OCTOBER 2004

THE NEWSMONTHLY OF THE AMERICAN ACADEMY OF ACTUARIES

Actuarial UPDATE

Seven Principles for Highly Effective Pensions

EARLIER THIS YEAR, CONGRESS PASSED the Pension Funding Equity Act, which replaced the 30-year Treasury bond rate with a rate based on amounts conservatively invested in long-term corporate bonds. At the time, Rep. John Boehner (R-Ohio) urged fellow lawmakers to expand their focus to all aspects of pension funding reform, not just the need for a permanent pension discount rate replacement.

"With our short-term pension fix now signed into law, it's critical we turn our undivided attention toward long-term reforms to address the persistent, significant under-funding problems that threaten worker and retiree benefits," said Boehner in a press release. "Workers should be able to count on their pension benefits when they retire."

This fall, the Academy's Pension Practice Council will release its white paper on minimum funding rules for single-employer pension plans. The paper outlines seven principles that should be considered in efforts to reform the current funding rules, and it offers examples of changes to the rules that would achieve the goal of each principle.

PUNCHSTOCK

The council began its work on the paper more than a year ago, in response to the growing economic difficulties faced by pension plans caught between declining interest rates and equity values, producing increasing liabilities and stagnant assets.

"The funding rules need to be strengthened in order to improve retirement security. At the same time, employers want to avoid increased volatility. We've tried to balance these objectives in the paper," said Ron Gebhardtsbauer, the Academy's senior pension fellow. "Our hope is that this paper will provide Congress with some alternatives to consider as they take on the task of revising pension funding rules."

The paper considers two approaches to funding reform: incremental changes and comprehensive changes. While incremental changes could be enacted sooner, the paper warns that the result might be a patchwork of solutions further complicated by

See **SEVEN PRINCIPLES**, Page 7

Inside

Opinion Changes on the Way

BY MARY D. MILLER

THE ANNUAL STATEMENT instructions for the property casualty actuarial opinion have been significantly revised for year-end 2004, reflecting both structural and substantive changes that generally involve additional disclosures, as well as formally acknowledging regulatory reliance on actuarial standards of practice (ASOPs) formulated by the Actuarial Standards Board and statements of principles of the Casualty Actuarial Society.

The Academy's Committee on Property and Liability Financial Reporting (COPLFR) is revising its annual practice note to provide actuaries with guidance as they prepare their first opinions under the new format. Included with the practice note, which will be issued in December, will be a guidance note written by regulators that we hope will become an annual feature for years to come.

The major structural change in the instructions is the addition of two required exhibits at the end of the instructions. These consolidate the scope and disclosure amounts in one place, allowing the reader to quickly identify all items, recognizing zero-dollar values in one place, and enabling quick comparisons with the prior year.

The notable added disclosure for 2004 is the materiality standard expressed in U.S. dollars. This is to be the materiality standard used to evaluate the risk of material adverse deviation as described in Sec-

See **OPINION CHANGES,** Page 6

Calendar

OCTOBER

13–15 Council of Presidents meeting, Kohala Coast, Hawaii

15 Academy Financial Reporting Committee meeting with FASB, Norwalk, Conn.

17–20 Academy/CCA annual meeting, Kohala Coast, Hawaii

24–27 ASPA annual conference, Washington

24–27 SOA annual meeting, New York

26 SOA pension accounting standards seminar, New York

28 ASB general committee meeting, Washington

31–Nov. 3 IACA biennial meeting, Sydney, Australia

NOVEMBER

1 ASB introduction revision task force meeting, Washington

2 Academy Life Valuation Subcommittee meeting, Washington

5 Academy Risk Management and Financial Reporting Council meeting, Chicago

7–8 Pension Practice Council meeting, Salt Lake City

8–10 Investment Actuary Symposium and AFIR Colloquium, Boston

9-12 Academy Life and Health Qualifications Seminar, Washington

11–13 IAA council and committee meetings, Washington

14–17 CAS annual meeting, Montreal

14–17 N.Z. Society of Actuaries biennial conference, Napier, N.Z.

15–16 SOA critical illness seminar, Tampa, Fla.

16 Academy Casualty Practice Council meeting, Montreal

17–19 CAS/CIA joint meeting, Montreal

DECEMBER

1 Academy Life Financial Reporting Committee meeting, New Orleans

1–2 ABCD meeting, Delray Beach, Fla.

2–3 NAIC LHATF meeting, New Orleans

4–7 NAIC winter meeting, New Orleans

6 ASB Pension Committee meeting, Washington

13–14 ASB meeting, Washington

JANUARY

27 Academy Board of Directors meeting, Washington

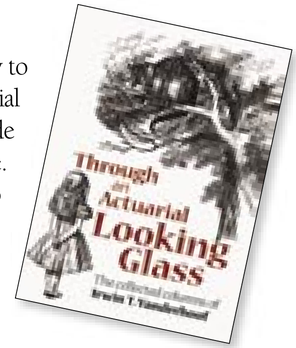
27–28 Los Angeles Benefits Conference (ASPA, Academy), Los Angeles

WEB INTERFACE

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

Academy NEWS Briefs

Back Through the Looking Glass

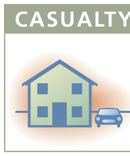


"Modeling Elliptical Billiard Balls," "Worrying for Fun and Profit," "A Valedictory to the Free Lunch." In his many years writing the back-page column "Through an Actuarial Looking Glass" for *Contingencies*, the late Irwin Vanderhoof challenged readers, made them laugh, and above all, put into perspective the complex world of actuarial science. If you miss his unique take on all things actuarial, you are not alone. In response to continuing interest, the Academy is compiling Vanderhoof's columns in an attractive trade paperback that will cost $16. Interested in obtaining a copy? Contact Joe Vallina, the Academy's marketing and publications production manager (**vallina@actuary.org**), or go to **www.contingencies.org/vanderhoofbookform.asp**.

P/C Loss Reserve Manual Orders are now being taken for the 2004 edition of the Academy's *Property/Casualty Loss Reserve Manual*. The manual, published in a variety of media to allow you to choose the version that best suits your needs, will be ready for delivery in late December. See the flyer enclosed with this mailing of the *Update*, or contact Kasha Shelton, the Academy's legislative manager, by e-mail (**Shelton@actuary.org**).

Found in Translation Two Academy publications were recently translated into Japanese for the Non-Life Insurance Rating Organization of Japan: a 2001 **monograph**, *Insurance Industry Catastrophe Management Practices*, and a 1999 **report**, *Evaluating the Effectiveness of Index-Based Insurance Derivatives in Hedging Property/Casualty Insurance Transactions*.

CASUALTY NEWS



The Academy's Risk Classification Subcommittee provided **suggestions** to the Federal Trade Commission for a planned study on the effects of credit scores and credit-based insurance scores on the availability and affordability of financial products.

► At the request of the NAIC and the International Association of Industrial Accident Boards and Commissions, the Academy's Workers' Compensation Subcommittee surveyed large-deductible workers' comp insurers and published the results in a July **report**.

► **Wanchin Chou**, an assistant vice president and international actuary for Liberty International in Boston, has joined the P/C Risk-Based Capital Committee.

► **Dennis Fasking**, a senior actuary with Allstate Insurance Co. in Northbrook, Ill., has joined the Casualty Practice Council and is the vice chairperson of the P/C Extreme Events Committee.

FINANCIAL REPORTING

Ralph Blanchard, chairperson of the Financial Reporting Committee and second vice president and actuary for Travelers Property Casualty Corp. in Hartford, Conn., participated in a Sept. 21 roundtable discussion with the Financial Accounting Standards Board on fair value measurements.

HEALTH NEWS

Michael Sturm, a consulting actuary with Milliman in Brookfield, Wis., has joined the HSA (Health Savings Account) Subgroup.

► **Donna Novak**, president and CEO of NovaRest Inc., in Fox Lake, Ill., has joined the Medicare Steering Committee.

► **Robert Cosway**, a consulting actuary with Milliman in San Diego, and **Mac McCarthy**, a principal with Mercer Human Resource Consulting in Glen Allen, Va., have joined the Consumer-Driven Health Plans Work Group. Cosway also joined the Emerging Data Subgroup.

► **Ruth Ann Woodley**, an actuary with Ruark Consulting in Simsbury, Conn., has joined the Disease Management Work Group and the Stop Loss RBC Work Group. Also joining the Stop Loss RBC Work Group are **Robert Bachler**, a vice president at American Re HealthCare in Princeton, N.J., and **Devin Dixon**, an actuary with HCC Benefits Corp. in Kennesaw, Ga.

► **Darrell Knapp**, chairperson of the Health Practice Financial Reporting Committee and a principal with Ernst and Young in Kansas City, Mo., has joined the Medicare Coordination Work Group.

► **Jon Camire**, an associate actuary with Blue Cross Blue Shield of Massachusetts in Boston, has joined the Uninsured Work Group.

LIFE NEWS

Among those joining the Standard Valuation Law 2 Work Group are Academy President **Barbara Lautzenheiser**, principal with Lautzenheiser Associates in Hartford, Conn.; Academy President-Elect **Bob Wilcox**, a consulting actuary with Wilcox and Co. in Alpine, Utah; **Donna Claire**, the Academy's vice president for life issues and president of Claire Thinking Inc. in Fort Salonga, N.Y.; **Tom Campbell**, vice chairperson of the Life Practice Council and vice president and corporate actuary for Hartford Life Insurance Co. in Weatogue, Conn.; and **Dave Sandberg**, vice chairperson of the Life Practice Council and second vice president and corporate actuary for Allianz Life Insurance Co. in Minneapolis. Other members are **Noel Abkemeier**, a consulting actuary with Milliman in Williamsburg, Va.; **Nancy Bennett**, a consulting actuary with Milliman in Chicago; **Mike Boerner**, a managing actuary with the Texas Department of Insurance in Austin, Texas; **Bob Brown**, a member of the Life Practice Council and a consulting actuary with Valani Consulting Inc. in Toronto; **Todd Erkis**, chief actuarial officer for Lincoln National Corp. in Fort Wayne, Ind.; **Larry Gorski**, a member of the Life Practice Council, chairperson of the Life Capital Adequacy Subcommittee, and a consulting actuary with Claire Thinking Inc. in New Berlin, Ill.; **Carl Harris**, a consultant with Insurance Strategies Consulting in West Des Moines, Iowa; **Laura Hay**, a principal with KPMG in New York; **Jackie Keating**, a consulting actuary with Milliman in West Paterson, N.J.; **Doug Knowling**, vice president and corporate actuary for RGA Reinsurance Co. in Chesterfield, Mo.; **Bob Meilander**, a member of the Life Practice Council, chairperson of the Life Operating Committee of the Actuarial Standards Board, and vice president-corporate actuary with Northwestern Mutual in Milwaukee; **Kory Olsen**, a member of the Life Practice Council and an actuary with Allstate Life Insurance Co. in Northbrook, Ill.; **Steve Preston**, a member of the Life Practice Council and executive vice president for ING U.S. Financial Services in West Chester, Pa.; **Stephen Steinberg**, vice president and actuary with ING U.S. Financial Services in West Chester, Pa.; **Sheldon Summers**, a member of the Life Practice Council and chief actuary for the California Department of Insurance in Los Angeles; **Bill Weller**, vice chairperson of the Long-Term Care Reserving Work Group and president of Omega Squared of Sedona, in Sedona, Ariz.; and **Bob Yee**, chairperson of the HRBC Long-Term Care Work Group and of the Long-Term Care Reserving Work Group and a consulting actuary in San Francisco.

► **Catherine Ehrlich**, an investment actuary with Swiss Re Life & Health America in Armonk, N.Y., has joined the C-3 Work Group.

PENSION NEWS

Joining the Stock Options Task Force are **John Stokesbury**, a director with Deloitte Consulting in Parsippany, N.J., and **Scott Turner**, a consulting actuary with Watson Wyatt Worldwide in New York.

IN THE NEWS

Rade Musulin, chairperson of the Academy's Communications Review Committee, vice president for public affairs and reinsurance for the Florida Farm Bureau Insurance Co., and a spokesperson for the Florida Insurance Council, has been in the eye of a media storm as successive hurricanes rumbled over Florida. In a Sept. 2 live interview on MSNBC and articles in the Naples *Daily News* and on BestWire, Musulin commented on advances in catastrophe modeling since 1992's Hurricane Andrew and on the effects of Hurricanes Charley and Frances on the insurance system.

► **Ron Gebhardtsbauer**, the Academy's senior pension fellow, was quoted in a Jane Bryant Quinn column in the Sept. 13 *Newsweek* on the PBGC deficit, in an Aug. 19 Atlanta *Journal-Constitution* article on how struggles by Delta Air Lines to avoid bankruptcy might affect the company's pension plans, and an article in the Aug. 23 *Pensions & Investments* on initiatives to expand traditional pension plans.

► **Ken Kent**, the Academy's vice president for pension issues and a principal with Mercer Human Resource Consulting in Washington, was quoted in an Aug. 31 article in the *Wall Street Journal* on the SOA's new retirement calculator. **John Parks**, a former Academy vice president for pension issues and second vice president with Principal Financial Group in Pittsburgh, was quoted in an Aug. 11 *Wall Street Journal* article on how interest rate changes by the Federal Reserve can affect lump-sum pension distributions.

► A special report in the Aug. 9 *Insurance Day*, a London daily newspaper dedicated to the international insurance, reinsurance, and risk industry, discussed Standard & Poor's 2003 report on loss reserve shortfalls in the property/casualty insurance industry and the Academy's strong response to misstatements and inaccuracies in the report.

► An Academy paper, *Fundamentals of Current Pension Funding and Accounting for Private Sector Pension Plans*, was highlighted on Benefitslink in August.

ON THE MOVE

► **William Dove** has been appointed president of ACE Financial Solutions in Philadelphia. He was formerly senior vice president and actuary for ACE USA.

► **Michael Pado** is senior vice president of sales and market research for Transamerica Reinsurance in Charlotte, N.C. He was formerly president of Convergence Re.

► **Mitchell Katcher** is senior vice president, life and annuity product development, with the Phoenix Companies in Hartford, Conn. Katcher was formerly chief operating officer and chief actuary of Sage Life Assurance of America and Sage (Bermuda) Life Ltd.

► **Eduard Pulkstenis** has been named senior vice president and chief commercial lines underwriting officer for Selective Insurance Group in Lafayette, N.J. He was formerly vice president of the small commercial business unit.

► **Mark Hug** has been appointed vice president and chief marketing officer for Prudential Financial in Newark, N.J. He was formerly president of Allmerica Financial Services.

► **Jonathan Shreve**, a consulting actuary with Milliman in Denver, is the co-author of a new book, *True Group Long-Term Care*, published by the International Foundation of Employee Benefit Plans.

IN MEMORIAM

Walter Grace, a founding member of the Academy who served on its Board of Directors and as Academy president from 1980 to 1981, died Aug. 11 in Wilbraham, Mass., at the age of 80. Grace, who retired in 1987 as vice president and actuary for Massachusetts Mutual Life Insurance Co., was also a member of the SOA Board of Governors.

NEW ACADEMY OFFICERS

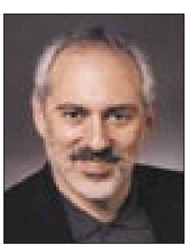
The Academy's Board of Directors has approved the slate of 2005 Academy officers put forward by the Nominating Committee. New officers will assume their duties at the Academy's annual meeting, Oct. 17–20, at the Fairmont Orchid resort on the Kohala Coast of Hawaii. The new officers are:

Peter Perkins, president-elect. Perkins is the former secretary-treasurer of the Academy and a former member of the Academy Board of Directors and its Budget and Finance Committee. He is also a former member of the Health Practice Council and the State Health Committee and a former chairperson of the Health Organizations Risk-Based Capital Simplification Task Force. He also served as an associate editor of the *Actuarial Update*. Perkins, of Mechanicsville, Va., was a member of the Society of Actuaries (SOA) Course 7 Advisory Group and served on the SOA Group Benefits Examination Committee.

Michael Abroe, vice president for health issues. Abroe is a former chairperson of the Committee on State Health Issues and a former chairperson of the Medicare Supplement Work group, and has served as a member of the Committee on Federal Health Issues, the Medicare Steering Committee, the Task Force on Health Insurance Rate Filing, the State Long-Term Care Task Force, the Task Force on Health Risk-Based Capital, and the Federal Long-Term Care Task Force. He is a principal with Milliman in Chicago. Abroe has also served as a chairperson of the SOA Long-Term Care Section Council, a member of the SOA task force on long-term care valuation methods, and a member of the SOA Health Section Council. He is currently a member of the actuarial advisory board for the State of Illinois Comprehensive Health Insurance Plan and a past board member of the State of Ohio Small Group and Individual Reinsurance Plan. He will succeed Jan Carstens.

Mary D. Miller, vice president for casualty issues. Miller is a former vice chairperson of the Casualty Practice Council; a former co-chairperson of the P/C Financial Soundness and Risk Management Committee; and a former member of the Committee on Property Liability Financial Reporting, the Financial Reporting Committee, and the Risk Management and Solvency Committee. She is an actuary in the Financial Regulation Division of the Ohio Department of Insurance in Columbus and vice chairperson of the NAIC's Casualty Actuarial Task Force. Miller is a member of the Exam Committee of the Casualty Actuarial Society. She will succeed Jan Lommele.

John Parks, secretary-treasurer. Parks is a former vice president for pension issues and a former editor of the *Enrolled Actuaries Report*, a former member of the Board of Directors, a former chairperson of the Committee on Technology, and a former member of the Communications Review Committee and the Committee on Qualifications. Parks is second vice president with Principal Financial Group in Pittsburgh. He previously served as president and as a member of the board of directors of the American Society of Pension Actuaries (now the American Society of Pension Professionals and Actuaries) and as a vice president for professionalism, a vice president for member services, and a member of the board of directors of the Conference of Consulting Actuaries. He will succeed Peter Perkins.



Geoffrey Sandler, vice president for professionalism issues. Sandler is a member of the Council on Professionalism, where he is the professionalism liaison for the Health Practice Council. He is a former vice president for health issues and a former chairperson of the Health Practice Council. He is also a former chairperson of the Committee on Federal Health Issues. Sandler continues as a member of the Health Practice Council and the Disease Management, Medicare Coordination, and Actuarial Equivalence work groups. He is assistant vice president and actuary at Empire BlueCross Blue Shield in New York. Sandler has served on a number of other Health Practice Council committees and task forces in the past and was also a member of the SOA Health Section Council. He will succeed Robert Rietz.

Academy Responds to U.K. Inquiry

EARLIER THIS YEAR, THE British House of Commons received a report from Lord Penrose concerning the failure of Equitable Life to pay out on some of its annuities as anticipated by policyholders. While the Penrose report concluded that blame lay primarily with the company's management, the report was also critical of the company's auditors and regulators and, to some extent, of the British actuarial profession. As a result, the British government announced a separate **review** of the actuarial profession to be conducted by Sir Derek Morris, former chairman of the Competition Commission, an independent public body that conducts in-depth inquiries into mergers, markets, and the regulation of the major regulated industries in Britain.

The Morris Review began work in June, issuing a consultation document inviting comments from all interested parties (both within and outside the United Kingdom) on almost 90 questions about the actuarial profession. Question topics ranged from the scope of the actuarial role and the accountability of actuaries to the market for actuarial services to the reservation of specific statutory roles for actuaries in various practices.

The Institute and Faculty of Actuaries submitted a detailed response to the Morris Review that addressed specific questions dealing with the activities of the U.K. actuarial profession. The International Actuarial Association submitted a separate response that described the activities of the actuarial profession worldwide while looking to its member associations for nation-specific responses.

Accordingly, on Sept. 9, the Academy submitted a **response** on behalf of the U.S. profession. The Academy's submission points to the U.S. profession's public policy activities as evidence of the profession's commitment to public service, describes the profession's standard-setting and discipline processes, and addresses actuarial education and the market for actuarial services in the United States.

—LAUREN BLOOM

Casualty Loss Reserve Seminar a Sure Bet

BY ANDREA SWEENY

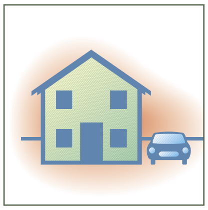
THE ANNUAL CASUALTY LOSS RESERVE SEMINAR, which is jointly sponsored by the Academy, the Casualty Actuarial Society (CAS), and the Conference of Consulting Actuaries (CCA), drew a record number of participants to Las Vegas Sept. 13–14. As it has over the past 20 years, the seminar attracted a broad audience, ranging from nonactuaries and beginning actuarial students to highly experienced reserving actuaries.

The opening general session featured a wide-ranging discussion of recent challenges to actuaries' credibility in evaluating loss reserves and providing statements of actuarial opinion on reserves. Using input solicited from attendees, actuaries from the consulting, corporate, and securities analysis communities debated whether recent press reports challenging the performance of loss reserves (and the quality of actuarial opinions on these reserves) reflected real problems or were problems of perception. The panel also discussed whether actuaries have stuck strongly enough to their convictions in their dealings with insurance company management regarding loss reserves and whether upcoming changes to the statement of actuarial opinion are likely to improve the reserve environment.

As in the past, the seminar provided hands-on technical training in establishing loss reserves, through two multisession basic and intermediate reserving tracks. Beyond these tracks, training in more than 40 topics was available through the concurrent sessions offered during the two-day seminar. These sessions offered information on reserving for specialized lines of business such as medical malpractice, California workers' compensation, asbestos, and construction defects.

The opening general session featured a wide-ranging discussion of recent challenges to actuaries' credibility in evaluating loss reserves and providing statements of actuarial opinion on reserves.

Other sessions at the seminar provided information on emerging accounting and corporate governance issues affecting actuaries, including the new standards being issued by the International Accounting Standards Bureau, fair value accounting, and the implementation of Sarbanes-Oxley Section 404. Also available were sessions that focused on case studies in insolvencies and sessions that offered regulatory guidance in complying with changes to the actuarial opinion being introduced in 2004 and 2005.



In addition to these technical reserving issues, new sessions this year also provided insight into effectively presenting reserving results to insurance company management, maximizing the value of interactions with marketing and underwriting professionals, and legal considerations in rendering an actuarial opinion and supporting that opinion if it is challenged in legal proceedings.

For those who missed this year's seminar, the Academy, CAS, and CCA will be sponsoring another seminar next year, Sept. 12–13, in Boston.

Andrea Sweeny is chairperson of the Academy's Committee on Property Liability Financial Reporting (COPLFR) and a principal with Casualty Actuarial Assistance in Meriden, Conn.

Opinion Changes, *Continued from Page 1*

tion 3.3.3 of ASOP No. 36, *Statement of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves*. While ASOP No. 36 requires disclosure of this standard only if the actuary reasonably believes that a risk of material adverse deviation exists, the statutory opinion requires the appointed actuary to identify the standard in all opinions.

The scope paragraph also requires a new substantive disclosure of the name of the person upon whom the appointed actuary relied for preparation of data, as well as that person's affiliation and relation to the company. This replaces the reference to reliance on "responsible officers and employees of the company."

Considered to be the most valuable information in the opinion, the revised relevant-comments section provides context for interpretation by the regulator as well as an understanding of the actuary's reasoning, judgment, and opinion. The most important relevant comment relates to the risk of material adverse deviation. The actuary must explicitly state whether or not he or she reasonably believes there are significant risks and uncertainties that could result in material adverse deviation. This provides perspective for the regulator to interpret the actuary's judgment. The actuary is also required to comment on the basis for choosing the materiality standard.

The final substantive change is the addition of requirements for the content of the actuarial report. Both narrative and technical components are now required. The narrative section must provide clearly worded information that allows readers to appreciate the significance of the actuary's findings and conclusions, the uncertainty in the estimates, and differences between the actuary's estimates and the carried reserves. The actuarial report must also include an exhibit that ties into the annual statement and compares the actuary's conclusions with the carried amounts. The technical section must show the analysis from the basic data (e.g., loss triangles) to the conclusions. The report is considered a confidential document.

Mary D. Miller is the Academy's incoming vice president for casualty issues. A former co-chairperson of the P/C Financial Soundness/Risk Management Committee and a member of COPLFR, Miller is an actuary with the Ohio Department of Insurance in Columbus.

Academy Media Team Growing

THE ACADEMY'S OFFICIAL spokesperson program added six new people to its ranks in back-to-back, daylong media training sessions Sept. 21 and 22. Since the program began in December 2002, 28 actuaries have been trained.

"We made sure to add more casualty spokespersons this time to balance the team," said Chris Robichaux, the Academy's assistant director for public affairs. "With the heightened media interest due to the hurricane season we are having, the timing couldn't have been better."

The Academy's newly trained spokespersons on casualty issues are Rade Musulin, chairperson of the Academy's Communications Review Committee, and John Rollins, a member of the Academy's P/C Products, Pricing, and Market Committee. Also trained were Burt Jay, Academy vice president for risk management and financial reporting issues; Geoff Sandler, former Academy vice president for health issues and incoming vice president for professionalism; Henry Siegel, vice chairperson of the Academy's Financial Reporting Committee; and Thomas Terry, chairperson of the Academy's new Stock Options Task Force.

Two media contacts for the Casualty Actuarial Society have also been trained as part of the program, and the Society of Actuaries plans to have some of its spokespersons trained next year.

"This is an Academy-led effort to improve the profession's ability to work with the media," said Robichaux, "and it's working."

NAIC News

Both aspects of the Academy's C-3 Phase 2 project moved forward at the NAIC's fall national meeting in Anchorage, Alaska. In separate decisions, the NAIC's Life and Health Actuarial Task Force (LHATF) and Capital Adequacy Task Force (CATF) exposed for comment the Academy's recommendations on statutory reserves and risk-based capital (RBC) for variable annuities. The Academy anticipates they will be adopted at the winter meeting for implementation at the end of 2005. (*The Academy's C-3 Phase 2 RBC and Reserves Seminar attracted a sellout crowd of 80 participants Sept. 21–22 in Boston. Because of continuing interest, the Academy is looking into holding the seminar again in the future. Watch the* Update *and the Academy website for further details.*)

Also at the fall NAIC meeting, LHATF moved forward on the draft model regulation on annuity forfeiture after further input from the Academy's Annuity Nonforfeiture Implementation Work Group. It is hoped that the model regulation will be approved at the NAIC's winter meeting for an effective date of year-end 2005.

Also at the fall meeting, the Academy's Standard Valuation Law 2 Work Group continued its discussion with LHATF on an enterprise risk management approach to regulation.

Members of LHATF provided further feedback to the Academy's Health Practice Financial Reporting Committee on its examples of premium deficiency reserves. A final version of the examples will be presented at the winter meeting.

In a final report to CATF, the Academy's P/C Risk-Based Capital (RBC) Committee affirmed its findings that RBC trend tests are not a reliable measure for predicting insolvency in property/casualty insurers.

The CATF deferred discussion on an update of the Health RBC Long-Term Care Work Group's June report offering a new long-term care RBC formula, and will be seeking the Academy's help in reviewing health care receivable factors.

exceptions sought by opponents of the changes. On the other hand, comprehensive change would take longer to enact and could result in problems that are not entirely foreseeable. Whether Congress chooses to legislate incremental or comprehensive reform, however, the Academy believes the following principles should be applied:

■ **Solvency**—The funding rules should be changed so that assets cover the market value of liabilities, particularly if and when a plan is terminated. The funding rules could also encourage employers to ensure that assets cover ongoing liabilities.

■ **Predictability**—Contributions should be more predictable so they can be budgeted in advance.

➤ *Smooth contributions/less volatility* Moderate changes in assets or interest rates shouldn't result in radical changes in contributions.

➤ *Better financial risk management* Plan sponsors should be able to hedge swings in liabilities by holding bonds, but the current funding rules won't allow the use of market discount rates for determining liabilities. Allowing plans with bonds to use market rates would make contributions more predictable.

➤ *Accommodate business/economic cycle* Employers should be able to make larger contributions in good years than under current rules, allowing for smaller contributions in difficult years.

■ **Transparency**—Users of plan information should be able to understand the current financial position of the pension plan and sponsor.

■ **Incentives to fund/flexibility**—Sponsors should be encouraged to better fund their plans by being allowed to build up margins in the plan without deduction and excise tax problems and by being allowed access to surpluses for other purposes, such as other employee benefits.

■ **Avoid moral hazards**—The rules should not encourage employers to improve benefits at the expense of others.

■ **Simplicity**—The rules should be easier to use and to understand.

■ **Smooth transition**—Employers need smooth transitions to new rules so that they are not pushed into freezing or terminating their pension plans.

—HEATHER JERBI

PBGC Allows Limited Penalty-Free Corrections

The following message from the Pension Benefit Guaranty Corp. was sent as a public service by the Academy to enrolled actuaries. The message is intended for plan sponsors and administrators of underfunded pension plans who were required to notify plan participants of the plans' funding status and the limits of the PBGC's guarantee and who did not issue those notices.

Act fast to take advantage of the PBGC's one-time Participant Notice Voluntary Correction Program! The PBGC is expanding its Participant Notice Compliance Evaluation Program. As a transition to expanded enforcement, the PBGC is offering a one-time opportunity to wipe the slate clean, allowing plan administrators to correct most 2002 and 2003 participant notice failures without penalty.

The deadline for participating in the correction program depends on the plan's Form 5500 deadline for the 2003 plan year and may be as early as Oct. 4, 2004. For more details, go to www.pbgc.gov/participantnotice.

Multiemployer Plans: Design Basics

As a complement to the larger pension principles paper, the Academy's Multiemployer Plans Task Force is publishing an issue brief this fall on basic design and funding rules for multiemployer plans. Designed to educate regulators and policy-makers, the brief outlines eight principles that should be considered in efforts to reform the funding rules for these plans. Unlike the single-employer paper, the brief does not offer specific recommendations for reforming the funding rules but examines basic topics such as the current funding rules for multiemployer plans, issues related to the Pension Benefit Guaranty Corp., and withdrawal liability.

Before Congress approved a discount-rate replacement for the 30-year Treasury rate earlier this year, amendments were offered regarding multiemployer plans. The Pension Funding Equity Act allows plans that meet certain conditions to defer, for two years, the amortization of 80 percent of the net experience losses incurred in 2002. While the final bill did not include the level of relief desired by some multiemployer plans, the assistance requested by congressional staff during the legislative negotiations illustrated the need for the Academy to provide more information on the differences between single- and multiemployer plans.

Several of the principles included in the upcoming issue brief mirror the single-employer funding principles, particularly in the areas of transparency, predictability, flexibility, simplicity, and transition. However, the brief also contains principles that apply specifically to multiemployer plans. These include:

➤ Do no harm—Any changes to the funding rules should encourage the maintenance of existing plans and the creation of new ones.

➤ Benefit security—Funding rules should allow for long-term benefit security, with a reasonable measure of protection for accrued benefits based on an ongoing plan assumption, instead of a plan termination, basis.

➤ Avoid moral hazards—As is the case with single-employer plans, rules shouldn't encourage benefit levels that exceed available financial resources. Additionally, funding horizons shouldn't extend beyond the period of years for which benefits are to be delivered. Rules should be modified to clarify the events that trigger the application of withdrawal liability and the methodology used to determine the withdrawal amount.

Math Mentors Needed

Remember that thrill you got as a kid when you first figured out the patterns in numbers? The excitement you felt when you recognized the logic involved? Remember that sense of achievement when it all came together for you? Imagine being able to pass that excitement along to someone else.

You now have the opportunity to get involved with a program that could be the most rewarding volunteer opportunity of your career—serving as a math mentor for kids.

The Actuarial Foundation's Advancing Student Achievement Program is looking for actuarial mentors in local schools all over the United States, especially Atlanta; Baton Rouge, La.; Cleveland; Newark, N.J.; New York; Phoenix; Pittsburgh; Schaumburg, Ill.; and St. Louis.

By sparing a relatively small amount of time to assist in a math-mentoring school program, you can make a big difference in the lives of kids in your community.

Interested?

Go to **www.actuarialfoundation.org/youth/call_for_mentors.htm**, or contact Debbie Scanlon, project administrator at the Actuarial Foundation (**asa@actfnd.org**; 847-706-3600).

The Actuarial Foundation is a 501(c)(3) organization established in 1994 to help facilitate and broaden the actuarial profession's contribution to society. The foundation is supported by the Academy and other North American actuarial organizations.

The Actuarial Foundation

The Actuarial Update

ASSOCIATE EDITORS
William Carroll
Andrew Erman
Ronald Gebhardtsbauer
Rade Musulin
Adam Reese
Geoffrey Sandler

EDITOR
Linda Mallon
(editor@actuary.org)

DESIGN AND PRODUCTION
BonoTom Studio Inc.

MARKETING AND PUBLICATION PRODUCTION MANAGER
Joseph Vallina

American Academy of Actuaries

PRESIDENT
Barbara Lautzenheiser

PRESIDENT-ELECT
Robert Wilcox

SECRETARY-TREASURER
Peter Perkins

VICE PRESIDENTS
Jan Carstens
Donna Claire
Burt Jay
Ken Kent
Jan Lommele
Robert Rietz

EXECUTIVE DIRECTOR
Richard Lawson

DIRECTOR OF COMMUNICATIONS
Noel Card

ASSISTANT DIRECTOR FOR PUBLICATIONS
Steven Sullivan

MANAGING EDITOR, NEW MEDIA
Anne Richardson

EXECUTIVE OFFICE
The American Academy of Actuaries
1100 Seventeenth Street NW
Seventh Floor
Washington, DC 20036
Phone 202-223-8196
Fax 202-872-1948
www.actuary.org