she will begin drawing down assets when they are reduced in value, ultimately making it more difficult to recover the retirement account’s full value during better economic conditions. The example appeared in an April 13 Reuters personal finance column. See the April Update for additional coverage, or watch the briefing on the Academy’s YouTube channel.

The Academy’s adverse selection and sustainability concerns about the Community Living Assistance Services and Supports (CLASS) Act were cited in an op-ed by Sen. John Thune of South Dakota that was published by Roll Call on April 5.

A profile of the Academy’s Pension Assistance List (PAL) program ran in the April 11 issue of Forbes. PAL volunteer Thomas Lowman, a consulting actuary for Bolton Partners in Baltimore, was quoted in the article stating that most pension calculation errors are not the result of math mistakes but come from incorrect facts being used in those calculations.

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**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.

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**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 (swee@actuary.org; 202-223-8196)
FACI Needs Actuaries

ACTUARIES SHOULD BE PART of the U.S. Treasury Department’s new Federal Advisory Committee on Insurance (FACI), Academy President Mary Frances Miller wrote in a June 8 letter to Jeffrey Goldstein, Treasury’s undersecretary for domestic finance.

Treasury is creating the FACI to assist the Federal Insurance Office (FIO) in carrying out its duties and authorities. The FIO was created last year as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 to monitor all aspects of the insurance sector.

In a notice published in the May 13 Federal Register, Treasury announced that it is seeking individuals with “relevant expertise” to serve on the committee and that committee appointments will be made with the “objective of creating a diverse and balanced body with a variety of interests, backgrounds, and viewpoints represented.”

Treasury’s goal of finding committee appointees with the necessary diversity and experience “will not be realized if the committee does not include individuals with direct actuarial expertise,” Miller wrote. She noted that “much of the information that the FIO, and therefore the FACI, will examine, will emanate from actuaries in the insurance industry.” The work of technical advisers on staff needs to be reviewed to ensure that resources are deployed appropriately and adequately to complete the office’s mission, Miller said.

“Just as it is necessary to have actuarial oversight at the state regulatory level to fully assess the industry’s actuarial work product, it is important, if not more important, at the federal level to assist the committee and the FIO director in navigating these complex issues,” Miller said.
primary goal. Change is needed to ensure that the program is solvent for the next 75 years, and at the end of that 75-year period, the trust fund ratio should be stable or on an upward trend.

Social Security reform is an opportunity to make changes to the fundamental principles on which Social Security was founded, Barr emphasized to the congressional staff in the audience. Policymakers need to look at the current system’s principles and decide if they are still appropriate or if changing times indicate a need for more fundamental reform.

“Should Social Security be available and provide a sufficient benefit for everyone, or is it a benefit that is meant to prevent poverty in retirement?” she asked. A program based on individual equity would have benefit levels that directly relate to contribution levels. A worker with twice the contribution amount of another worker, for example, would receive twice the benefit. A program based on social adequacy acts more like a safety net for lower-income participants. If social adequacy is the sole objective, benefits might be the same for all workers, regardless of earnings and contribution levels, or might even be lower for high earners or for those who had saved more for retirement.

Our current Social Security system is somewhere on a scale between individual equity and social adequacy, Barr said. When looking at reform options, we should consider which way the changes will move us on the scale and whether the changes are consistent with the principles on which we want to base Social Security.

Since 2008, the Academy has advocated raising the Social Security retirement age. When Social Security benefits were first paid in 1940, people who retired at 65 could expect to live approximately 12 years. Somebody who retires at age 65 today can expect to live 17 years.

“People are living longer,” said Goss. “That is a good thing, but unfortunately it has a negative impact on the funding for Social Security.” The SSA accounted for two of the additional five years of longevity by bumping up the normal retirement age to 67, Goss said, but further increases are needed to bring it in line with the expectations of the program when it was founded. “In any reform, we need to take into account that people working in physically demanding jobs don’t have the same ability to work longer,” Barr added.

Another reform option mentioned by the presenters during the briefing would be to raise the taxable wage base. The taxable wage base for 2011 is $106,800, and earned income above that level is not subject to OASDI taxes. That means that only 85 percent of all earnings are taxable, Barr said, adding, “Historically that number has been 90 percent.” If Congress increases the taxable wage base gradually until we reach 90 percent ($230,000) in 2050, she explained, it would eliminate 35 percent of the deficit.

Barr and Goss also reviewed reform proposals from President Obama’s National Commission on Fiscal Responsibility and Reform and the Bipartisan Policy Center’s Debt Reduction Task Force.

The Fiscal Commission’s proposal tries to strike a balance between benefit reductions and revenue increases, Goss said. Key provisions include raising the normal retirement age and raising the taxable wage base. It also proposes allowing retirees to receive up to 50 percent of their benefits at age 62 (with an actuarial reduction) and receive the rest of their benefits at a later age.

The Bipartisan Policy Center’s proposal doesn’t change the retirement age, but it does include a longevity adjustment in the benefit formula that has a similar effect, Goss said. The primary difference between the two plans is that under the Policy Center’s proposal, 60 percent of the deficit would be solved by changes to taxation. As with the Fiscal Commission’s proposal, the taxable wage base would gradually increase. In addition, the Policy Center’s proposal would require OASDI payroll taxes to be paid on all employer-sponsored group health insurance premiums, and health savings accounts and flexible spending accounts benefits (which currently are excluded).

Barr and Goss concluded the Social Security briefing by comparing benefits under both proposals with current law. Under the Fiscal Commission’s proposal, benefits would be higher than current law for workers in the very low and low earnings groups who retire in 2030 at age 65 after working for 30 years or more, and would be lower than current law incrementally for workers in the medium, high, and maximum earnings groups. Benefits paid under the Bipartisan Policy Center’s proposal would not change dramatically from the current system. Benefits would be higher than current law for workers in the low earnings group, and would be about 90 percent of current law benefits for workers in the very low, medium, and high earnings groups, and would be about 85 percent of current law benefits for those in the maximum earnings group.

**Medicare Trustees Report**

Prompt action also is needed to restore Medicare’s long-term solvency and financial sustainability, according to the Academy’s Medicare Steering Committee in its new issue brief, *Medicare’s Financial Condition: Beyond Actuarial Balance*. “The sooner we take corrective action, the more flexible we can be, the more options we have, and the more gradual the implementation can be,” Tom Wildsmith, vice president of the Academy’s Health Practice Council, told policymakers at a May 27 Medicare briefing. According to the trustees’ report, under current law, payroll tax revenues will cover approximately 90 percent of HI benefits in 2024, the year the trust fund is projected to be depleted. The HI trust fund pays primarily for inpatient hospital

SEE MEDICARE, PAGE 10
Academy Moves Forward With Electronic Balloting

The Academy will begin electronic balloting for the election of regular directors in August. This will mark the first time in the Academy’s history that this method will be used for the election of regular directors and that the election will not take place at the annual meeting. The electronic voting process, which is being implemented on a one-year trial basis, is an effort to expand participation beyond those who attend the annual meeting. Members who participate in the new electronic balloting also will be voting on proposed bylaw changes, which will include proposed discipline changes (see related article below).

As reported in the May Update, the Academy board of directors authorized the Academy to implement an electronic voting process for open regular director positions on the Academy's board. This trial electronic voting process will be conducted by a professional third-party vendor experienced in similar elections. Electronic voting will be open to all members for a minimum of 28 days, with results to be tabulated for announcement by Oct. 24, 2011—the day of the Academy’s annual meeting.

Discipline, continued from Page 1

Along with their letter, the presidents released two documents to provide members with a better understanding of the proposal—a set of questions and answers and a side-by-side comparison of the current process and the proposed process.

The presidents also reported that their boards of directors have agreed in principle to move the proposal forward for member consideration. Members of the organizations will have to vote on bylaw and/or constitutional amendments to allow each of the organizations to enter into a joint agreement. A draft of that agreement also is available for members to review. It is expected that members of the five organizations will vote on these amendments during each organization’s annual election cycle.

—Andrew Simonelli
Producer Compensation Under Review

The National Association of Insurance Commissioners’ (NAIC) Health Insurance and Managed Care (B) Committee on June 7 approved a final report on producer compensation in the Patient Protection and Affordable Care Act of 2010 medical loss ratio (MLR) calculation. The report, which was created by NAIC’s Health Care Reform Actuarial Working Group at the request of its Professional Health Insurance Advisors Task Force, made the following recommendations:

- Some types of compensation, such as bonuses or fees paid to health insurance exchanges that are to start in 2014, should be excluded from the medical loss ratio calculation;
- Special treatment should be given for different types of producers, depending on whether they are independent or employed by a carrier;
- Special treatment for producer compensation should be allowed until 2014, when health exchanges are to be in operation and health insurers will be required to sell policies to everyone without charging more to people with health problems.

The task force will consider the report during its next conference call and make a recommendation to the NAIC’s Executive Board regarding action it should take on the issue.

CO-CHAIRING THE Newly formed Academy/SoA Group Long-Term Disability Work Group are Darrell Knapp, executive director for Ernst & Young in Kansas City, Mo., and Roger Martin, senior vice president and chief financial officer of Unum US in Portland, Maine. Other members joining that group are Barry Allen, an actuary with American Fidelity Assurance Co. in Oklahoma City; Alex Faynberg, vice president and actuary for Chertis Insurance in New York; Geoffrey Gerow, an actuary with The Hartford Life Insurance Co. in Weatogue, Conn.; Richard Leavitt, vice president for The Smith Group in South Portland, Maine; Foon Lew, assistant vice president and actuary of Standard Insurance Co. in Portland, Ore.; Allen Livingood, assistant vice president for Unum US in Portland, Maine; John Luff, experience studies actuary with the Society of Actuaries in Schaumburg, Ill.; Eric Poirier, vice president; experience analysis for Unum US in Portland, Maine; Matt Silverstein, vice president, financial management for Assurant Employee Benefits in Kansas City, Mo.; Ray Siwek, vice president and actuary for Prudential Insurance Co. in Roseland, N.J.; Bram Spector, senior manager and actuary for Deloitte Consulting in Chicago; Aaron Stoeger, associate actuary for Principal Financial Group in Des Moines, Iowa; and Patrick Wallner, assistant vice president of Unum US in Portland, Maine.

Karl Madrecki, an actuary for BlueCrossBlueShield Association in Chicago, has joined the Academy’s Individual and Small Group Market Task Force.

Missy Gordon, actuary for Milliman in Minneapolis, and Patrick O’Rourke, assistant vice president, retail long-term care for John Hancock Life Insurance Co. in Boston, has joined the Academy’s Long-Term Care Practice Note Work Group.

Ali Zaker-Shahrak, senior life actuary for the California Department of Insurance in Los Angeles, has joined the Academy’s Health Solvency Work Group.

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.
Pension News

Audit Insight

The Pension Accounting Committee has released a new practice note designed to help actuaries work more effectively with auditors. Working with Pension Plan Auditors examines current practices relevant to the audit of pension plan financial information subject to U.S. generally accepted accounting principles (U.S. GAAP). The practice note is intended to give actuaries a better understanding of the roles and responsibilities of individuals and entities involved in an audit and offers suggestions for ways that responding actuaries, reviewing actuaries, auditors, and companies can work together to make the audit go smoothly.

The practice note looks at some of some of the standards that guide the work of auditors, including those developed by the Public Company Accounting Oversight Board (PCAOB). The note points to similarities between the auditor’s professional obligation to provide documentation under PCAOB Auditing Standard No. 3, Audit Documentation, and an actuary’s professional obligation to provide documentation under ASOP No. 41, Actuarial Communications.

A number of commonly asked questions are answered in the practice note to help responding and reviewing actuaries know the type of information that might be requested and why it is needed.

Pension Committee Comments on Regulatory Issues

In Three Letters to the Department of the Treasury and the Internal Revenue Service, the Pension Committee commented recently on issues under active consideration by policymakers.

Administrative Expenses

The committee discussed the potential implications of expected regulatory guidance on the definition of “plan-related expenses expected to be paid from plan assets” under Internal Revenue Code (IRC) Section 430(b) in a May 24 letter to the Treasury and IRS. There should be consistency between the expenses used in the actuarial value of assets calculations under IRS Notice 2009-22 and those used as plan-related expenses added to target normal cost. In the absence of formal guidance from the IRS, many enrolled actuaries have used the calculation in Notice 2009-22 as a guide. The committee requested that if the expected regulatory guidance requires the inclusion of investment-related expenses in the target normal cost, the change be applicable to prospective applications only, because restating prior plan-year results would call for considerable work and could lead to plans being out of compliance with IRC Section 436 benefit restrictions.

Mergers and Spinoffs

The committee commented in a June 1 letter to the Treasury and IRS on the need for guidance on merger and spinoff issues related to the measurement of assets and liabilities for pension funding purposes and funding ratios. Issues of concern to the committee include the following:

- Benefit restriction rules require a plan’s adjusted funding-target attainment percentage to be determined immediately following a merger or spinoff;
- Transactions that result in mergers and spinoffs frequently do not occur on the last day of the plan year of the affected plans;
- Enrolled actuaries for the affected plans often do not work for the same firm, which could result in delays in communication and coordination;
- Spinoffs require the division of assets that can be difficult and time-consuming, and cannot be completed until after the effective date of the spinoff.

The committee suggested several specific alternatives to address the issues raised by mergers and spinoffs, and requested that the IRS issue guidance in the near future to help alleviate the uncertainty that currently accompanies these transactions.

PTIN

Writing to the IRS on June 13, the committee raised concerns about proposed modifications to registration requirements for a preparer tax identification number (PTIN) that would affect work traditionally done by pension actuaries. The new rules may be applied to a broader group than is needed to achieve the regulatory objectives, the committee stated. It recommended adding IRS Form 5330 and Form 5310-A to the list of forms that are exempt from PTIN requirements, and recommended keeping Form 5500 on the exempt list. If enrolled actuaries are required to obtain a PTIN to file these forms, they should receive the same reduction in the PTIN renewal fees that has been proposed for enrolled agents, the committee stated.

New Regs Too Broad

Enrolled Actuaries and members of U.S.-based actuarial organizations that have adopted the Code of Professional Conduct should be excluded from the definition of “municipal advisors” when they are providing services governed by actuarial standards and the code, according to the Academy’s Pension Practice Council and its Public Plans Subcommittee. In a June 15 letter to the Securities and Exchange Commission (SEC), the two groups argued that others who are governed by professional codes of conduct (such as attorneys) are exempted from registering as municipal advisors.

See Sec Regs, Page 10
Proposed Changes to ASOP No. 27

A NEW TITLE for Actuarial Standard of Practice (ASOP) No. 27, Selection of Economic Assumptions for Measuring Pension Obligations, and a more definitive adoption date were among the many recommendations made by the Academy’s Pension Committee in a May 6 letter to the Actuarial Standards Board (ASB) after considering proposed revisions to ASOP No. 27. The committee responded to eight questions posed by the ASB when it released the exposure draft in January and commented on several other specific sections. The Joint Academy/SOA Pension Finance Task Force has also submitted comments on ASOP No. 27 to the ASB.

Preparing for PBA

NEARLY 50 ACTUARIES attended a May 18 Academy seminar in New Orleans on pricing and product development under the principle-based approach (PBA). Sponsored by the Academy’s Life Practice Council, the seminar was one in a series designed to help actuaries prepare for the adoption of PBA to reserves and capital.

While it’s unlikely that PBA for life insurance reserves will roll out before 2014, “actuaries need to pay attention and start planning for PBA now,” said Tom Campbell, vice president and corporate actuary at The Hartford Life Insurance Co. in Simsbury, Conn., and a presenter at the seminar.

The National Association of Insurance Commissioners first must approve the Valuation Manual-20, which currently is being field-tested by Towers Watson to study the effect that principle-based reserving has on the life insurance industry and whether any refinements to the valuation manual are needed. States then will have to adopt the revised Standard Valuation Law (which incorporates the Valuation Manual).

Also presenting at the seminar were Dave Neve, chairperson of the Academy’s Financial Soundness/Risk Management Committee and vice president/capital management at Aviva USA; Tom Doruska, vice president, life products at Aviva USA; Jason Kehrberg, senior consultant at Towers Watson; Harold Lubera, vice president and actuary at AXA Equitable Life Insurance Co.; Russell Menze, a specialist leader at Deloitte Consulting; Craig Reynolds, a principal and consulting actuary at Milliman; Cheryl Tibbets, a director at Towers Watson; and David Wicklund, an actuarial adviser at Ernst & Young.

GAO Questions Answered

THE LIFE PRODUCTS COMMITTEE formed a work group to respond to Government Accountability Office (GAO) questions about the private group life insurance market. The GAO is conducting an audit of the U.S. Office of Personnel Management, which administers the Federal Employees Group Life Insurance operations, and needed information about typical product designs and benefits, pricing and reserving practices, operational practices, and the general aspects of managing group life insurance. Academy members contributing to the GAO’s request included Nancy Bennett, the Academy’s senior life fellow; Robert Hardin, vice president and group actuary at Gen Re in Stamford, Conn.; Robert Olafson, vice president at Securian Financial Group in St. Paul, Minn.; Cande Olsen, vice president at Actuarial Resources Corp. in Chatham, N.J.; Susan Sames, an actuary at Towers Watson in Watertown, Conn.; James Thompson, an actuary and consultant at Central Actuarial Associates in Crystal Lake, Ill.; and Marian Zeldin, an actuary at MetLife in Bridgewater, N.J.
Medicare, continued from Page 5

services. Over the next 75 years, the HI trust fund is projected to be 0.79 percent of taxable payroll.

If Congress acted immediately to eliminate the 75-year deficit, Wildsmith said, it would have to raise payroll taxes by 24 percent, reduce benefits by 17 percent, or implement some combination of the two. If Congress doesn’t act right away, more drastic tax increases or benefit reductions will be needed, he warned.

The Supplemental Medical Insurance (SMI) trust fund (Medicare Part B) will remain solvent, Wildsmith said, but only because it is funded through general tax revenues and its financing is reset each year. The SMI trust fund pays primarily for physician services and outpatient hospital services. Projected increases in these expenditures will require significant increases over time in beneficiary premiums and general revenue contributions.

The Medicare trustees are required to base their projections on current law. As a result, the projections very likely understate Medicare spending, Wildsmith said, because they are based on scheduled downward adjustments in future updates of provider payment levels (these adjustments are intended to reflect improvements in productivity). In addition, current law projections reflect physician payment reductions in accordance with the sustainable growth rate (SGR) mechanism that Congress routinely has overridden. The trustees asked the Centers for Medicare & Medicaid Services (CMS) Office of the Actuary to develop alternative projections assuming that the productivity adjustments are phased out and the scheduled physician payment reductions do not occur.

Under the alternative projections, the HI trust fund would be depleted earlier in 2024, and the 75-year HI deficit would be 2.15 percent of taxable payroll. Under the current-law projections, SMI expenditures will grow from 1.9 percent of gross domestic product (GDP) in 2010 to 4.1 percent of GDP by 2080. Under the alternative scenario, SMI expenditures will grow to 6.4 percent of GDP in 2080.

Medicare spending is growing faster than the GDP, Wildsmith explained, which means that a greater share of the national economy will be going to providing Medicare benefits.

The Affordable Care Act includes provisions designed to reduce costs, increase revenues, and improve delivery systems and payment models. Even with these changes, however, the trustees’ projections indicate that costs are going to be higher than revenues.

“We need to do a lot more to bring Medicare back into financial balance,” Wildsmith said. “Anything we do today can have a significant leveraged impact over time.”

Cori Uccello, Academy senior health fellow, reviewed some of the Medicare-related provisions in various debt- and deficit-reduction proposals, and addressed key cost, access, and quality issues raised by the Medicare Steering Committee in a new issue brief, An Actuarial Perspective on Proposals to Improve Medicare’s Financial Condition. The options discussed include: limiting the growth of Medicare spending, strengthening or expanding the role of the Independent Payment Advisory Board, transitioning to a premium support or voucher program, reforming the SGR system, revising the fee-for-service benefit design and cost-sharing requirements, raising the Medicare eligibility age, and increasing Medicare premiums.

“Improving the long-term sustainability of not only Medicare but also the health system as a whole requires slowing the growth in health spending rather than shifting cost from one payer to another,” Uccello said. “Payment and delivery system reforms that better align the incentives for providers and beneficiaries can encourage integrated and coordinated care, and ultimately have the potential to control costs and improve the quality of care.”

SEC Regs, continued from Page 8

The Academy also requested that public pension plans be excluded from the SEC’s definition of “investment strategies,” which would describe any potential entity—including the municipality’s pension plan—to which the municipal entity might direct the proceeds of a municipal security. This overly broad interpretation was not Congress’ intent, the Academy wrote. The Dodd-Frank Act was enacted to improve the accountability and transparency of the financial system. With respect to municipal securities and municipal advisors, the purpose of the law was to extend regulation to a previously unregulated environment. Public pension plans, the Academy letter stated, are not an unregulated environment.