An Interview with David Walker
Assistant Secretary for Pension and Welfare Benefits
United States Department of Labor

David M. Walker was nominated to the
post of assistant secretary by President
Reagan on August 4, 1987 and con-
firmed by the Senate on October 20 of
this year. His responsibilities include over-
seeing over 900,000 pension plans, with
$1.5 trillion in assets, as well as over-
sight of four and one-half million health
and welfare plans. He is the department’s
principal advisor in the areas of em-
ployee benefits and national retirement
income policy.

He served as deputy assistant secre-
tary of pension and welfare benefits from
August 1985 to May 1987, at which time
he became acting assistant secretary. He
also served as the Department of Labor’s
(DOL) liaison with the Pension Benefit
Guaranty Corporation (PBGC) during
that time. Walker was deputy executive
director of the PBGC from October 1983
to March 1985 and served as its acting
director from March to August 1985.

Walker is a certified public accountant
and a member of the American Institute
of Certified Public Accountants. Prior to
his government service, he was employed
by Source Services Corporation, a human
resources consulting firm, and Coopers
and Lybrand. Walker recently spent some
time with Update staff, responding to
several questions of interest to our read-
ers.

The Update: The Academy has estab-
lished the Interim Actuarial Standards
Board, the I-A-S-B, as it’s called, to pro-
mulgate professional standards of prac-
tice; and, in 1988 there is every likeli-
hood that a permanent actuarial
standards board will be inaugurated. Do
you view this as a positive development?

Walker: Without question, I think it is
a positive concept, and one that should
be actively pursued. As you know, I’m a
certified public accountant, and CPAs
and actuaries are both very important in
assuring that the private pension sys-
tern works for its intended beneficiaries.
CPAs have had a viable self-regulatory
organization for a number of years, and
this has been one of the primary reasons
there has not been much government
regulation of our profession. I think that
the self-regulatory concept and the IASB
approach are very positive steps to as-
sure some degree of consistency within
your profession, to maintain quality and
professionalism, and to minimize direct
or indirect government regulation of the
actuarial profession.

(continued on page 4)
TO: Senator David Pryor, October 21, 1987. RE: Small Business Retirement and Benefit Extension Act. BACKGROUND: This statement was submitted to offer comments on this bill and related pension issues.
Letters to the Editor

Board of Actuaries and Economists

The dispute concerning the cost estimates for the catastrophic care proposal, described in the lead article of the October 1987 issue of The Actuarial Update, is a deplorable situation. It appears that policymakers in Washington, D.C. are unwilling in the present circumstances to rely exclusively on cost estimates produced by the Health Care Financing Administration’s (HCFA) actuaries. Not being a health actuary, I cannot critique HCFA’s cost estimates, but I would certainly like to see steps taken to assure that HCFA’s cost estimates are as reliable as possible and also have full credibility with the policymakers.

I believe both of these objectives would be advanced if a board of actuaries and economists were created for the Social Security and Medicare programs, similar to the boards that already exist for the Civil Service Retirement System and the Military Retirement System.

I recommend that this matter be an 1988 agenda item for the Academy’s Committee on Social Insurance.

Dwight K. Bartlett, III
New York, New York

Call for Papers:
The 1989 Centennial Celebration


The first two of these topics, asset allocation and credit risks, were described in more detail in the previous announcement. The next four subject areas are detailed below. Inquiries should be addressed to Gene Bates or Fred Kilbourne at their yearbook addresses. The outline for your paper is needed as soon after year’s end as possible.

Old Age and Continuing Care. Since this topic involves merging issues and solutions in all actuarial specialty areas—casualty, health, life, and pensions—perspectives from each will be essential. Equally, if not even more beneficial, would be papers jointly authored by persons from different specialties. This would bring the concepts, foundations, and tools, both past and future, of their special expertise to bear on the issue in a coordinated, cohesive fashion. Specifically, demographic issues, chronic disease incidence, and their effects should be of interest.

This topic is of international concern. Accordingly, papers describing, comparing, or critiquing old age and continuing care systems in different countries are encouraged.

Product Design and Pricing. Papers could address such items as: (1) the role of the pricing actuary in product design, (2) new non-traditional product designs—new pricing/profit methods, and (3) current vs. new pricing methods. Under (1) above, papers might address (a) faulty design—the actuary’s obligation? (b) pricing actuary standards and principles—qualification? (c) unpriceable products, and (d) governmental insurance programs. (2) above could include (a) spread pricing vs. ROI or percent of premium, (b) claims-made vs. incurred claims, and (c) financial guaranty products, (d) deductible/limits changes for P/C. Item (3) might include (a) risk theory utility and (b) market research—economic theory utility.

Pensions. The pensions breakout session will focus on the evolution of pensions over the 100-year history of actuaries in North America. Prospects for the long-term future, growth in coverage, and change in character will round out (continued on page 10)
Walker Interview
(continued from page 1)

The Update: Attention is currently being focused on the catastrophic health insurance legislation now under consideration in Congress. However, most people seem to regard long-term health care for the elderly as the more significant issue, an important component of which is employer-provided retiree health benefits. How does the Administration intend to address this area? In a period of budget deficits, is it reasonable to anticipate that there can be significant new tax incentives to help pay retiree health costs?

Walker: I think that health benefits, in general, and retiree health benefits in particular, are probably one of the biggest challenges that we face in the employee benefits area. We have huge and growing liabilities, and we have an aging society. These liabilities represent a ticking time bomb that must be defused. We also have to recognize that there's a limit as to how much government can do, and we need to find ways to encourage employers and individuals to do more for themselves.

This is a difficult issue, there are many complex problems that need to be sorted out: social, economic, and tax policy issues. The Administration tried to take a positive step, albeit a modest one, in our termination and funding proposal currently before the Congress. Specifically, we recognize that there are huge surpluses in many defined benefit pension plans, and we think it would be a positive step to allow access to certain of these surplus assets to fund retiree health benefits for current retirees on a tax-favored basis. Unfortunately, for a number of reasons, it is highly unlikely that this proposal will be included in any final piece of legislation and that, in my judgment, is a mistake.

It will probably take a couple of years of additional data gathering and analysis before the Congress will be ready to deal with retiree health benefits in the way it needs to. We're encouraging the Congress to take some incremental steps in the interim. The bankruptcy treatment of retiree health benefits, for example. We're also dedicated to working with the Congress to try to develop some broad-based solutions for the long term.

The Update: You've recently spoken out on the major Administration proposals for changes in minimum funding requirements and PBGC premiums. What would you characterize as the major priorities of the Administration in this area?

Walker: With regard to the legislation, we're pleased that all four committees of jurisdiction have reported bills and that all four of these proposals will be going to conference. These bills contain a number of common denominators that are in accord with the Administration's proposal put forward in February 1987. For example, all the bills recognize the need for tougher and more targeted minimum funding standards, the need for employers to have continued access to surplus assets, and the PBGC's need for additional revenue to meet current obligations and those it is likely to assume in the future.

I think there are about six main issues that represent the battleground for when this goes to conference. These are all important issues, and in some cases they relate to fundamental philosophical differences regarding the private pension system. First, several issues relating to terminations and underfunded pension plan issues: (1) the need for additional protections for plan participants and the PBGC—specifically, the need for controlled group restrictions, transfer rules, and appropriate sales and transfer rules; (2) whether limited withdrawals are preferable to adjusted terminations as a means of accessing certain excess assets from overfunded pension plans, and (3) whether or not all or selected participants should receive a windfall in the case of an underfunded pension plan termination.

The next issue is the PBGC premium. Everybody agrees that the PBGC needs more revenue, but the Administration believes that it's important that we fundamentally change the way that burden is assessed, and this is an important issue. We are proposing a variable rate premium. The third issue is minimum funding standards and related transition rules. Everybody agrees that we need tougher and more targeted standards, but I think the philosophical approach is significant here. We need to go for the standards that make the most sense. In addition, any transition rules should be temporary.

The next issue is plant shut-down benefits. It's clear that adjusting the minimum funding standards alone will not solve this problem. Very large liabilities can arise, and even with tougher minimum funding standards, these liabilities are likely to be funded after the event occurs. Therefore, we will seek a more appropriate way of handling them: through separate accounting, through shorter funding periods after the event occurs, and through possibly adjusting the PBGC's guaranty phase-in to more closely approximate how these benefits are actually funded.

A fifth issue relates to floor offset plans that rely heavily upon employer securities to meet defined benefit promises. As we've seen with the recent stock market decline, these can represent a significant threat to benefit security and the PBGC. Not only the general market risk, but also the specific risk that relates to the viability of the plan sponsor and how it might perform. Both of these risks relate to the lack of appropriate diversification to back-defined benefit promises.

Finally, we need to deal more effectively with distress terminations and significantly underfunded plans. We strongly believe, as the Duncan amendment reflects in the House Ways and Means Committee proposal, that merely filing for Chapter 11 should not automatically enable an employer to dump its pension plans, thereby imposing losses on plan participants and on the PBGC insurance system.

We believe that for significantly underfunded plans, defined in the Ways and Means proposal as plans funded less than 70% of termination liabilities, there must be a safety net of protection for plan participants and the PBGC. Most specifically, what they propose is that if a plan is funded less than 70% percent level, for example 50%, then a security interest would arise for the difference, or 20%, that would serve as a safety net in the event the plan was terminated on an underfunded basis. That's very important, both to reduce the put option on the PBGC and to provide incentives to fund all promised benefits.

With regard to the upcoming conference, we plan to take an issue by issue approach, looking at all four of the bills, to come up with the best overall package.
AERF RFP

The Actuarial Education and Research Fund (AERF) has announced a request for proposal (RFP) to write a comprehensive monograph on the fundamental concepts (the intellectual foundations, if you will) of the actuarial profession. Essentially, this project (sponsored by AERF for the Interim Actuarial Standards Board) is to identify and delineate the precepts and concepts common to all areas of actuarial practice. The monograph is to include sections on economics of risk, time value of money, random variables, individual insurance models, conservatism, adjustments, collective or individual balance, and classification—with additional concepts added as deemed appropriate. A detailed RFP is available from the AERF office at 500 Park Boulevard, Itasca, Illinois 60143. The telephone number is (312) 773-3010.

Proposals will be accepted until January 31, 1988. A review draft of the monograph must be completed by November 1, 1988. AERF intends to publish this work by June 1989.

We want a final bill that ensures benefit security, improves the stability and credibility of the private pension system, and helps to assure the long-term financial integrity of the PBGC, while avoiding provisions that could have very counterproductive consequences for our private pension system.

The Update: The changes that you're asking about would seem to represent the biggest changes to the private pension system since the enactment of ERISA. Do you think it's appropriate that such changes are included as part of a large budget reconciliation bill?

Walker: In my view, from a benefit security perspective, this is clearly the most important piece of legislation since ERISA was enacted in 1974. It is comprehensive: it is complex. And, some would argue that it might be preferable to handle it on its own, rather than as part of the budget reconciliation process.

We believe, however, that it's of utmost importance to take action now. We must seize the opportunity to make sure that our pension system works for its intended beneficiaries. We have made every effort to assure that all the committees of jurisdiction and all interested parties have had access to the information necessary to offer comments. As you know, Congress has held several public hearings. In addition, I have made several speeches on the subject and met with a number of interested parties, to ensure that we develop a proposal that gets the job done.

So, while one might prefer that this issue be handled on its own and outside of budget reconciliation, I think that it's been addressed responsibly even though it is part of the budget reconciliation package. The important thing is that we get a piece of legislation that makes sense.

The Update: Current legislative proposals relating to pensions have focused to a large extent on the relatively few plans that are chronically underfunded. Is it necessarily appropriate to suggest wide-ranging proposals that have an impact on all plans, or should the approach be more carefully targeted?

Walker: Our approach is a comprehensive proposal. Some would argue that we should be concerned only with underfunded plans or with the PBGC. I strongly disagree with that premise and, more importantly, the Administration strongly disagrees with that premise, as evidenced by the proposal we submitted to the Congress. Our objectives were threefold. We want to ensure the benefit security of all plan participants and beneficiaries—not only pensions, but also health benefits: not only guaranteed benefits, but full promised benefits. Second, we hope to improve the stability and credibility of the private pension system. Terminations that are undertaken merely to access surplus assets can serve to undermine the stability and credibility of the private pension system. Third, we want to ensure the long-term financial integrity of the PBGC.

Take, for example, overfunded pension plans. There's no question that overfunded pension plans don't represent a direct threat to benefit security—it's a problem I'd like to have more frequently—however, current law does. Current law, whereby employers can access surplus assets from one plan while maintaining a number of other significantly underfunded plans, makes no sense. An aggregation concept is fully appropriate. In addition, current law requires that an employer terminate a plan, which is very costly and very disruptive. That doesn't make sense either.

Also, after a termination, plan sponsors can take every last dime of excess assets out. This undercuts the principles embodied in the minimum funding standards and decreases the possibility that participants will receive future benefit increases or ad hoc cost of living adjustments. Therefore, we believe that it's appropriate not only to look at the problems of today, but also to try to prevent tomorrow's problems. As a result, we have proposed comprehensive termination and funding changes.

Frankly, we're also tired of throwing money at the PBGC. We want to get to the root of the problem, and the root of the problem is the termination and funding provisions of ERISA. In addition, we want to see some structural reforms for the PBGC, including additional protection in the bankruptcy area.

The Update: You refer to overfunded plans; with the recent drop in the stock market, this may be less of a problem. It has also demonstrated that there can be major and sudden shifts in the value of asset portfolios. With this in mind, can there ever be a situation where an ongoing plan is "overfunded?"

Walker: Overfunded is in the eyes of the beholder. It depends upon the perspective that you have. Let's talk about the stock market for a minute. There is a perception that because of the significant and unprecedented decline in the stock market, overfunding is no longer an issue. Well, that is an inaccurate perception. The fact is that when we went public with our termination and funding proposal last February, we estimated that there was approximately $620 billion in net excess assets in the pension system as of December 31, 1986. As of yesterday, October 28, after a significant market decline, we estimate that there was approximately $620 billion in net excess assets in the pension system.

People forget that even after the recent decline, the market is up 137% from August 1982, and before the decline of this year, the market was up 44% to August 25. Also, pension plans have diversified investment portfolios which serve to moderate the downside risk. In addition, our evidence shows that many pension plans had reduced their assets...
Legal Lines
by Gary D. Simms

Insurance Litigation Continues to Raise Novel Issues

One might assume that after more than two hundred years of American jurisprudence, all possible issues would have been resolved. Such an assumption, however, would underestimate the ingenuity of the legal profession in raising new and novel matters for judicial opinion rendering.

Demonstrating the increasing complexity of international insurance trade and coverages, a major dispute has arisen between courts in the United States and Great Britain concerning the jurisdiction of a lawsuit. The matter involves an American company, E.I. duPont & Nemours, which was the losing end of a product liability lawsuit in Illinois. In addition to the award of $13.2 million in compensatory damages, the plaintiff was also awarded $261.1 million in punitive damages, subsequently reduced to $13 million. duPont filed suit in England seeking an interpretation of its indemnity coverage, to ascertain whether or not the British insurer covered the punitive damage portion of the award. duPont favors hearing the lawsuit over policy interpretation in England, where there is no public policy concerning indemnification for punitive damages. The insurers, however, want the case heard in the United States, where they maintain that public policy considerations dictate payment of punitive damages from the defendant, and not from the defendant's insurer. The United Kingdom Court of Appeals ruled in July 1987 that the British courts indeed have jurisdiction. The Illinois courts, however, have entered a ruling declaring that they, the American tribunal, has jurisdiction over the interpretation of the insurance contract. As a result, both cases are going ahead to hear. And in the meantime, the plaintiff in the original suit against duPont has died before ever receiving the first cent of his award.

In perhaps a more significant challenge, the question of whether punitive damages violate the prohibition against excessive fines in the 8th Amendment to the U.S. Constitution will be argued before the U.S. Supreme Court shortly. The case, Bankers Life & Casualty Company v. Crenshaw (No. 85-1765) had its genesis in a personal injury case when the plaintiff, Crenshaw, had his foot injured in a garage accident. He submitted a claim for $20,000 to the insurer. His claim was rejected. After suit, the jury awarded Crenshaw the $20,000 payment and also awarded punitive damages in the amount of $1.6 million. After a closely divided Mississippi Supreme Court upheld the awards, an appeal was taken to the U.S. Supreme Court.

The 8th Amendment to the Constitution states in part that "... excessive bail shall not be required, nor excessive fines imposed, nor cruel and unusual punishments inflicted." Bankers Life will argue that the imposition of a $1.6 million punitive award is violative of this 8th Amendment prohibition. Interestingly, the case will be one of first impression for the Supreme Court, meaning that in its long history, it has not attempted to define the parameters of this 8th Amendment prohibition in commercial litigation.

A major issue at stake in the litigation is whether the 8th Amendment prohibition against excessive fines is limited to criminal matters, as one might assume given the context of the phrase (between excessive bail limitations and the prohibition against cruel and unusual punishment.) On the other hand, many observers of the constitutional scene would maintain that punitive damages are designed to inflict a societal measure of sanction and, hence, are similar enough in nature to criminal fines as to merit protection under the aegis of the 8th Amendment.

The case may well have an impact on many state statutes of recent vintage that attempt to place a ceiling or some other limitation on punitive damage awards. Given the current state of the debate on "tort reform" and the "insurance crisis," parties in all sides of the controversy will be following the Supreme Court's handling of this matter very closely indeed.

Simms is the Academy's general counsel.

CCRC Media Tour: An Overnight Sensation

Everyone, or almost everyone, in this mad mad country yearns to be a star—that is, to appear, at least once, on a television or radio show. This desire, which is now almost taken for granted, has been immortalized by the late Andy Warhol's pronouncement, the one about everyone being famous for at least fifteen minutes. Of course, some would say that becoming famous is too fatuous a description for what happens when an actuary is thrust for the first time into the media limelight.

Be that as it may, gaining exposure and not celebrity was the primary intent of the Academy's public information staff when it recently undertook to book a "media tour," as it's called in the public relations business. Staff sought out an Academy spokesperson, or several individuals, who could appear on television and radio public affairs programs nationwide to talk about why actuaries are needed in the financial planning of continuing care retirement communities (CCRCs). Three members of the Academy's Committee on Continuing Care Retirement Communities, Hal Barney, Jarvis Farley, and Barbara Snyder proceeded to distinguish themselves before the cameras and the microphones as CCRC experts.

Snyder kicked off the media tour with an interview on KMNY's Money Radio in Los Angeles. Next, Barney appeared on a television talk show, "New Jersey Forum," on WPIL-TV in Philadelphia, Pennsylvania, followed by a live radio show, "Monday Night Talk," in Plainfield, New Jersey. Barney, incidently, in addition to being an actuary, is a former disc jockey for a popular New York area radio station. The next day, Farley appeared on the program "Caring," featured on WIP-AM radio in Philadelphia. Barney wrapped up the tour in the media capital of the world, New York City, on a show called "Community Concerns," aired over prestigious WOR-AM.

The CCRC media tour was a hit, we're pleased to report. After it was over, Barney consented to yet another interview—to talk about the experience and public speaking in general.

The Update: What was your greatest concern about doing these interviews before going on the air?

Barney: The fear of being asked a question for which I didn't have an answer.

The Update welcomes letters from readers. Letters for publication must include the writer's name, address, and telephone number, and should be clearly marked as Letters to the Editor submissions. Letters may be edited for style and space requirements.
There’s always that fear that you’re going to draw a blank, or you’re going to get a question where you know you read something about it just the other day, but damned if you can remember it.

The Update: You weren’t asked that basic question, “what is an actuary?,” were you?

Barney: No, and I think that’s one of the toughest questions you can get. How do you answer that without putting people to sleep? If the readers have some good ideas, I’d sure like to know.

The Update: In reviewing the tape of the television show, how would you have projected yourself differently?

Barney: I wish I’d sat up straighter! But I was pleased with the way I used my hands, which adds life to it. You want to have expression. In fact, this comes from working in radio, when you’re talking on the air you want to exaggerate the expression in your voice.

The Update: What kind of overall image did you try to project while representing the profession?

Barney: Well for starters, I wore the typical actuary’s power suit with a blue shirt. Perhaps I went slightly overboard on the conservative side; I could have dressed a little more casually.

As far as broader image is concerned, I think it’s important for the actuary to be perceived as a human being first, not as a funeral home director. One of my life’s goals is to change the public image of the actuary, to have the public see us as a person with unique training and background. Just as a doctor is the kind of person you go to with a certain type of problem, I want people to recognize that actuaries have a certain expertise in solving certain types of problems.

The Update: Were you successful in getting that message across?

Barney: If I appeared at ease, then to some degree I was successful. If I appeared capable of laughing, of being personable, then I was successful. If I appeared esoteric or too technical, then I enhanced the wrong image.

The Update: How did you prep yourself mentally for these shows?

Barney: I had a friend ask me every question she could think of based on the background articles that staff sent me. She let me struggle with an answer, and then we reviewed and critiqued my response. It’s like taking an actuarial exam: the more questions you take before the exam, the easier it is to be convincing when you get a question you’ve already answered.

The Update: What kinds of forebodings did you have concerning the various hosts you had to face on these programs?

Barney: You don’t know going in if the host has a hidden agenda and will try to frame you into saying something that sounds different from what you intended in order to make his or her point. Clearly the woman on “New Jersey Forum” (host Dorie Lenz) had an agenda. It was not one I was averse to, it was just not the one I would have liked her to have had.

The Update: In retrospect, what is the difference between being interviewed on TV as opposed to radio?

Barney: Obviously your physical appearance is more important on television—your mannerisms, whether your hands are rubbing your forehead or your eyes. On television, you know people can see you, and if you’ve got spinach between your teeth, TV is going to magnify that twenty-six times. Television is a tougher medium to perform in because of the lights and the artificial set. In a radio studio you’re sitting there with one person across the table, and it’s like having a friendly discussion.

On TV you’ve got the blinking camera, the monitor, the lights shining down on you, the make-up, and so you’re much more aware that you’re not just talking to the host, but to millions of viewers. The key is to put that aside and pretend you are talking just to the host.

The Update: As an overview, what was accomplished by this CCRC media tour?

Barney: Two things. It raised the visibility of the actuary and his place in societal problem-solving. I believe getting actuaries more aware that you’re not just talking to the host, but to millions of viewers. The key is to put that aside and pretend you are talking just to the host.

The Update: Was the public more aware that you’re not just talking to the host, but to millions of viewers. The key is to put that aside and pretend you are talking just to the host.

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Correction

The November issue of The Actuarial Update contained a typographical error in the copy entitled “Radio Roundup.” This radio script did not go out to three-thousand talk show program directors with the word actuarial misspelled. That unfortunate misspelling was confined to The Update reprint.

P/C Topics Top List at Academy’s 1987 Annual Meeting

The Academy’s 1987 Annual Meeting was held in conjunction with the Casualty Actuarial Society’s fall meeting in San Antonio, Texas. The centerpiece of the Academy-sponsored portion of the program was a panel discussion entitled: “The CAS and the AAA: Working Together.” The discussion was moderated by Mavis A. Walters, pictured far right. Other members of her panel were, from left to right: Albert J. Beer, who chairs the Committee on Property and Liability Issues; M. Stanley Hughey, representing the standards movement; and Stephen P. Lowe, who chairs the Committee on Property and Liability Insurance Financial Reporting. Pictured in the background, left to right are Academy officers Virgil D. Wagner, secretary, John A. Fibiger, president, and Daniel J. McCarthy, treasurer.
into the media is extremely important so that people begin to recognize the role we play on a much broader level. The second objective, with respect to CCRCs, we had an opportunity to point out an existing problem and a solution. And to the extent that one community takes a long range view of their commitments to their residents—and hires an actuary to do that—then we've perhaps saved 300 to 400 residents from having their dreams of security go up in smoke. If we can avoid this situation, one that's arisen forty or fifty times in this country, then we've served a very useful purpose.

The Update: Thanks a lot for your time.

Barney: No problem. I look forward to my next media tour! Let's think big... the Donahue Show... Good Morning America... Oprah Winfrey...

A media primer entitled “Winning in the Public Eye” is available on request from the Academy's Washington office. It is packed with useful tips on how to handle yourself in situations like the ones Barney and his colleagues found themselves in.

WALKER INTERVIEW
(continued from page 5)

allocated to equities, expecting somewhat of a market correction, albeit, not as large a correction as we got. So, overfunding is still very much an issue.

I think that the market decline and the related volatility does reinforce the need for comprehensive pension reform legislation. Such legislation must provide appropriate restrictions on the ability of employers to access surplus assets. It must provide for tougher and more targeted minimum funding standards that are geared towards underfunded plans that truly represent a risk. And it must provide appropriate restrictions on ability of employers to have so-called floor/offset arrangements that are backed largely, if not entirely, by employer's securities.

I also think the stock market decline served as a sobering reminder to participants in defined contribution plans that they bear the risk of investment performance and the need to diversify one's investments in order to moderate the risk to one's retirement savings.

FROM THE GUEST PRESIDENT
(continued from page 2)

Pension benefits are realistic in relation to the investment return which may be earned.

The government has taken major steps to encourage individuals to provide their own pensions by allowing a new "personal pension," which can be offered by life offices and certain other financial institutions. An employee may opt out of his employer's pension scheme and set up his own personal pension instead; and, of course, he may take a personal pension if his employer has no scheme. He may also use a personal pension to contract-out of the state earnings-related scheme. Employees who are members of an employer's scheme may make additional voluntary contributions quite separately from the scheme. Any employer who leaves pensioned employment has to be offered either a preserved pension, indexed within limits to the cost-of-living, or an equivalent transfer value. In all cases, full tax relief is granted on contributions and the accumulation of assets; at the same time, however, the Inland Revenue has imposed additional restrictions on maximum permissible pension and lump sum benefits and has taken steps to curb any excessive build-up of surpluses within schemes. It goes without saying that actuaries are deeply involved in the turmoil that these changes have created in the British pension world.

There seems little likelihood of actuarial unemployment for some time to come.

The Update: The tax writing committees recently approved proposals that change the full funding limitation for defined benefit plans. A contribution would not be deductible to the extent that plans assets exceed the full funding limitations, or the plans assets exceed 150% of the plan's termination liability. This appears to us to be strictly a revenue raiser. Would you comment on whether this proposal is consistent with current concern regarding minimum funding standards and the PBGC premium?

Walker: The Administration has not yet taken a position on this proposal. I will say this: the Administration remains committed to employee benefits as a top priority, and we look at employee benefits, especially pension benefits, as an investment for the future. I believe that when Congress considers revenue measures having an effect on employee benefits, it's critically important to structure such measures in a manner that does not adversely affect overall coverage. The type of plan, for example, final pay plan vs. career average pay plan, the level of benefits provided, or overall benefit security.

This specific provision would raise some revenue; and that's why Congress is looking at it. If viewed in the context of the three principles I just articulated, depending upon the level that is chosen and whether or not there is appropriate flexibility to deal with the demographics of the plan, it is possible to structure a provision that does not adversely affect coverage, plan design, benefit levels, and benefit security. Let's keep in mind that this targets only overfunded plans and so, the key is what levels would be chosen in this regard. I also understand that both the Congress and the Treasury Department have attempted to obtain input from the actuarial profession as to the likely effect of this provision. I believe the preliminary feedback with re-

Non-Routine Board Actions

At its meeting held on October 14 and 15, 1987, the Academy Board of Directors took the following non-routine actions:

- The board elected the following individuals to serve as officers for the coming Academy year: W. James MacGinnitte, president-elect; Philip N. Ben-Zvi, vice president; Joseph J. Stahl, II, vice president; Daniel J. McCarthy, treasurer; and Virgil D. Wagner, secretary.
- The board received a report from the Standards Organizing Committee and endorsed the creation of the Actuarial Standards Board in 1988.
- The hiring of a director of government relations for the Washington office was approved.
- The 1988 dues level will remain at the 1987 dues level.
- The board accepted a report of the Task Force on Contributions of Actuarial Profession to the National Health Care Debate and endorsed the recommendations of the task force.
- A report of the Joint Committee on the Valuation Actuary was approved.
garded to the 150% limit was that a vast majority of plans would not be affected. In fact, it might only affect a very small group that might otherwise choose extremely conservative actuarial assumptions as a means of putting extra money in the plan.

I'll have to wait until I get more information as to the reasonableness of these target levels. But, potentially it could be something that could be structured so that it wouldn't adversely affect coverage, benefit design, or benefit security. While I might prefer that it not happen, I want to make sure that anything that does happen in the revenue area doesn't cut against those three principles.

The Update: Senator Heinz has introduced a proposal that would basically create a separate guaranty program for steel plans. This is a fairly recent proposal, but do you have any thoughts about such an approach?

Walker: I haven't reviewed the latest draft of the proposal, but it is my understanding that it would create a separate steel authority outside of the PBGC, a new government bureaucracy. I'm not enamored with any new government bureaucracy. But more importantly, it doesn't go to the root of the problem.

The root of the problem is how did the steel industry get into a situation that caused such large losses, not only to the PBGC, but also to plan participants and beneficiaries. It is our belief that, from an employee benefits perspective, the Heinz/Metzenbaum proposal is a step in the wrong direction. It would establish a new government bureaucracy, and it is, in essence, a bailout of the steel industry—a $7 billion bailout of the steel industry.

It is also a dangerous precedent. I can think of other industries that would like to have this type of assistance. Furthermore, nobody knows with certainty what the distressed companies or industries of tomorrow will be. This is all the more reason why we need the minimum funding rules to ensure that adequate contributions are made before a company or entire industry gets into distress. For example, in the fifties, some of the companies that are currently distressed were industrial giants, they were extremely strong. That's why we're trying to take a comprehensive approach, a preventative approach, to ensure that the system will work for all industries and in all kinds of market cycles.

The Update: For several years the Academy has called for the development of national policy on pensions and retiree benefits. The Retirement Income Policy Act (RIPA) was one attempt to accomplish this, but only parts of it were adopted. Do you foresee the development of such a policy?

Walker: I don't know that there will ever be a "document" that is passed by the Congress that spells out our national retirement income policy. For all practical purposes, even if they did this, it would have to be a statement of principles, and it would have to be somewhat flexible—based upon the economic and fiscal climate. However, the Administration has taken a number of steps to try to ensure that employee benefits policy is developed on a balanced basis, looking at the social, economic, and fiscal policy implications, all of which are important. In addition, it is important to look at both the long-term and the short-term implications of any related policy decisions.

The Labor Department has a lead role in trying to make sure that social and economic policy considerations do not take a back seat to fiscal policy consideration. In that regard, I would note the establishment of the ERISA Coordinating Committee about a year and a half ago. This is a standing working group of the Economic Policy Council, chaired by the Department of Labor. At present, I fill that role on behalf of the Secretary of Labor, and I am joined by six other officials from Treasury, Health and Human Services, Justice, Commerce, the Office of Management and Budget, and the Council of Economic Advisors. The committee exists to deal with important and emerging employee benefits policy issues, and the administration of ERISA on a coordinated basis.

Our pension reform proposal was the first product of that group, and retirement income policy was our number-one consideration in its development. We didn't even run the revenue numbers until we had determined what we wanted the retirement policy to be. After that, we ran the revenue numbers because we needed to make sure that it was fiscally responsible. The key is to establish the process. While we should not be unmindful of the fiscal implications, we should not let them be overriding.

At the same time, people must recognize that while employee benefits are a priority, we also have a need for fiscal austerity. Congress is going to look at an area that represents the single largest tax preference. The key is that they not look to this area first, and that when they do, any changes be structured so as not to adversely affect coverage, benefit design, benefit levels, or benefit security. We at the Department of Labor, and I in particular, will do everything possible to make sure this doesn't happen. Over the last year and a half much progress has been made in that regard, and I'm hopeful it will continue.

The Update: You have been appointed to your new position during the last fifteen months of the Reagan Administration. Is there enough time left to accomplish your goals?

Walker: Yes. I have been at DOL for two years and with the Administration four. During that time we have accomplished a great deal. In addition, we have a number of initiatives that are underway, many of which are substantially complete. We also have a few other initiatives that we plan to undertake and complete during the remaining fourteen months. I believe we can accomplish a great deal in the time that remains during this Administration.

Why? First, because, we have some extremely capable and dedicated people here at the department. Second, because we have a number of legislative, regulatory, and operational challenges that need to be addressed. And, third, because we're in an area that deserves, in fact demands, bipartisan support, and I think that we can rise above partisan politics to get things done, even in an election year.

The Update: What can the American Academy of Actuaries do to help you?

Walker: By all means, the Academy should continue its efforts with regard to the Interim Actuarial Standards Board. And, the Academy should continue to provide us with assistance on the legislative and regulatory initiatives that we are considering, lending its expertise and its perspective as to the likely implications from both a broad policy perspective and for those you serve. I think the Academy represents an extremely valuable resource.

The Update: You've been very generous with your time this morning. Thank you.

Walker: Not at all. A pleasure.
CALL FOR PAPERS
(continued from page 3)

the discussion. Other specific topics include actuarial problems; accounting considerations; investment aspects; social insurance programs and their development; both Social Security and Railroad Retirement; government programs, such as Civil Service; the place of pensions in flexible benefit programs; and employee compensation generally. The role of the individual vs. the role of the employer and government is also of long-term interest.

Healthcare in the 21st Century. Papers could address one or more of the events or trends that will have an impact on healthcare in the 21st century. Papers should include both the problems brought on by the events and trends discussed, and realistic solutions. Examples are: (1) the increasing role of medicine in the procreation process, from preventing or abetting conception to medical care during pregnancy to the birthing process; (2) the emergence of the "right to die" issue for the elderly and terminally ill; (3) an increasingly older population; (4) the increasingly higher cost of "heroic" medicine (i.e., how much is too much both in terms of money and emotional strain on the family); (5) the increase in self-care and wellness programs; (6) the gradual spread of Eastern methods of healing, such as acupuncture; (7) the increasing cost of medical malpractice insurance; (8) the AIDS virus discovery and spread; (9) the increase in pollution-related diseases, and (10) the increasing financial requirements of healthcare on the business community.

These and other events and trends place a strain on the present healthcare system, which is a combination of governmental and private medical care and health insurance. This strain also has an impact on our social and political systems.

1987 Casualty Loss Reserve Seminar Attracts Record Number of Attendees

700-plus individuals attended this year's Casualty Loss Reserve Seminar (CLRS), which was held in Minneapolis, Minnesota, September 10-11. The meeting is cosponsored by the American Academy of Actuaries and the Casualty Actuarial Society. The 1988 CLRS is scheduled to take place September 19-20 in Atlanta, Georgia.
Committee on Planning

The Committee on Planning, whose role it is to review Academy objectives and develop strategies for achieving its goals, issued two recommendations stemming from its 1987 activities:

- Director of Government Relations: A January 25, 1987 report was submitted to the effect that this role should be formalized and made the primary responsibility of someone at staff level in the Academy's office.
- Exclusivity as regards actuarial work: A report on this subject was submitted on September 9, 1987. Over the years, this subject has been designated by various labels. These include formal recognition, such as accreditation, certification, or licensing. The committee took into account the experience of other professions. The committee addressed the issue of whether or not certain actuarial activities should legally be practiced only by actuaries, and the response was affirmative. The committee suggested the general outline of a method for accomplishing this objective, including some initial suggestions for implementation.

Additionally, the committee began work on a long range plan at an October 14, 1987 meeting. The minutes of that meeting reflect an approach to the planning process that the committee believes to be worth pursuing. Some work has been assigned to Academy staff to help facilitate the process.

W. H. Odell, chairperson

Admissions Committee

For the period through July 1, 1987, 190 applications were received. 198 new members were added, forty-six applications were pending with the committee, and thirty-seven were pending in the Academy's office. There were five reinstatements.

Three goals were accomplished in the committee's plan for the year:

- Continue to operate the Academy's admissions system with an average time to process applications for memberships at the low level established in 1982, while maintaining the present high quality of professional review of individual applications.
- Review the continuing experience with the new questions on felonies. The committee will work with the Academy's general counsel to evaluate new guidelines for the use of answers to this question and its impact on the admissions decisions and process.
- Recent controversial applications have revolved around the choice of and answers of applicant's references. The committee will review the problems and determine if published guidelines would be helpful, and if they would, it will develop such guidelines for possible inclusion in the yearbook.

The first of these three goals is continuing in nature and being met. With respect to the second goal, there were no specific experiences to test the guidelines. This will continue to be monitored in the future.

With respect to the third goal, proposed changes the question on the reference form pertaining to professional integrity have been developed to deal with poor responses to this key question. In addition, a recommendation has been made to include required references as part of the reinstatement process. The practice of permitting references from blood or marital relations has been changed and will no longer be acceptable. The application instructions will be changed to make this clear.

Finally, as a result of input from applicants and committee members, a recommendation was made to change the Academy dues waiver guidelines to more closely parallel those of the Casualty Actuarial Society and the Society of Actuaries. This matter was taken to the Budget and Finance Committee, which has recommended action to the Academy's board on the issue.

James J. Murphy, chairperson

Budget and Finance Committee

During 1987, the Budget and Finance Committee accomplished the following:

- Supervised the preparation of periodic financial reports and projections for the current year.
- Developed a recommendation for the board on Academy dues for 1988.
- Analyzed the financial effect of proposed operating arrangements for the ASB and worked with the SOC to develop a mutually acceptable arrangement.
- Developed financial projections, under various assumptions, of operating costs for the ASB.
- Directed the investment of the Academy's investment fund.

The Academy's investment fund had a return of 8.2%, while maintaining the present high level of diversification and returning a solid rate of return for the current fiscal year.

W. H. Odell, chairperson

Interim Actuarial Standards Board (IASC)

The IASC met six times during 1987. In July, the IASC met jointly with the Standards Organizing Committee (SOC) to review and discuss a draft of recommendations prepared by the SOC for the development of standards for the establishment of an Actuarial Standards Board in 1988.

Operating Committees Activities: Each of the five operating committees of the IASC were involved in several active standards projects. The status of these are published monthly in the "IASC Boxscore" and reported on at each IASC quarterly meeting. A Subcommittee on Formats and a special Task Force on Retiree Life and Health Benefits was appointed by the IASC during 1987 to handle some special projects and concerns related to the standards setting process. An Editorial Advisory Committee was also established to assist and further develop the process for unifying the format, structure, and content of actuarial standards.

Standards Activities: There were three standards of practice issued in 1987:

- Recommendations Concerning Non-Guaranteed Elements (January 1987).
- Actuarial Standards of Practice Relating to CCRCs (July 1987).

W. H. Odell, chairperson
In light of recent developments of the "Incurred Health Claim Liabilities" published in August 1987, we reviewed a summary of the issues facing the Discipline Committee and identified a number of areas for which the Guides and Opinions should be reviewed for adequacy.

Jack M. Turnquist, chairperson

Committee on Qualifications

During 1987, the committee held several meetings, resulting in the development of a proposed revised structure for qualification standards for consideration by the Board of Directors and for exposure to Academy membership.

The proposed revised structure focuses on qualification standards for those actuarial functions for which there are promulgated standards of actuarial practice and which create results for use in the public domain or for use by persons who have not been a part of the process of selecting the actuary who did the work. A core set of qualification standards is suggested. Specific additional standards will supplement these, as necessary, depending on the actuarial functions involved. With this structure in place, the committee is prepared to address various issues of qualification that are emerging on both the governmental and standards of practice fronts.

Walter S. Rugland, chairperson

Committee on Liaison with the NAIC

The committee provides ongoing, mostly non-technical coordination and communication between the Academy Executive Committee and the National Association of Insurance Commissioners' (NAIC) Technical Services (EX5) Subcommittee on actuarial issues of significance to insurance regulators.

A report from the liaison committee to the (EX5) Subcommittee was delivered at the June 1987 meeting. The report addressed several Academy communications reporting on NAIC activity, various Academy committee projects related to items on the NAIC's agenda, the development of standards of practice by the IASB, and various related Academy actions and programs. A similar report is expected at the December 1987 NAIC meeting.

The eleven members of this committee reviewed drafts of the reports to the (EX5) Subcommittee and made important contributions to the final reports that were presented. The committee includes representatives of the Academy committees that have responsibilities related to state regulatory activities.

Burton D. Jay, chairperson

Public Relations Committee

The committee's major activities for the year centered on continuing care retirement communities. An interview with Academy spokesperson Barbara Snyder was sent over three national radio feeds, and further interviews on television and radio were completed with local stations. Articles on actuarial involvement in CCRCs were distributed to consumer magazines and daily and weekly newspapers nationwide.

Other topics covered by the various media included: casualty insurance issues (a CBS Nightwatch interview and a three-column newspaper story), an article on the first actuary, publicity on Congressman Florio's speech to the Academy Washington luncheon attendees, Social Security, PBGC premium rate structure, healthcare, and FAS 87.

Publicity was also provided for the Enrolled Actuaries Meeting, the Academy's annual meeting, and the Casualty Loss Reserve Seminar. A standards public relations plan was prepared. PR work for the CAS began in a formalized way by Academy staff—work billed to the CAS. There was substantial involvement in the planning for the 1989 Centennial Celebration and with the Task Force on the Actuarial Magazine. News releases were placed as new members are admitted to the Academy. Finally, a tabletop exhibit on the Academy was completed and will be on display at various industry meetings.

Bruce F. Vane, chairperson

Committee on Publications

The committee on publications is responsible for all Academy publications. The major publications are The Actuarial Update, and the Enrolled Actuaries Report. Other publications include: the yearbook, journal, Government Relations Watch, Academy Alerts, IASB Boxscore, Issues Digest, and Fact Book. All editors and associate editors of the two major publications are members of the committee.

Items of particular note this year include:

- The Actuarial Update printed two special subject supplements in 1987.

- Recommendations for Actuarial Communications Related to PAS 87 & 88 (July 1987).

- The exposure draft on "Incurred Health Claim Liabilities" published in August 1987 had a comment deadline of October 13, 1987. "Recommendations for Measuring Pension Obligations" was released in July, with a comment deadline of September 25.

- Administrative projects recently completed by the IASB:
  - An IASB procedures manual.
  - The hiring of a technical writer to assist the operating committees in the writing of standards.

- Projects Pending/Other Matters:
  - The drafting of a structural framework for standards of actuarial practice.
  - A primer project on the foundations of actuarial science.

Ronald L. Bornhuetter, chairperson

Committee on Guides to Professional Conduct

The committee, through its chairman, prepared an article for The Actuarial Update summarizing the view of the committee on the subject of third party certification abuses by certain enrolled actuaries and the adequacy of the current Guides and Opinions to deal with the problem.

In June, the committee met to review the recent developments in the areas of conduct, practice, and discipline, and to identify problems, tasks, and liaison work needed, as follows:

- The committee decided to follow up with the Joint Board for the Enrollment of Actuaries to determine the status of the additions to the regulations and revisions to Schedule B (Form 5500) and its instructions proposed by the profession last year, and to recommend that the Joint Board take action.

- We agreed to develop a series of articles for the Enrolled Actuaries Report dealing in more depth with each of the various problem areas identified with third party certifications, as well as discussing the specific Guides and Opinions that are applicable.

- In light of recent developments of the IASB and the likelihood of the ASB coming into being during 1988, the committee suggested that the section of the yearbook entitled "Procedures for the Development of Standards of Professional Conduct and Practice" be rewritten to relate to professional conduct only for 1988, and that the recently developed IASB procedures manual be included for standards of practice.

- The committee agreed to coordinate with the development of the "Structural Framework for Standards of Actuarial Practice" for the IASB and that consideration be given to the development of a companion document for standards of conduct.

- We reviewed a summary of the issues facing the Discipline Committee and identified a number of areas for which the Guides and Opinions should be reviewed for adequacy.

- We discussed the specific Guides and Opinions that are being developed into being during 1988, the committee suggested that the section of the IASB procedures manual be included for standards of conduct.

- We reviewed for adequacy.

- The committee agreed to coordinate with the development of the "Structural Framework for Standards of Actuarial Practice" for the IASB and that consideration be given to the development of a companion document for standards of conduct.

- We reviewed a summary of the issues facing the Discipline Committee and identified a number of areas for which the Guides and Opinions should be reviewed for adequacy.

- We discussed the specific Guides and Opinions that are being developed.
December 1987

Established in 1986, the task force's charge is to develop a program of continuing education recognition for the Academy. With valuable input from the Executive Committee and the Board of Directors, it has prepared a Discussion Draft Report which is to be distributed to members on time this year. Work on the 1988 Yearbook, with an expanded section on standards, proceeded on schedule.

Government Relations Watch published two special state supplements during the year Academy Alerts, our new subscription news service, began publication during the year.

The Fact Book was reprinted during the year, reflecting the continuing large demand for this publication. In addition, committee members participated in the work of the Joint Task Force on the Actuarial Magazine, leading to its final report in June. The committee is now ready to assist the new Academy task force working on this important project.

Carl R. Ohman, chairperson

Task Force on Continuing Education Recognition

Established in 1986, the task force's charge is to develop a program of continuing education recognition for the Academy. With valuable input from the Executive Committee and the Board of Directors, it has prepared a Discussion Draft Report which is to be distributed to the membership. This includes a questionnaire that will, it is hoped, encourage members to comment on the issues involved, including some suggested components of a program. Membership feedback will result in the preparation of a final report during 1988. Members will again have the opportunity to comment before any program is adopted.

Daphne D. Bartlett, chairperson

Committee on Life Insurance Financial Reporting

The committee experienced an active year with all members participating on at least one of the committee's task forces: (1) Non-Guaranteed Premium, (2) Recommendation 7, and (3) Reinsurance.

During 1987, the Non-Guaranteed Premium Task Force analyzed the Financial Accounting Standards Board's (FASB) Exposure Draft, developed an extensive written response, and appeared before FASB to deliver oral comments. The committee endorsed the composite method of accounting for universal life and opposed the exposure draft. Although continued assistance has been extended to FASB, it appears that the committee will not be called upon to provide further information prior to adoption of the FASB's final position. During the year, an informal meeting with FASB was arranged; insight was gained regarding their operations and how dealings with them could be improved. Once FASB adopts a position, there will be a need to revise and/or replace existing recommendations regarding this issue.

The Revised Recommendation 7 Task Force began work on drafting standards of practice on behalf of the Interim Actuarial Standards Board (IASB) for actuaries completing cash flow studies in their work. The project was initiated by the IASB's desire to promulgate quickly such standards. The committee anticipates a draft of these proposed standards to be ready for delivery to the IASB sometime after the committee's scheduled meeting in December 1987.

The Reinsurance Task Force discussed several important items, such as the New York amendment of Regulation 20, and a response to a National Association of Insurance Commissioners' request for Academy assistance in dealing with reinsurance problems. While no formal recommendations or responses have been prepared to date, the committee is continuing to monitor developments in this area.

The committee has reviewed several special purpose actuarial opinions which were summarized in a recent Academy newsletter supplement. While the committee will continue to monitor developments in this area, it has determined that the issuance of standards of practice is not appropriate at this time. Input from the Board of Directors would be appropriate in the event future action is taken.

The committee will continue to monitor developments of the NAIC Standard Valuation Law Advisory Committee in the event that, should standards be required, the committee would be ready to respond expeditiously. In light of the recent activity of the IASB, there is a need to address the composition, size, and activity of the committee. To date, the IASB has requested the committee's assistance in drafting their standards, which may or may not continue.

Edward S. Silins, chairperson

Committee on Property and Liability Insurance Financial Reporting

A major focus of the committee's activities for the year has been loss reserve discounting in the context of statutory, GAAP, and tax accounting. The committee prepared and delivered testimony before a National Association of Insurance Commissioners' study group looking into the discounting issue from a statutory perspective. In addition, the committee commented on the Financial Accounting Standards Board's (FASB) exposure draft, Accounting for Income Taxes, focusing specifically on the impact of the new reserve discounting procedures on tax accruals. Finally, the committee is continuing to study the issue of discounting from a GAAP perspective. The committee has reviewed an American Institute of Certified Public Accountants' (AICPA) task force draft issues paper on discounting. In that context, the principal issue appears to be the appropriateness of the inclusion of margins in the discounted reserves. The committee is continuing to develop a position paper on the margins issue.

Additionally, the committee has monitored a number of other insurance accounting issues, including FASB's proposal that realized capital gains and losses to be included in operating income, and the AICPA's analysis of claims made accounting.

The committee has also been monitoring developments relating to the valuation actuary concept. This includes the special call by the California Insurance Department analyzing "Quality of Surplus."

Finally, the committee is expanding its horizons beyond accounting by insurance companies to accounting by self-insurers.

Stephen P. Lowe, chairperson

Committee on Pension Accounting

During this year, a special task force made up of actuaries and accountants completed work on the standard confirmation letter. The letter was designed for use by auditors in requesting pension information from actuaries when auditing pension plans. This has particular relevance for practitioners of both professions in view of the new accounting standard, FAS 87. The letter was published in the July issue of The Actuarial Update. The accounting profession was alerted to its existence in a fall issue of the CPA Letter. The Journal of Accountancy and the 1987 American Institute of Certified Public Accountants (AICPA) Audit and Accounting Manual, (published in September) also include the letter.

Four members of the committee continued to serve on the Pension Implementation Group created by the Finan-
cial Accounting Standards Board (FASB) to deal with implementation problems that arose because of FAS 87 and 88. This year the group assisted FASB in forming Qs and As dealing with FAS 88.

In July 1987, the committee provided the Governmental Accounting Standards Board (GASB) with the Academy’s perspective on GASB’s pension accounting project. In the same month, the GASB Pension Task Force held a meeting to discuss the Academy’s views at which several committee members were present. A subsequent meeting of the committee was slated for a time after the exposure of the GASB draft.

A restructuring of the committee membership roster begun in 1986 in an effort to limit committee membership of too long duration and to bring on more members with governmental plan expertise, was continued in 1987, resulting in three new members rotating off, one resigning, and four new members being added.

Harper L. Garrett, Jr. chairperson

Committee on Relations with Accountants

The committee had three regular meetings in 1987 with its counterpart at the American Institute of Certified Public Accountants (AICPA), the Relations with Actuaries Committee. Selected members of the committee attended a special meeting between the Academy and the Financial Accounting Standards Board (FASB) in June to discuss current FASB projects and exposure drafts. At each meeting of the committee, each profession updated the other on items of interest such as implementation of pension accounting procedures. FASB exposure drafts on universal life and accounting for income taxes, and AICPA projects on audits of property and liability companies, accounting for continuing health care, and discounting.

The committee has also been staying abreast of developments of the Governmental Accounting Standards Board, informing them of the profession’s progress in the standards of practice area.

Relations with FASB were a continuing and growing concern. The committee recommended to the Academy Executive Committee that it should instruct the Academy’s financial reporting committees to establish formal liaison with FASB staff.

P. Adger Williams, chairperson

Committee on Health

The parent committee’s principal area of activity during the year has been the preparation of a series of statements on current health issues and pending federal legislation. Statements have been submitted on long-term health care plan design and financing on pending legislation related to changes in Medicare and proposed catastrophic health insurance. The committee also prepared a statement on the potential impact of AIDS on health insurer solvency, submitted to the National Association of Insurance Commissioners (NAIC) as part of a statement from the life committee.

At the committee’s only meeting of the year, a number of important issues and pending legislative items were identified. Committee task forces will study these issues to determine what written statements or tentative testimony should be prepared. These include: (1) pending legislation proposing expansion of Medicare to include prescription drug coverage (an extremely expensive coverage), (2) pending legislation dealing with mandatory employer benefits and risk pools: S. 1265, H.R. 2501, S. 1634, S. 177 and a Stark-Gradison FY 1988 Budget proposal amendment for risk pool amendments. (3) H.R. 3128, proposing a tax on employers to fund hospital indigent care.

These studies and potential statements form the basic planning of the committee for 1987–1988.

The Subcommittee on Liaison with the NAIC continued work on the controversial area of NAIC Minimum Reserve Standards for Health Insurance, submitting a report to the NAIC Life and Health Actuarial Task Force in March that became a third exposure draft on the topic, distributed to the profession by the Health Section of the Society of Actuaries. A follow-up report has now been submitted to the NAIC task force recommending revised standards for NAIC adoption.

This subcommittee also submitted a statement to an NAIC “working group” dealing with proposed standards for Medicare supplement benefits and loss ratios.

E. Paul Barnhart, chairperson

Committee on Life Insurance

The committee’s function is to monitor legislative and regulatory activity in the life insurance area and, when appropriate, to present the Academy’s position on public issues. This activity is coordinated with other actuarial groups. Its monitoring activities include issues considered by the National Association of Insurance Commissioners’ (NAIC) Life and Health Actuarial Task Force, other life insurance issues considered by the NAIC, possible life insurance tax legislation, matters before the Federal Trade Commission and other federal regulatory agencies, as well as development of interest to life insurance actuaries.

In response to a request from the NAIC Life and Health Actuarial Task Force, the committee appointed a task force to develop amendments to the valuation and nonforfeiture provisions of the Universal Life Model Regulation. This task force has submitted two reports to the NAIC, and its work is continuing.

The committee also submitted a background paper to the NAIC Life and Health Actuarial Task Force dealing with the impact of AIDS on life insurance solvency. The Academy committees on risk classification and health also contributed to the development of this paper.

In addition, the committee actively followed a number of ongoing issues: (1) proposed NAIC actuarial guidelines, (2) the valuation actuary concept, (3) proposed revisions to the standard valuation and nonforfeiture laws, (4) miscellaneous actuarial opinion requirements, (5) the development of a yield index for interest-sensitive products, and (6) various proposals for policies with nonguaranteed elements.

Gary E. Dahlman, chairperson

Committee on Property and Liability Issues

The committee continued to promote open dialogue between the actuarial profession and the public. During the past year, the committee issued two statements: the first was titled “Estimating the Impact of Civil Justice Reform on the Cost of Liability Insurance,” and addressed the issues of quantifying the effect of proposed tort reform throughout the country.

In addition, the committee recently released a paper describing the historical cyclical behavior of the property-liability insurance industry. Included within this paper is a discussion of the internal and external cause of these cycles and an analysis of the techniques used to measure profitability and performance during these cycles.

In order to facilitate open communication on key issues, the committee hosted a symposium in Washington, D.C. with congressional staff. The interchange of ideas was dynamic and all participants felt it was a valuable vehicle to access the respective audiences. The success of this initial symposium has encouraged the
committee to plan to continue this practice on a federal and, possibly, state level. The committee also participated on the statistical advisory committee to the National Association of Insurance Commissioners' Legal Liability Insurance [D] Task Force and expects to continue its involvement throughout the coming year.

Albert J. Beer, chairperson

Committee on Risk Classification

A major activity of the committee during 1986-1987 was the revisions of the risk classification and AIDS paper issued by the committee last year. The revisions consisted mainly of the inclusion of updated AIDS statistics published by the Centers for Disease Control and information included in the Surgeon General's Report on AIDS. The target audience of this paper is state legislators and state insurance commissioners who may be considering legislation or regulations dealing with an insurer's ability to underwrite for AIDS.

In addition, Overview-Mandated Sex-Neutral Rating was issued this year. It is a short discussion of the probable financial effect of prohibiting sex-distinct rating. In addition, it discusses other possible effects, such as market dislocation and increases in the general cost of insurance. The intended audience, like the AIDS paper, is state legislators and state insurance commissioners who may be considering legislation or regulations dealing with an insurer's ability to use sex-distinct rating.

The committee is working on the Interim Actuarial Standards Board to consider the advisability of having an actuarial standard on risk classification. This project is in the early stages; if a standard is needed, the effort will continue into 1988.

The committee intends to revise the paper on federally mandated sex-neutral insurance, presented in 1983. The purpose of the revision is to update the statistics on the expected financial impact of requiring sex-neutral rating in insurance.

Patricia L. Scahill, chairperson

Committee on Continuing Care Retirement Communities

The primary activity of the committee for the year was the development of the statement of actuarial standards of practice for actuarial work with continuing care retirement communities (CCRCs). This document was widely distributed to interested parties. In October 1987, the Academy sent several hundred copies to the annual meeting of the American Association of Homes for the Aging, whose membership includes approximately 80% of existing CCRCs.

Several members provided assistance to state legislators who were drafting CCRC legislation. Texas has passed CCRC legislation, and three states, Massachusetts, Washington, and New York, are still considering such legislation. Also, a presentation on CCRCs and the new standards was made to the Health Care Financing Administration Task Force on Long-Term Health Care Policies.

The committee met the objectives of the plan prepared at the beginning of the year through issuance of the standards of practice document.

Currently, the committee is working on two projects: (1) the development of a "white paper" with the Conference of Actuaries in Public Practice on the role and rationale for guidelines for the incorporation of appropriate actuarial principles in the regulatory process; and (2) the development of legislative guidelines for the incorporation of appropriate actuarial principles in the regulatory process. Additionally, members of the committee have been assigned individual states where they are to contact the insurance department and trade associations to express the Academy's interest in CCRCs and to offer assistance and guidance in financial issues regarding CCRCs.

Alyn V. Powell, chairperson

Pension Committee

Committee activity is concentrated in two general areas: liaison with other pension committees in the actuarial profession, as well as interfacing with various federal government officials. There is also the preparation of formal responses on position papers on different matters affecting Academy members working in the pension area.

With respect to liaison activities, the committee met once during the year, at the 1987 Enrolled Actuaries Meeting. At this time, a very broad range of issues from standards matters to issues involving the Governmental Accounting Standards Board to Pension Benefit Guaranty Corporation (PBGC) variable rate premium, etc. were discussed.

The committee's workload for the year centered on dealing with proposals for legislative change, as well as proposed regulations. The committee commented in several minor regulatory areas. The major legislative area requiring the committee's attention dealt with the administration's proposals for changing the current rules on Sec. 412 minimum funding rules and variable rate PBGC premiums. The committee testified on these related issues before the House Oversight Committee on April 9, 1987. Since that time, a committee task force has done additional work in this area and recently produced a "position paper" containing committee suggestions. Initial indications are for a favorable reaction.

As part of our overall responsibility, the committee continues to establish ongoing relationships with key congressional and regulatory staff people.

Larry D. Zimpleman, chairperson

Committee on Health and Welfare Plans

In fulfilling its charge to address actuarial issues affecting health and welfare plans and to research the actuarial aspects of these issues, and to prepare statements on position on pending and potential legislation, regulation and policy, the committee accomplished the following during the year:

(1) organized as a committee (formerly the Sub-Committee of the Committee on Health), (2) developed committee charter, (3) developed liaison with the Interim Actuarial Standards Board, especially regarding non-pension retiree benefits, (4) developed liaison with Conference of Actuaries in Public Practice, (5) continued liaison with Committee on Health, (6) made presentations to the Financial Accounting Standards Board regarding accounting for non-pension retiree benefits, (7) developed closer contact with the Department of Treasury through the Task Force on Non-Discrimination Regulations, (8) developed initial draft on "Qualified Actuary," for discussion and advancement, and (9) submitted a statement on actuarial aspects of COBRA provisions to the Department of Labor and the Department of the Treasury.

Thomas G. Nelson, chairperson

Committee on Services to Enrolled Actuaries

To carry out its prescribed function of assisting the Academy Board of Directors in formulating and implementing a meaningful program of services for enrolled actuaries, the committee accomplished the following: (1) compiled results of the 1986 EA Survey; (2) submitted updated comments regarding Treasury Circular 230 to the Academy office; (3) analyzed 1986 EA Survey results; (4) submitted applicable results to EA Program Committee, and set plans for 1987-1988;
briefed Les Shapiro, the Academy, and the committee on recent continuing education developments, offering assistance and providing applicable portions of 1986 EA Survey; (5) produced an article for the Enrolled Actuaries Report (EAR) summarizing survey results and re-publishing lists of assumption surveys available at Academy office.

Additionally, the committee has a number of plans pending or underway, including the development of an initial form for an annual survey of assumptions, methods and practices, to be distributed with EAR.

Paul L. Engstrom, chairperson Committee on Social Insurance

In January, the committee sent a report entitled "Measurement of the Actuarial Status of the Social Security System" to selected members of Congress and to other interested individuals. The February issue of The Update contained an article entitled, "Change Recommendation of Social Security Actuarial Balance," which presented the principal findings of the committee's January report.

The May issue of The Update contained a letter from the committee in criticism of our January report by the deputy chief actuary, Social Security Administration. As a result of this letter, the committee met in July with actuaries from the Social Security Administration to discuss the current approach used to measure the long-range actuarial status of OASDI and HI.

As a priority, the committee intends to make certain that the long-range actuarial balance for Social Security is consistent with congressional intent for financing the program.

Kenneth A. Steiner, chairperson

Joint Committee on the Valuation Actuary

A status report outlining all activity by the committee relating to the valuation actuary movement was published and widely distributed in November 1986 and April 1987. The next status report was planned for October 1987.

In addition to the status report, the committee spent much of the year drafting a reflection paper outlining the changes in joint committee thinking since the committee's February 1985 report and a strategic direction statement, mapping future activity needed to implement the valuation actuary concept. At the direction of the Board of Directors of the Society of Actuaries (SOA) and the Academy, these two documents have been combined into the 1987 Report of the Joint Committee on the Role of the Valuation Actuary. This report, which has been submitted to the Executive Committees of the SOA and the Academy for recommendation to their respective boards, is designed to: (1) place the valuation actuary concept within a historical perspective, (2) report to our sponsoring organizations, (3) seek an endorsement from our sponsors of our modified recommendations, and (4) encourage support for our recommended strategic directions.

It is expected that this report will be given wide distribution when approved by the boards.

In addition to this activity, the chairman of the joint committee participated in a panel discussion relating to the status and progress of the valuation actuary movement at the SOA Spring Meeting in October 1987.

Burton D. Jay, chairperson