THE ACTUARIAL update

AMERICAN ACADEMY OF ACTUARIES
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ENCLOSURES

Included with this month's issue of The Actuarial Update *are the following:*

In Search Of

ASB Boxscore

1993 Enrolled Actuaries Meeting Exhibit Brochure

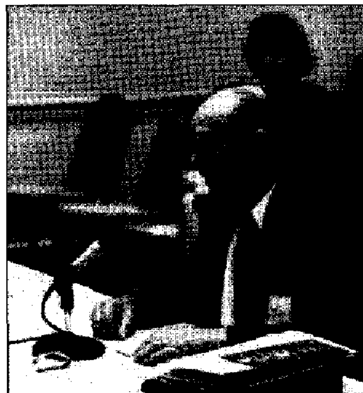
Questions Raised at Hearing on Life Valuation Standard

By Alan Kennedy

A proposed standard-of-practice requirement that the appointed actuaries for small life insurance companies, as well as large ones, opine on reserve sufficiency in statutory statements was questioned at a public hearing held by the Actuarial Standards Board (ASB) on June 10. Another issue raised was whether a standard of practice was even appropriate for the appointed actuary, whose statements of opinion and supporting memorandums are required by the revised Standard Valuation Law and its model regulation.

The ASB itself posed the question of whether the exposure draft of a standard titled "Statutory Statements of Opinion by Appointed Actuaries for Life or Health Insurers" is appropriate in requiring appointed actuaries to opine on reserve sufficiency for small companies—i.e., to do more than is required by Section 7 of the model Actuarial Opinion and Memorandum Regulation. Section 7 exempts smaller companies from asset-adequacy testing, provided they meet certain eligibility criteria.

The lead witness, Chief Life Actuary Robert J. Callahan of the New York State Insurance Department, said the standard's requirement is not appropriate. Instead, speaking for the Life and Health Actuarial Task Force of the National Association of Insurance Commissioners (NAIC), Callahan offered a compromise in the form of new language for the proposed standard, as applied to smaller companies. This would read, "If the actuary is not satisfied as to the adequacy of the reserves after an examination of the interest, mortality and morbidity, and expense margins in the statutory formula reserves . . . then the actuary should notify the commissioner. . . ."



Robert Callahan addresses ASB hearing on life valuation standard.

Larry M. Gorski, life actuary in the Illinois Department of Insurance, voiced support for the proposed substitute language. He said it would put commissioners on notice if actuaries had concerns about reserves, and the regulators could then order further analysis as provided for in the model regulation.

"But should there be different standards of practice for different-sized companies?" inquired ASB member Gary Corbett.

"I don't see any inherent reason why not," answered Gorski.

Timothy F. Harris, a member of the ASB Life Committee that drafted the proposed standard, asked if it was appropriate to weaken it at a time when insolvencies were a great concern. Callahan replied that when the NAIC agreed to exempt smaller companies from asset testing, it was thought that insolvencies of a few small companies would not have a major impact; it was the big companies that were of concern.

S. Roy Woodall, Jr., president of the National Association of Life Companies (NALC), also objected to the proposed standard's effect on small companies, which would, he contended, be forced to do cash flow testing. To nullify the exemption worked out earlier between the NAIC and the NALC and other insurer representatives would be a breach of faith, he argued.

In reply, Jack M. Turnquist, chairperson of the ASB, asked whether it was the consensus of the small company audience that the standard as proposed "would

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Don't miss
— our story on *Forecast 2000* press coverage of the Academy's defined benefit plan survey of enrolled actuaries, and
— the Academy Board of Directors Statement on Insurer Solvency in its entirety.

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EXECUTIVE OFFICE

The American Academy of Actuaries
1720 I Street, NW
7th Floor
Washington, DC 20006
(202) 223-8196
Fax: (202) 872-1948

MEMBERSHIP ADMINISTRATION
Woodfield Corporate Center
475 N. Martingale Road
Schaumburg, IL 60173-2226
(708) 706-3513

THE ACTUARIAL UPDATE

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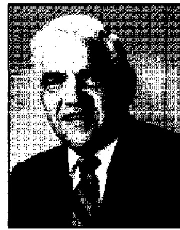
FROM THE **president**



Professionalism Knows No Boundaries

by Harry D. Garber

This editorial marks the close of my term as president of the Academy. It has been an exciting year for me, a year in which the profession has put into place several essential elements of our professionalism structure and launched a critical initiative on insurance company solvency. Professionalism issues are not confined to the United States and Canada, and some recent discussions suggest that the cooperative addressing of these issues might be beneficial to all.

Over the last few years, the actuarial profession in the United States and Canada has made great strides in addressing the issue of professionalism. We have developed a code of conduct that is effective on both sides of our border, standards of practice that are nation-specific, and counseling and disciplinary procedures that are nation-specific in their handling of cases, but that cross borders in assessing disciplinary penalties. While reflecting the specific political and legal needs of the profession in both countries, the ability to effect these agreements was facilitated by the common actuarial educational heritage of the two countries, common memberships in the several actuarial organizations, and the historically cooperative approach to issues of common interest. Though little thought was given in the development of these agreements to their possible application beyond the United States and Canada, they could serve as a general model of international cooperation.

And such a geographical broadening now appears not only possible, but likely—not in the next year or two, but certainly by the turn of the century. This broadening could extend into other related areas as well. This prospect emerged from a special meeting held just before the International Congress of Actuaries in Montreal. The attendees at the meeting were the presidents and/or presidents-elect of the six major United States and Canadian actuarial organizations, plus the presidents and/or presidents-elect of the actuarial organizations with whom the U.S. and Canadian organizations share traditions, educational philosophies, etc.: Institute of Actuaries, Faculty of Actuaries, Actuarial Society of South Africa, Institute of Actuaries of Australia, and New Zealand Society of Actuaries. The meeting was organized and chaired throughout by Paul McCrossan, then the president of the CIA.

Although a wide variety of topics were covered and there was broad participation from all the participants, the subject that engendered the most discussion was professionalism—particularly how to handle issues arising from the migration of actuaries and/or the transnational work of others. Issues include qualification standards (including basic and continuing education), disciplinary standards and procedures, access to the accreditation required for certain actuarial reports, activities, etc. In this discussion, the North American actuaries present learned for the first time that the Institute and Faculty are seeking to put together a form for a working agreement similar to that adopted by the U.S. and Canadian organizations a couple of years ago.

We also learned more of the professional issues that are emerging from the continuing integration of the European Economic Community (e.g., what requirements must an actuary who is not a member of the Faculty or Institute but is a member of an actuarial organization in one of the EEC countries meet in order to obtain a certificate to act as an appointed actuary in the U.K.). Australia has similar issues with respect to actuaries who migrate to that nation.

The meeting produced a recognition that there is a common core of professionalism issues that should be approached on a cooperative and a coordinated basis. In the near term, we plan to focus on the issues of standards of practice, disciplinary investigations, and access.

In particular, we plan to ascertain over the next few months whether there is general receptivity to (1) an agreement that the national standards of practice of a nation should apply to all actuaries working in that nation, (2) the entering into of bilevel or multilevel agreements to have disciplinary investigations conducted by the recognized actuarial body in the nation in which the alleged offenses took place, and (3) a possible agreement on qualification standards and access. (Note that items 1 and 2 are already included in the U.S.-Canadian arrangements.) If there is general receptivity to these matters among the organizations represented, we would proceed with the development of specific agreements.

Looking beyond these specific areas, there appear to be other possible areas of cooperation with equal or even greater potential. A common code of conduct does not appear beyond reach. What about increased commonality in the education and examination structures? Certainly, it should be possible to have common educational material and examination structures for basic actuarial mathematics. If we were to split education and examination of specific practice areas into those portions that are basic and those portions that respond to the legal and regulatory environments of the nations involved, the former could be largely common. establishment of a common approach to basic education and examinations would facilitate the

movement of actuaries because it would be clear what additional education and experience an actuary would require to practice in a new country. The possibilities are exciting, and the emergence of transnational insurance entities adds an urgency to the successful resolution of these issues.

In addition to the professionalism issues, the meeting dealt with insurance company solvency and other current topics of importance to actuaries in the countries represented. There was agreement that the issues are similar in many countries, and that there should be greater ongoing communications among the organizations on these issues and greater coordination at both the technical and political levels.

The world is changing rapidly and many events and trends outside the U.S. will have a significant impact on the work and careers of U.S. actuaries. We should be seeking to influence these events and trends and to respond to them in ways that best serve our members and our clients. The discussion in Montreal was a good start. ■

letters
TO THE EDITOR

Up, Down, or Sideways

Concerning market-value-based accounting, there have been recent articles in various publications, including *The Actuarial Update.*

As somebody who has been exposed to the statutory market-value-based statements for life insurance companies of three countries—in one case for 10 years now—my opinion of them has been significantly negative for some time.

Based on my experience, anybody who thinks he or she can figure out from market-value-based statements how a company is doing as a going concern is liable to be in for a surprise. There are so many balance sheet items subject to change that even as an insider I would have had difficulty trying to demonstrate whether my company was heading upwards, downwards, or sideways.

Admittedly, the difficulties of interpretation and analysis are greater for multinational companies. However, I think you need a pretty plain, single-currency-liabilities company for market-value-based statements to be of much use in managing a company.

Would their utility be any greater for the regulators?

Owen A. Reed
Toronto

Fair Value?

I have always felt that the arguments for failing to carry assets at fair value are weak. (See "Fair-Value-Accounting: What's in Store?" June *Update*) The supposed inability to value liabilities on an appropriate basis and the reliance on the long-term nature of these liabilities to justify the ignorance of current market conditions have led to confusing balance sheets and increased the tendency to overlook very real short-term financial concerns. The solution may not be easy, but one must be found.

An appropriate solution should incorporate the following characteristics:

—The basis for valuing assets should be consistent with that for valuing liabilities, if equity is to be measured in meaningful fashion.

—The basis for valuation should, to the extent possible, be consistent between companies.

—The basis should reflect fair value; this, in turn, would seem to imply the need for a valuation basis that is dynamic, varying as market forces change.

I would establish assets for the insurance industry at fair value. I would value liabilities by discounting future cash flows (on a best-estimate basis) at a risk-free rate of return. Risk-free yields could be determined by examining yields available on Treasury notes and bills as of the valuation date and applying the appropriate rates to cash flows at each respective duration. Whether such an approach results in a valuation consistent with fair value placed on the assets may depend largely on whether one accepts the theory that the difference between (a) the value at which an asset would be recorded were future returns on the asset known and guaranteed and discounted at a risk-free rate of return, and (b) the market value, is largely due to risks associated with the timing and receipt of such future income. For instance, if the risk-free rate of return were 10%, a 1-year Treasury returning $10 interest at the end of a year would carry a price of $100, whereas a lower-rated bond with a similar coupon might trade at $90. The higher yield on the lower-rated bond is less likely to be realized, so in fact the holding of 10/9 of the lower-rated security may not produce a higher future return than the holding of one Treasury and should not be accorded any more value, even though the yield-to-maturity on the lower-rated bonds exceeds that of the Treasury.

Our current book accounting methods are full of inconsistencies. For example, two companies with similar asset portfolios may carry different values simply because the assets were purchased at different times. These assets will undoubtedly be held at a different value than the liabilities or reserves they support, since the reserves will be based on different valuation rates of interest that are less dynamic, set artificially, do not properly reflect differences in yield by duration, and vary (within limits) by company, to say nothing of differences in valuation bases (such as net level vs. preliminary term and a host of other options that can cause values to vary widely). Is it any wonder that the financial position of insurers is so hard to judge from statutory balance sheets, or that insolvencies have increased exponentially over the past 10 years as regulators struggle to identify troubled situations before they spin out of control?

Lee A. Zinzow
Winston-Salem, N.C.

CALENDAR

1992 Valuation Actuary Symposium
September 17–18

Casualty Loss Reserve Seminar
September 20–22

Academy Annual Meeting
September 30

Actuarial Standards Board
October 7–8

Conference of Consulting Actuaries Annual Meeting
October 19–20

American Society of Pension Actuaries Annual Meeting
October 25–28

Society of Actuaries Annual Meeting
October 25–28

Casualty Actuarial Society Annual Meeting
November 15–18

Next month's *Update* will include a report on the summer meeting of the National Association of Insurance Commissioners in Washington, D.C.

legal LINES

Professional Liability: Defending the Claim

By Lauren Bloom

This column is the third in a three-part series on professional liability. Here, I will describe typical defenses, focusing on practice standards and actuarial literature as proof of appropriate practice.

The first part of this series described the elements of a professional liability claim, the most important of which is that the defendant actuary must have failed to exercise appropriate skill and care in performing the work at issue in the lawsuit. When a professional liability suit is brought against an actuary, the actuary's attorney may be able to resolve the suit without going to trial. It is the plaintiff who must prove the elements of a professional liability claim. Consequently, the actuary's attorney may be able to persuade the court that the plaintiff has failed to satisfy this evidentiary duty, obtaining dismissal before the actuary must present a defense.

However, if those legal tactics fail, the actuary may have to prove that he or she used appropriate care and skill in performing the work at issue. The standard of proof may vary, depending on the facts and the state in which the case is tried. However, an actuary generally will not be required to demonstrate that he or she used the best possible method in a particular circumstance, or that the actuary's assumptions resulted in the most accurate possible projections. It is generally sufficient to demonstrate that the methods and assumptions used were reasonable and in accord with generally accepted actuarial practice.

Most often, an actuary's attorney will seek to establish what generally accepted actuarial practice is by using the expert testimony of other actuaries, or by reference to actuarial literature. The evidentiary weight to be accorded an expert's testimony depends on the strength of the expert's credentials and the credibility of his or her demeanor. Similarly, the weight accorded actuarial literature will depend upon the prominence of the author, the relevance of the literature to the issues in the case, and the extent to which the actuary can demonstrate that the literature accurately reflects accepted actuarial practice.

Depending on the facts of a particular case, one way to prove appropriate skill and care may be to demonstrate compliance with relevant practice standards. It may not be enough for an actuary to have complied with the letter of a standard if the actuarial principles underlying it were not thoughtfully satisfied. However, the standards of practice would likely be accorded substantial weight in a professional liability suit, and compliance would often be weighty evidence of proper practice. Thus, to maximize their chances of success in professional liability suits, defendant actuaries should provide their attorneys with copies of the standards of practice and other relevant actuarial literature, and should assist their attorneys to make the best use of the standards in preparing and presenting a defense.

Bloom is the Academy's general counsel.

PR SUPERSTAR

Academy Director of Public Relations Erich Parker has been named one of the nation's "fifteen association public relations superstars" in the Spring 1992 edition of the *Public Relations Quarterly*. His innovative, creative, and award-winning work for the Academy and the actuarial profession was singled out for praise by the judges, who are leaders in the public relations field. Parker was unaware that he was being considered for the distinction.

HEARING *continued from page 1*

in fact require cash flow testing of these small companies."

"Well, that's what they're being told," said Woodall.

"What if a reading of the standard would indicate that, let's say, 85% or 90% of the time, the actuary could be satisfied that no additional testing would be required?" asked Turnquist. "Probably not a large number of companies that would be exempt by the law would, based on an actuary's review and judgment, require cash flow testing. I have the feeling there may be some misunderstanding of this provision."

Another issue raised was whether the statutory opinion statement of the appointed actuary should be the subject of a standard of practice at all, rather than an actuarial compliance guideline. Representing the Life Issues Committee of the Conference of Consulting Actuaries (CCA), Herbert S. Wolf argued that standards should be reserved for specific issues like data quality, asset and reserve adequacy analysis, and reliance on others.

Wolf was asked how to address the Section 7 question. "Section 7 is a very difficult area," he said. "It needs to be dealt with in the regulatory and corporate environment. That is why the CCA committee is recommending a compliance guideline rather than a standard of practice."

Other reviewers of the proposed standard included Jerome F. Seaman, a member of the Academy's Committee on Life Insurance Financial Reporting. He said the draft focuses too much on techniques such as asset adequacy analysis, rather than process. Consulting actuary Donna R. Claire said the standard does not address current issues such as reliance on investment officers who are not subject to the same standards as actuaries. Maria N. Thomson, a life company chief actuary, mentioned that conservatism in reserve opinions, qualification of opinions, and peer review were subjects the standard could address, but does not.

Others testifying included John A. Hartnedy, a chief actuary, who favored a standard rather than a compliance guideline in this area; Link Richardson, a life company actuary who spoke on the need for practice notes, and Myles London, an investment specialist. The hearing panel consisted of Turnquist, Corbett, and Richard S. Robertson of the ASB, and Harris and Robert W. Maull of the Life Committee.

Kennedy is standards editor, Actuarial Standards Board.

Written comments on the proposed standard will be accepted at the ASB office until August 15, 1992

ICA Notes

by John H. Harding

Historically, an actuarial organization in one country has, as a means of accreditation, on a selective basis, given associate membership to fellows of actuarial organizations of other countries. With the emergence of the EEC, the potential extension of the free trade agreement to Mexico, and indeed an increasingly globalized economy, these practices need to be examined.

It is important to distinguish between general actuarial practice and certification required by statute or regulation. In the latter case, there are significant controls beyond membership in an actuarial organization that deal with accreditation.

However, with regard to general actuarial practice, our current methodology of providing associate membership should be called into question. In fact, there can be a domino effect in the recognition of an actuary from another country who actually qualified as member in yet a third country.

We need to deal with some specific issues separately: investigation and discipline, qualification, code of conduct, access to the accreditation process, and adherence to local actuarial standards.

It would appear that a method superior to automatic cross membership may be automatic recognition of actuaries in other countries without such cross membership. In this scenario, the issues could be addressed as follows:

—All actuarial organizations would adopt a common code of conduct. This code would dictate that an actuary be bound by the practice and qualification standards of the country in which he or she was practicing. Investigation and discipline matters would be the responsibility of that country as well. Their role, however, would be limited to the recommendation of a sanction to the home country.

Academy President-Elect John Harding attended the recent ICA Meeting in Montreal.

INSURER SOLVENCY POSITION STATEMENT

American Academy of Actuaries Board of Directors—June 1992

This statement is the product of several months' work by a blue-ribbon task force of senior actuaries; it was released to the public at a press conference held in conjunction with the June meeting of the NAIC.

Insurance company insolvencies in the recent past have shaken the public's confidence in the insurance industry and its regulation. That concern is understandable. While the potential for insurance company insolvency can never be eliminated, the risk of insolvency can and must be minimized.

Efforts within the National Association of Insurance Commissioners (NAIC) to develop risk-based capital requirements are an important step forward. There are, however, a number of factors contributing to insolvencies that cannot be fully identified by a risk-based capital formula, including inadequate prices and undue concentration of certain risks. These efforts, as well as recent federal legislative proposals, simply do not go far enough.

The actuarial profession, because of its expertise in evaluating future risks and their associated costs, is uniquely qualified to play a key role in crafting a solution to this problem. We are committed to addressing the myriad issues surrounding insolvency risk management to this end—that the American public is protected by a financially sound insurance system.

Elements of Reform

Any proposal to improve and strengthen solvency safeguards must include these three mutually enhancing elements: (1) a stronger actuarial role in helping insurance companies manage insolvency risk, (2) a close tie between that involvement and the regulatory structure, and (3) a coordinated guaranty program, offering protection in all states.

Stronger Actuarial Role: Opinion on Surplus Adequacy and Compliance Monitoring. Insurance company management should be required to obtain each year a written statement of opinion on surplus adequacy by an appropriately qualified actuary. That opinion and the report on which it is based should evaluate the company's financial status, both currently and under a range of likely future financial conditions. The long-term nature of insurance risks and the increasing volatility of the U.S. economy dictate that the opinion be as much as possible a long-range view of a company's financial health, instead of just a year-end snapshot.

To ensure the quality of the actuarial opinion on surplus adequacy, a centralized, uniform system of compliance monitoring must be in existence. Appropriate compliance monitoring would assure insurance company management, its board of directors, the regulators, and the public that the actuarial opinion has been rendered by a qualified actuary, whose supporting report and underlying work have met the actuarial profession's standards of practice, and that the results have been fairly communicated in the opinion statement.

The actuarial profession, through the American Academy of Actuaries and the Actuarial Standards Board, is best qualified to assure that professional standards are sufficient to support an actuarial opinion on surplus adequacy and to provide a basis for appropriate compliance and competency review of that opinion. Necessary steps are being taken within the profession to strengthen this support system.

Closer Ties to Regulation: Canadian/U.K. Model. A system predicated on a close connection between a strong regulatory system and rigorous actuarial practice is in place today in Canada and the United Kingdom. An essential element of this structure is the "appointed actuary," who is responsible to both insurance company management and regulators. A similar structure could be tailored to the U.S. regulatory and corporate environments.

The compliance monitoring system outlined in this statement would fit into any form of regulatory oversight, including the NAIC, a federal structure, a private self-regulatory corporation, or a combination of these.

Guaranty System Reform: Strengthened, Coordinated Guaranty Program. At present, the guaranty system is characterized by variations in coverage by state, no direct authority to take action before an insurance company is declared insolvent in its state of domicile, and a reliance on informal coordination among the state guaranty associations. The public would be better served by a coordinated system, supported by the recommendations set forth in this statement. Such a system must have authority to commence action prior to declared insolvency and to rehabilitate companies that have been declared insolvent.

Crafting Solutions

In addition to the work underway to implement these recommendations, the actuarial profession stands ready: (1) to oversee professional compliance review as part of the monitoring process, through the American Academy of Actuaries, and (2) to participate in the study and development of a coordinated guaranty program structure.

Health Committee Testifies on Small Group Market Reform

Tim Harrington, a member of the Academy's Committee on Health, testified before the House Small Business Committee on small group health insurance market reform on June 9. Harrington, along with other members of the expert panel, agreed with Chairman John LaFalce's (D-N.Y.) assessment that in the absence of a comprehensive solution, small market reform does nothing to solve the systemic problems plaguing the nation's health care system. Harrington pointed out that the small group reforms before Congress do not guarantee universal access and do nothing to decrease the rising cost of health care.

Tim Harrington (third from left at table) testifies before House Small Business Committee.

Referring to the actuarial study in Ohio (see April *Update*), Harrington explained that the average cost of health insurance to all small groups would *increase* under small group market reforms. According to the Ohio study, the increase could be from 8% to 12% due to previously uninsured groups becoming insured. It could also be higher.

Harrington suggested taking a closer look at the potential impact on the number of the insured people before enacting legislation. According to a recent study done by Health and Human Services, less than 3% of the uninsured now lack health insurance because of poor health. Because those with poor health make up only a small portion of the uninsured, Harrington thinks that guaranteed access provisions may do little to increase the number of small groups with health insurance coverage. Therefore, the issue is cost, not insurability. Raising the average cost could lead to fewer, rather than more, covered small groups.

The Health Committee examined small group reform legislation, such as H.R.3626 and S.1872, and emphasized their effects. There would be a one-time large rate increase for small employer groups that are well below the bottom of the bills' rating bands, and an overall increase of approximately 8–12% due to people entering the pool who were refused insurance before. There would also be no significant reduction in the number of uninsured, and the numbers could increase. "No reform proposal can substantially reduce the number of uninsured small groups until the underlying cost of health care is contained," said Harrington.

The Health Committee is currently working with the Congressional Research Service to prepare an estimate of the number of insured small groups that would experience large initial premium increases if small group reform legislation were enacted. The Committee also plans to begin work on the cost of alternative minimum benefit packages. Senate Finance Committee staff requested this work. ■

Report on IACA

by Leroy B. Parks, Jr.

"Competing in the Global Village: A Canadian Perspective" was the keynote speech at the thirteenth International Association of Consulting Actuaries (IACA) meeting May 24-28, in Vancouver. Some 140 actuaries from eighteen nations attended, including a United States delegation of 30 IACA members.

Keynote speaker John Crispo of the University of Toronto provided delegates a pungent and thought-provoking commentary.

As is customary at IACA, national reports were prepared by the majority of the 31 countries that have members in IACA. These reports were presented in summary form at the meeting, and were the subject of lively discussion.

Thirty-six technical papers in all were prepared by members and discussed throughout the conference. To facilitate discussion, the papers were grouped in the following categories: the consulting actuary as a professional; actuarial consulting in areas other than pensions or life insurance; pension plan taxation and regulation; demographic trends; insurance topics; investment topics; actuarial methodology; pension plan design; pension plan financing; and consulting firm management.

The U.S. representatives to the IACA Committee were changed as a result of the retirement of Bob Berin and the completion of my 6-year term on the committee. The 1992-94 committee will include W. James MacGinnitie (Towers Perrin, Atlanta), Robert Dymowsky (Milliman & Robertson, Radnor), and John Haley (Wyatt, Washington). At the committee's business meeting, the organization agreed to expand the eligibility requirement for membership to include fellows of the Conference of Consulting Actuaries with at least 5 years of consulting experience.

The conference activities began with a welcoming reception at the Vancouver Art Gallery, conveniently located across the

Continued on page 8

Capitol VIEWS

The Academy's Life Insurance Committee testified before the Senate Antitrust subcommittee on disclosure issues in life insurance. Judy Faucett, chair of the Society of Actuaries Task Force on Life Insurance Sales Illustrations, presented testimony on findings from the task force's study indicating that consumers do not understand sales illustrations. The task force report has been forwarded to the Academy's Committee on Life Insurance, and Faucett will be working with the committee to develop a plan to implement the task force's recommendation through the NAIC and industry groups.

The administration's MEWA proposal was introduced on June 11 by Congressman Petri (R-Wis.). H.R. 5386 is intended to tighten enforcement policies for MEWAs that do not comply with regulations set forth in the bill. Under the bill, all MEWAs would be required to register each year with the Department of Labor (DOL) and send copies of the registration to states in which they offer benefits. The DOL would have the authority to grant renewable 3-year exemptions from state regulation to MEWAs that meet federal standards.

The Social Security Administration would become an independent agency under legislation cleared by the House. H.R. 5429 would establish a three-member, bipartisan board appointed by the president to oversee the agency, with a single executive director appointed to be responsible for day-to-day operations. The board would submit its annual budget request to the president and Congress, with Congress making the final budget determination. The bill is now pending before the Senate.

A Senate committee approved private long-term care insurance reform legislation that is a compromise between Senators Kennedy (D-Mass.) and Hatch (R-Utah). Under the bill, the NAIC would establish standards in all LTC policies that would include uniform language and definitions of benefits and services, standard benefit packages, and limits on pre-existing condition provisions. It would also standardize benefit eligibility. All policies would include a nonforfeiture benefit, conforming to an NAIC model.

The IRS solicits comments on proposed changes to ease restrictions for safe harbor plans in final regulations under Section 401(a)(4). Notice 92-31 would modify the safe harbor requirements to: eliminate uniformity rules for vesting and service crediting; reduce restrictions on service credit with another employer and on permitted offsets; expand imputed compensation rules in Section 414(s) for leaves of absence and transfers; allow compensation adjustments for transferred employees; and relax fresh-start rules.

The IRS issued three revenue procedures in June. Revenue Procedures 92-52 and 92-53 set forth the salvage discount factors used in computing the amount of discounted estimated salvage recoverable under Section 832. The IRS also extended Revenue Procedure 85-29 for 2 years, through the end of 1993. It contains procedures for obtaining automatic approval for changes in defined benefit plan funding methods. The change in the effective date was announced in Revenue Procedure 92-48.

Contributory welfare and cafeteria plans will be granted temporary relief from reporting and disclosure rules under ERISA, the DOL announced. Under the revised policy, the DOL will not assert a violation or assess a civil penalty solely because of a failure by a Section 125 cafeteria plan to hold participant contributions in trust or for failure to meet reporting requirements of ERISA solely because the plan used participant contributions to pay plan benefits or expenses. The ERISA Technical Release 92-01 expands the relief granted in August 1988 and will remain in effect until December 31, 1993 or until adoption of final regulations.

Health care legislation was approved by the Ways and Means Subcommittee on June 30. The approved package contains the major provisions of H.R. 5502, introduced by Subcommittee Chairman Stark (D-Calif.) and House Majority Leader Gephardt (R-Mo.) as well as a separate package of 58 Medicare amendments. Rep. Stark noted that the Democrats still do not have a consensus on health care reform. The bill must be approved by the Ways and Means, and Energy and Commerce Committees before the House can vote on it. ■

PENSION COMMITTEE TESTIFIES BEFORE ERISA ADVISORY COUNCIL

The Academy's Pension Committee testified before the ERISA Advisory Council's Working Group on Pension Coverage and Adequacy on June 29. The group asked the Academy to comment on participation in defined benefit and contribution plans. Pension Committee member Jeff Schwartzmann presented testimony that referred to the Academy's recently completed pension termination survey. (See page 1)

"There is no doubt that the number of defined benefit plans has been declining rapidly," said Schwartzmann. "In 1980, five new defined benefit plans were established for each defined benefit plan that was terminated. In 1985 the ratio was three new plans for every two plans that terminated, and by 1990 there was one new plan for every twenty-five that terminated." Another trend is the rapid rise in defined contribution plans as the primary pension coverage for workers. Department of Labor tabulations of Form 5500 data show that between 1975 and 1987 workers with pension coverage who were receiving primary coverage through a defined contribution plan increased from 13% to 32%.

Schwartzmann pointed out major causes for the trend in terminating defined benefit plans, including a shift in employment from large industrial companies to small, nonunionized firms and changes in the work force (e.g. more younger, mobile workers) that make defined contribution plans more attractive to more employees. Finally, Schwartzmann noted that "small and medium sized employers can no longer afford the expense of complying with the ever-changing and even-more complex pension regulation."

Academy Executive Vice President Jim Murphy and the Pension Committee plan to use the results of the Academy's survey and data from the testimony as a springboard for expanded efforts to inform Congress of the increasing need to reassess the nation's retirement income policy and simplify pension regulation.

DB SURVEY REELS IN MEDIA IMPRESSIONS

Major news sources across the nation eagerly jumped on results of the Academy's survey of recent defined benefit plan terminations, which were publicized as part of *Forecast 2000*. Those placements included stories in:

Wall Street Journal
Tuesday, June 30

USA Today
Thursday, June 25

The Washington Post
Sunday, July 5

Chicago Sun-Times
Thursday, June 25

Atlanta Constitution
Thursday, June 25

Des Moines Register
Thursday, June 25

Cincinnati Enquirer
Thursday, June 25

The Boston Globe
Thursday, June 25

Gannett News Service, Cox News Service, and Thomas News Service

Journal of Commerce
Thursday, June 25

BNA *Pension Reporter*
Thursday, June 25

Business Insurance
Monday, July 20

Stories not yet in print:
New York Times, *Barrons*, and *Pensions and Investment Age*

Actuaries' Survey Cites Regulations in Decline of Defined Benefit Plans

By Ken Krehbiel

The termination of more than 30,000 defined benefit plans since January 1990 has left thousands of American workers without pension plans, according to a survey of enrolled actuaries conducted by the American Academy of Actuaries. Thirty-nine percent of those employers terminated their plans without providing their employees with new pension plans.

Academy Executive Vice President Jim Murphy and Pension Practice Council Chairman Larry Zimpleman announced the survey results at a press conference at the National Press Club in Washington, D.C., on June 24. The survey, designed with the cooperation of the Pension Benefit Guaranty Corporation (PBGC), was mailed to all the nation's 3,506 enrolled actuaries. Results were based on 1,551 responses received from February through April 1991. Although many respondents had been involved in several plan terminations, the survey asked about only the most recent defined benefit plan termination in which they were the principal actuary.

"The Academy is greatly concerned by the growing trend to terminate defined benefit plans," Murphy said at the press conference. "By the year 2010, the oldest of the baby boom generation will have reached retirement age. That year may also mark a generation of retirees without traditional pension plans."

The survey revealed a substantial increase since the early '80s in the number of defined benefit plan terminations. Federal regulations, especially those in the Tax Reform Act of 1986, were cited by 30 percent of the pension actuaries surveyed as the reason for plan terminations in 1990. Problems with government regulations include complex rules, the ever increasing cost of compliance, and frequent—almost annual—changes in the laws governing employer pensions. When asked for more specific reasons, respondents cited changes in the integration and nondiscrimination rules, and reductions in the amount of benefits that employers can fund.

"In the current regulatory climate," Zimpleman said, "employers who offer traditional defined benefit plans to their employees face an administrative nightmare."

Zimpleman proposed a three-part plan:

—Simplify the existing pension rules.

The Academy's pension committee will soon complete its analysis of those areas that are most in need of simplification; they hope to have their findings available later this year.

—Restore confidence among defined benefit plan sponsors that the PBGC, which guarantees private defined benefit plans, can properly fulfill its mission.

Continuing talk about PBGC premium increases and comparison of the PBGC with the Federal Deposit Insurance Corporation, only adds to the pressure away from defined benefit plans.

—Establish a presidential commission.

A commission of pension experts should study the nation's retirement system. Its review should include (1) issues raised by this survey to develop reasonable long-term solutions to keep the private pension system healthy, (2) a review of projected future replacement rates under Social Security caused by two-wage earner families vs. the single wage earner family, which has been the norm in the past, and (3) tax and economic policies that will establish for employers and workers a national savings rate to support the retirement income needs of the baby boom generation.

Zimpleman suggested that the commission should develop an overall policy, a baseline against which to measure future retirement income reform proposals. "Call this an 'environmental impact statement' for our retirement system," he said. "The actuarial profession stands ready, along with other interested groups, to lend its help to this very important work ahead."

The Academy's report on the defined benefit plan termination survey is available from the Academy's Washington office.

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street from the Four Seasons Hotel, site of the biennial conference. Conferees had ample opportunity to renew old professional friendships, enjoy local food and drink, and admire the art on display at the gallery.

The conference also afforded the opportunity to socialize and enjoy the charm of the area. All attendees were invited to a salmon barbecue on a cruise ship while seeing the sights of Vancouver harbor. Delegates also took time off from the professional meeting for a full-day excursion, either to the provincial capital of Victoria or to Whistler Mountain. The conference concluded with a farewell gala dinner dance.

Interested actuaries may apply for membership to IACA by requesting an application from any committee member. Annual dues are set at the U.S. equivalent of £25 (currently approximately $46).

The 14th biennial conference is scheduled for Hong King, October 16–21, 1994. The meeting in 1996 has tentatively been scheduled for the United Kingdom.

Parks is executive vice president of the Wyatt Company in Cleveland.