The Actuarial Update
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## Enclosures

Included in this month's issue of *The Update* is the following:

- Government Relations Watch
- In Search Of . . .
- *1983 Enrolled Actuaries Listed Alphabetically and by State* Order Form
- *1983 Yearbook* Correction Card

# Casualty Loss Reserve Opinions for 1982

A recent NAIC survey has found that the following ten states require a statement of opinion by a "qualified loss reserve specialist" on the adequacy of casualty loss and loss expense reserves for 1982 annual statements:

| **State** | **Required of** |
|---|---|
| California | All companies doing business in the state. |
| Delaware | Domestic companies only. |
| Illinois | Domestic companies only. |
| Kansas | Domestic companies only. |
| Maryland | Domestic companies only. |
| Missouri | Companies notified by insurance department (on a trial basis). |
| New Jersey | All domestic companies and out-of-state companies as required by the domestic insurance department. |
| New York | All domestic companies and out-of-state companies as required by the domestic insurance department. |
| Texas | All companies doing business in the state. |
| Wisconsin | Domestic companies only. |

Three states above appear for the first time: Missouri, New Jersey, and Wisconsin. Idaho, which required the statement in 1981, still has the matter under consideration for 1982.

Added to the NAIC Fire and Casualty Annual Statement Blank in 1980, the requirement for such a statement of opinion is optional with each state insurance commissioner.

Since Academy membership is specifically recognized in the definition of "qualified loss reserve specialist" by the NAIC, Academy members have a special responsibility and obligation to ensure that the actuarial profession properly fulfills its responsibilities under this requirement. Any members who have questions should contact either Jerome Scheibl, chairman of the Committee on Property and Liability Insurance, or the Washington office of the Academy. Δ

# Record Number at the EA Meeting

Over 1,100 pension actuaries and others, a 3% increase over last year, congregated in Washington on January 27 and 28 for the eighth annual Enrolled Actuaries Meeting. While all sessions were well-attended, Top-Heavy Plans, Small Plan Aspects of TEFRA, and Recent Revenue Rulings and Regulations drew the largest numbers of attendees.

Dr. William C. Freund, Senior Vice President and Chief Economist for the New York Stock Exchange, speaking at the first day's luncheon offered ten reasons for economic optimism in the 80's. The next day's luncheon address was given by Andrew Tobias, whose recent best-seller, *The Invisible Bankers: Everything the Insurance Industry Never Wanted You to Know*, has generated a good deal of controversy within the industry. Δ


At the second general session, Dialogue With the IRS, **Richard A. Watts** and **Ira Cohen** of the IRS Actuarial Division, and two leading consulting actuaries, **Michael J. Mahoney** and **Eugene Schloss**, discuss the background, intent, and impact of recent IRS regulations. The session was videotaped for use by local actuarial clubs.

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**from a Guest President**

**Frederick W. Kilbourne**

# The CAS, Her Friends and Relations

This will surprise some younger actuaries, but I was *not* present at the founding of the Casualty Actuarial Society in 1914. On several occasions I did have the pleasure of speaking with one of its founders, a fascinating fellow who took great pride in being an actuary, and in being a good one. Like most of his cofounders, he was a life actuary responding to a need that he believed could not be met within the existing life actuarial organization.

The need which led to the formation of the CAS was generated by the passage of workers compensation laws in various states. The coverages provided were not alien to the life actuary: life, disability income, and medical insurance. There was the added wrinkle that the claimant must have been injured in a workplace accident. (Occupational disease coverage came later). The major departure was the extent of government regulation of this new line of insurance. Casualty actuaries were born and have grown up under the heavy hand—some would say the foot, the heel, or worse—of government regulation. At risk of provoking unending sociological debate, I will assert that we all reflect both our heritage and our environment. Casualty actuaries and casualty actuarial practices similarly reflect both their life actuarial heritage and their lifelong environment of government regulation.

Had I been present in 1914, I probably would have opposed the formation of the Casualty Actuarial Society. That statement notwithstanding, I surely *would* have applied for membership. (I did this hastily, lest I fuel the doubtless already-smoldering fires of impeachment). My opposition would have been based on my view that the actuarial profession is too small to be fragmented, and that only a unified profession could survive being trampled by the hordes who would eventually want to walk into and over our field. It would also have been based on my somewhat less paranoid view of actuarial science as the unified study of future contingent costs of all sorts. All that said, again, I would have applied for membership in the fledgling CAS in the expectation that casualty actuarial work would prove to be interesting, profitable, and even fun! And, I would have been correct in that assessment.

It's interesting to review the formation of the major actuarial organizations in this country during this century. Most were formed to meet the needs of specialists. They have done so, but at some cost in fragmenting the profession. These include the American Institute of Actuaries (1909), the Casualty Actuarial Society (1914), the Fraternal Actuarial Association (1916), the Conference of Actuaries in Public Practice (1950), and, arguably, the Joint Board for the Enrollment of Actuaries (1975). Two were formed to unify the profession, at least to some extent. The Society of Actuaries (1949) more-or-less brought non-casualty actuaries (for years I've awaited the opportunity to introduce that term!) together in a single professional society. And our own American Academy of Actuaries (1965) brought virtually all actuaries together for certain purposes, such as meeting the press and the public. The process continues.

Implicit above are a number of unanswered questions. Just how is it that casualty acturies reflect their regulated environment? their life actuarial heritage? Who are the friends of the CAS? relations with whom? What is the likely future of the actuarial organizations? for actuaries ourselves and the services we provide? Our Managing Editor has informed me that editorial space in *The Update* is limited. I feel certain, though, he would not want such important questions to go unanswered. So let me begin with . . .

*Managing Editor's Note: Sorry to cut you off, Fred. This is great stuff, but space is indeed at a premium. We welcome you back for another installment in a future issue.* Δ

## Correction

The *1983 Yearbook*, we find, contains a few pages printed out of order. To flag the error, we ask that you use the peel-off labels enclosed with this issue. We regret the inconvenience. Δ

# Letters to the Editor

## Actuarial Certification

The opinion expressed by Kenneth A. Steiner in the December 1982 issue concerning actuarial certification of Social Security procedures as suggested by the Academy stirred a concern that I have had for some time.

Just what is the responsibility of the actuarial profession when this certification is affixed, and what does it mean? Is it anything more than a statement that professionally trained actuaries have been involved in making the mathematical determinations that political individuals or bodies have directed?

If it implies that the actuarial profession is ready to stand up for the determinations with a sense of certainty, it is wrong. If it is likely to get us involved in an "erroneous actuarial calculation" of the magnitude involved in going along with the cost of living changes of 1972 and 1977, we should think about the consequences. We certainly should not remain outside the debate, but neither should we attest to a set of circumstances or analyses that are apt to mislead our legislative groups who choose not to consider the caveats that are stated or implied.

If the political activists would encourage the real solutions, taking actions that tend to raise the fertility rates, shortening the retirement period, reducing the effect of the cost of living fiasco, emphasizing the generation to generation commitment, as well as other realities; perhaps the comfort given by the certification would be less difficult to acknowledge.

Perhaps our associates at the Social Security Administration can offer their understanding of what actuarial certification means.

William J. Stephan
New York, New York

## Discrimination in the Board Room?

In your recent Special Subject Supplement of 1982 committee reports it was stated that in selecting the Board of Directors, the Nominating Committee maintained a balance of specialties, type of employment, and geographical area.

The first two criteria are clearly necessary. The third, however, seems less significant than maintaining a balance of sex, age, race, or lifestyle. Yet there is clearly no balance of these factors.

All board members are white, male, over forty years of age, and probably married. It seems to me just as important to get representation on the board of non-whites, women, younger actuaries, and gays as it is to have representation from those living other than in the Northeast.

Can it be that geographical minorities have put pressure on the Nominating Committee while other minorities have not?

Jan R. Harrington
New York, New York

## The Nature of Social Security

Kenneth A. Steiner, in the December 1982 issue of *The Actuarial Update*, expresses great concern about the financing of the OASDI program and its current problems being referred to as "actuarial in nature." He describes the program as being "a pay-as-you-go, non-actuarial government retirement program" and advocates that it should be financed on a fully-funded basis. Steiner also believes that any valuation of the financial status of the OASDI system should not take into consideration future scheduled tax increases. I am constrained to differ with him on these matters.

I believe that a program which is financed on a current-cost basis—especially a mandatory-coverage social insurance plan—can properly be considered "actuarially financed" if there is adequate long-range actuarial cost analysis, and if definite financing provisions based on such analysis are provided. Certainly, who can say that guaranteed annual renewable term insurance policies are "non-actuarial" and should not be issued by insurance companies?

As to full funding of the OASDI system, which could involve invested assets of as much as $6 trillion at the present time, I believe that this is not feasible. One problem would be the effect on the economy of the large taxes needed to accumulate such a fund. Another problem would be how to invest such a huge fund. And then one cannot, in this real world, ignore the political problems involved in increasing taxes so greatly and in not raising benefits greatly when "such a large fund is available to meet the serious needs of the beneficiaries."

Finally, as to taking into account scheduled future increases in the tax rates, I think that this is the only proper thing to do. After all, the same procedure is followed by insurance companies in valuing policies under which the premium rate is specified to increase after several years.

Robert J. Myers
Washington, D.C.
Δ

**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.

**A UNIQUE HAIRCUT**

Our total charge is $22 for women and $16 for men.
Skin Care and Henna Expert
All Beauty Services
*Custom Made Hairpieces and Service*

**Risk Classification Addendum**
Insurance is not the only industry engaged in sex-based pricing.

# 1983 CLRS Dates Set

The Academy and the Casualty Actuarial Society have scheduled this year's Casualty Loss Reserve Seminar for September 12-13 in Dallas, Texas. Please note that the time and place listed in your new yearbook are *incorrect*.

More details on the 1983 CLRS will be available closer to the meeting date, but mark your calendars now. Δ

# Discounting Casualty Loss Reserves

**by Stephen G. Kellison**

The AICPA has been examining the accounting treatment of casualty loss reserves to give greater guidance concerning those situations and types of coverages in which loss reserves should or should not be discounted.

Until a few months ago it appeared that the AICPA would recommend discounting for only a rather narrow range of instances in which there were long-term claim settlement periods involving payments reasonably fixed and determinable. However, in the past few months, thinking within the AICPA has dramatically shifted to a position in which discounting would be applied to a much broader range of situations than originally anticipated.

The most recent draft of the AICPA Issues Paper being developed on this issue also contains other notable concepts. Among them:

- Discounting would be at a new-money rate rather than a portfolio rate.
- The draft would allow the creation of a "provision for adverse claim variability." However, rather than being tied to the level of inherent variability on an actuarial basis, such provision would be tied to the dollar amount of discount taken on the reserves.
- The draft contains a provision that new companies or existing companies starting a new line of insurance cannot discount until they generate sufficient volume to base reserves on their own experience. As in the point immediately preceding, this concept would appear to lack an actuarial rationale.

The draft Issues Paper has not yet been released as an Exposure Draft, so there will be opportunity for further dialogue with the AICPA.

Ultimately, the FASB is the final authority on whether or not discounting is the proper accounting treatment for GAAP statements and, if so, under what circumstances. It is unlikely that the FASB will address this issue in the near future, since the recognition of the time value of money is part of their overall Conceptual Framework study.

Once this issue is finally settled, it is unlikely that companies will have an option whether or not to discount. It is much more likely that in any given situation there either will be discounting or no discounting, but not an option.

Interestingly, the NAIC is just starting to examine this issue for statutory accounting as well as GAAP. A paper on this subject from the Illinois Insurance Department was presented at the December meeting of the NAIC (see NAIC Report elsewhere in this issue).

All of this comes at a time when Senator Dole (R-KS), Chairman of the Senate Finance Committee, has asked the General Accounting Office to report on the taxation of property and liability insurance companies.

The Academy Task Force on AICPA Audit Guide, chaired by James R. Berquist, filed comments with the AICPA on its draft Issues Paper on January 12, 1983. Copies of this submission are available on request from the Washington office.

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# More Join QHSCA Ranks

**by Robert J. Schuler**

Twenty candidates have passed the November 1982 Health Service Corporation Actuarial Examination administered by the American Academy of Actuaries through its Special Committee on Health Qualifications. This brings the total number of "qualified health service corporation actuaries" to fifty, the first thirty having successfully completed last May's examination.

November's exam was graded in record time, thanks to the grading procedure developed under the dedicated and capable leadership of Bob Dobson, former chairman of the committee. The examination results were mailed to all candidates on December 30, 1982.

It is important to note that the next and perhaps the last Health Service Corporation Actuarial Examination will be given in November 1983. Anyone interested in taking this year's exam should operate on the assumption that this is the final time it will be given.

In addition to preparing for the November examination, the special committee this year will continue to work on developing guidelines for qualification to sign annual statements (NAIC Hospital, Medical, and Dental Service or Indemnity Corporation Blank, and the Health Maintenance Organization Blank), and to explore further the development of a long-term examination track for health actuaries through either the Casualty Actuarial Society or the Society of Actuaries.

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# Status of Pending Standards

The following is the status of pending standards, i.e., Guides, Opinions, Recommendations, Interpretations, or other documents subject to exposure draft procedures. Copies of all these documents have been included in regular Academy mailings.

### Pending Documents Past Comment Deadline

- Pension Plan Recommendation C: Pension Actuarial Communications (June 15, 1982)
- Opinion A-5: Qualifications to Give Advice in a Specific Situation (December 31, 1982)
- Transfer of Material from Opinion A-6 to the Financial Reporting Recommendations (January 17, 1983)
- Discussion Memorandum on General Characteristics of Acceptable Actuarial Cost Methods (none, requested by December 31, 1982)

### Documents with Open Comment Deadline

- Discussion Memorandum on Financial Reporting Recommendation 7 (none, requested by February 28, 1983)

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# Checklist of Academy Statements December 1982

Copies are available from the Washington office.

TO: American Institute of Certified Public Accountants, December 17, 1982. RE: Reinsurance accounting and auditing. BACKGROUND: Statement on accounting for foreign property and liability reinsurance.

TO: American Institute of Certified Public Accountants, December 20, 1982. RE: Accounting for HMOs. BACKGROUND: Response to Issues Paper on accounting for HMOs.

Δ

# What if Price Indexing Had Been Used in the Initial Computation of Social Security Benefits Instead of Wage Indexing?

**by Robert J. Myers**

The method of computing initial Social Security (OASDI) benefits under the automatic-adjustment provisions legislated in 1972 contained a serious technical flaw. Under certain economic conditions—such as those experienced in the 1970s—the general benefit level relative to the level of earnings would increase continuously over the future. This, in turn, would result in very large long-term financing problems. In 1977, legislative consideration was given to this matter.

Virtually all parties concerned supported a solution involving indexing the past earnings record, so as to update it to current levels, and then applying a new benefit formula to the resulting average indexed earnings. Such formula for the basic benefit, the Primary Insurance Amount (PIA), would be of the following nature:

A% of the first $X of Average Indexed Monthly Earnings (AIME)
+B% of the next $Y of AIME
+C% of AIME in excess of $(X+Y).

The bend points ($X and $Y) would be automatically adjusted for each year-of-birth cohort attaining age 62 in the future (or for each cohort becoming disabled or dying before age 62 in a particular year). Such adjustment of the bend points would be related to an economic element. Previously, the percentage factors (A%, B%, and C%) in the benefit formula were adjusted in an ad hoc manner (often related to the changes in prices).

Two economic elements that could be used in such adjustments of the earnings records and bend points were considered—wage trends and price trends. Under both of the original proposals, the procedure adopted in determining the constants in the benefit formula was to have the resulting benefit amounts in the first year of operation of the new procedure be about the same as those that would have arisen under previously existing law (although, in fact, the legislation enacted provided for a downward adjustment of about 5%). After that first year, however, very different results would likely occur under the two procedures. Because of the different methods used for indexing the earnings record, the initial benefit formulas under the two procedures would be quite different, even though the resulting PIAs would be the same.

There was general agreement that indexing of the benefits for those on the roll (including those who are eligible for benefits but who have not yet retired) should be on the basis of price changes.

Those who advocated the price-indexing procedure believed that it would result in lower benefits (in terms of dollars) over the long run—and thus lower program costs. This would be the case if prices would increase less rapidly than wages, a trend which had generally occurred in the past. This article compares what would have happened under the two procedures, considering the actual experience to date.

The Consultant Panel on Social Security to the Congressional Research Service, which advocated the price-indexing approach, recommended that the initial-benefit formula for those retiring in 1975 or 1976 should be 80% of the first $200 of AIME, plus 35% of the next $400 of AIME, plus 25% of AIME in excess of $600.

For purposes of analysis, this formula must be adjusted before applying it to the 1979 cohort, so that the same benefit amount is produced as under the benefit formula of the wage-indexed procedure actually adopted (90% of the first $180 of AIME, plus 32% of the next $905 of AIME, plus 15% of AIME in excess of $1,085). Such revision of the price-indexed benefit formula has been done for an individual with average earnings during 1951-78, and it becomes 80% of the first $233 of AIME, plus 35% of the next $466 of AIME, plus 25% of AIME in excess of $699.

For the worker in the 1979 cohort with average earnings in all past years, the following results occur:

| Item | Wage-Indexing Procedure | Price-Indexing Procedure |
|---|---|---|
| AIME | $817.00 | $764.00 |
| PIA | 365.90 | 365.80 |

When the two PIA formulas are projected to be applicable to the 1983 cohort, based on the actual wage and price increases that have occurred since 1977, the results are as follows:

(1) Price-indexed formula—80% of the first $350 of AIME, plus 35% of the next $700 of AIME, plus 25% of AIME in excess of $1,050.

(2) Wage-indexed formula (present law)—90% of the first $254 of AIME, plus 32% of the next $1,274 of AIME, plus 15% of AIME in excess of $1,528.

For the worker in the 1983 cohort with average earnings in all past years, the following results are found:

| Item | Wage-Indexing Procedure | Price-Indexing Procedure |
|---|---|---|
| AIME | $1,150.00 | $1,148.00 |
| PIA | 515.30 | 549.50 |

Thus, the PIA for the 1983-cohort case would have been 6.6% higher if the price-indexing approach had been followed instead of the wage-indexing approach actually used. The same general situation prevailed for the 1980-82 cohorts, although not to quite as large an extent. Thus, if this approach had been adopted in the 1977 Amendments, the current short-range financing problems of the Social Security program would have been even greater than they now are. Δ

# For the Record

*Editor's Note: This is the second in a series of articles recounting the key issues and events leading up to the creation of this association, drawn from historical notes compiled by Walter L. Rugland, fifth President of the Academy.*

As early as 1959, the concept of a new organization as a means of achieving recognition for qualified actuaries was being formulated by members of the Society of Actuaries Committee to Investigate Possible Certification or Licensing of Actuaries. As a member of this committee, John Miller, third President of the Academy, in remarks before the Canadian Institute of Actuaries in 1976, recalls the suggestion to establish a new organization. ". . . a member of the . . . committee suggested the concept of a new organization [that] would be neither subordinate to nor . . . have any authority over any other professional actuarial organization, but which would enroll all actuaries who had been accorded membership at a specified level in other organizations . . . ." This suggestion was probably based on chairman Reinhard Hohaus' findings that government licensing

*(continued on page 6)*

**FOR THE RECORD**
*(continued from page 5)*

authorities would not grant any special privileges to a subdivision of a profession. The committee recommended establishment of a joint committee to focus on the broad issue of professional status. Informal joint discussions occurred during the 1961 annual meeting of the Society of Actuaries.

It was Henry Rood, first President of the Academy, who called an informal joint meeting on the professional status of actuaries in February 1963. Representatives from the Society of Actuaries, Conference of Actuaries in Public Practice, Casualty Actuarial Society, Fraternal Actuarial Association, and the Canadian Institute of Actuaries gathered to discuss topics of mutual interest including recognition of qualified actuaries. This ad hoc committee recommended the establishment of the Joint Committee on Organization of the Actuarial Profession, comprised of members from the four United States actuarial organizations. The purpose of the joint committee, as written in the statement of objectives would be ". . . to explore means of obtaining legal accreditation of actuaries [in this country], including the development of plans for creating a national association of actuaries, membership in which would constitute qualification for such accreditation." Also at this meeting, the joint committee established a subcommittee, chaired by Thomas P. Bowles, Jr. specifically to study the accreditation of actuaries.

On May 28, 1963, the Bowles subcommittee met in Washington, D.C. Discussion revolved around comparisons of certification, accreditation, and licensing as vehicles for recognition. Also, at this meeting the newly proposed organization was named the American Academy of Actuaries. Rood describes the rationale for selection of this name.

"Since the Canadians were pursuing their own efforts at accreditation, it appeared that the word *American* should be used in our association. *Actuaries* was, of course, self-evident. After considerable discussion during which we eliminated such terms as association, institute, organization, and society; we reached the decision that our name should connote some form of education, and the words *college, faculty*, and *academy* were considered. We finally arrived at the *academy* as best, indicating the educational background that would be required for membership in a new organization."

In late October 1963, the Joint Committee on Organization of the Actuarial Profession completed a comprehensive report summarizing their efforts and detailing the proposed Academy's purpose, functions, and minimum standards for a qualified actuary.

A letter dated February 1964 went out to the members of the four actuarial organizations. It read, in part: "Representatives of the four American actuarial bodies have been making plans to organize a new actuarial body, the American Academy of Actuaries, with the expectation that membership in the Academy may be recognized as a satisfactory standard of accreditation for an actuary. Copies of the proposals regarding charter, bylaws, committees, and election procedures are attached."

Early the following month these proposals were discussed at local and regional actuarial club meetings. In mid-March, Henry Rood summed up reaction to the Academy as follows, "So far we have had an exceptionally good response, and there seems to be great enthusiasm for the program as it has been presented . . . ." Comments received from more than twenty actuarial clubs were incorporated into the Academy's founding documents.

At each of the four actuarial organizations' spring meetings, the proposed Academy's charter, bylaws, election procedures, and committee structure were reviewed. By May 1964, each actuarial organization had adopted a resolution supporting the establishment of the American Academy of Actuaries. Δ

# Sharpening Your Bridge Play

**by B. Jay Becker**

West dealer.
North-South vulnerable.

**NORTH**
♠ 7 5 2
♡ J 8 4
◇ A K Q 9
♣ A 10 4

**WEST**
♠ Q 9 4
♡ A 7 2
◇ 3 2
♣ K 9 6 3 2

**EAST**
♠ 10 8 6 3
♡ Q 10 9 6
◇ J 10 7 5
♣ 5

**SOUTH**
♠ A K J
♡ K 5 3
◇ 8 6 4
♣ Q J 8 7

The bidding:

| West | North | East | South |
|---|---|---|---|
| Pass | 1 ◇ | Pass | 2 NT |
| Pass | 3 NT | | |

Opening lead—three of clubs.

Lloyds of London specializes in insuring against risks their clients are unwilling to run.

A suitable premium is paid by the client to guard against the danger he fears will occur.

If it does occur, Lloyds pays for the loss.

A bridge player often assumes the same role as Lloyds. In effect, he becomes an actuary in certain situations, computing the possibility of gain against the possibility of loss.

He weighs the chances of one possibility against another, and often happily winds up paying a small premium in order to assure a potentially large gain.

Consider this deal where South wins the club lead with the seven, continues with the queen, which also wins, and then cashes the A-K-Q of diamonds, hoping for a 3-3 division.

West discards a low heart on the third diamond and South, with only eight sure tricks, must now try to locate a ninth. He can lead a spade to the jack and, if it wins, he is home. Or he can lead a heart to the king in trying to acquire trick number nine.

In the actual case, both of these methods fail, if attempted.

But there is a third method of play that guarantees the contract. Declarer cashes dummy's ace of clubs at trick six, plays a spade to the ace, and exits with the jack of clubs. This allows West to cash the K-9 of clubs as South discards a heart.

By now everyone is down to four cards and South holds the K-J of spades and heart K-5. West has the Q-9 of spades and A-7 of hearts, and he is forced to lead either a spade or a heart. Whichever he leads, South acquires his ninth trick.

The third way is easily the best way to play the hand.

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*Editor's Note: Our thanks to James R. Haire for sending* The Update *this clever reference to the actuary.* Δ

# NAIC Report

**by Bill Hager**

The National Association of Insurance Commissioners (NAIC) met in Dallas, Texas for its 1982 Winter Meeting during the week of November 29. Events of interest to actuaries are described below.

## Olson and State Regulations

At the opening session President Lyndon Olson of Texas remarked that the fate of state regulation will depend heavily on (1) the outcome of the current debate on regulation of full financial services institutions, and (2) the ability of insurance departments to secure the funding they need to effectively regulate the industry.

Olson expressed confidence that the states, along with the NAIC and industry, can do the job. Olson believes that the NAIC is more important than ever, especially in times of overworked and underfunded insurance departments. Further, he indicated that properly structured, the NAIC data base can give regulators the information they need to do their job in a changing economy.

## Elections

Utah Insurance Commissioner Roger C. Day was elected President of the NAIC. Florida Insurance Commissioner William D. Gunter was elected Vice President and Chairman of the Executive Committee. Elmer V. "Sonny" Omholt, Montana Insurance Commissioner, was reelected Recording Secretary. Lyndon Olson automatically becomes Vice Chairman of the Executive Committee, as immediate past president.

## (EX-c) Task Force

Speaking at the (EX-c) Systems for Deregulations and Improved Regulation Task Force meeting, Commissioner Quinn of California, chairman of the task force, stated that he considered a review of state health insurance filing requirements to be a priority. Woody Eno, an attorney with the Health Insurance Association of America (HIAA), provided the task force with a survey of health insurance filing requirements in 38 states. The survey of the remaining 12 states is forthcoming.

## (EX4-a) to Study Loss Reserves

At the (EX4-a) Accounting Practices and Procedures Task Force, James W. Schacht of the Illinois Insurance Department, chairman of the task force, expressed an interest in a review of loss reserve discounting in the property and liability area. The task force adopted a motion authorizing Schacht to appoint a study group on loss reserve discounting and to develop specific recommendations which may include NAIC Accounting Manual changes and annual statement changes.

## Medicare Supplement Task Force Hears Loss Ratio Report

The (B5) Medicare Supplement Task Force received for consideration a report from the Missouri Insurance Department on a regulation involving a minimum loss ratio for medicare supplement insurance. That regulation is not yet in use in Missouri. The task force also agreed that it would take action at the upcoming spring 1983 meeting to either adopt the Missouri approach or alternatively to add a supplement to the annual statement reflecting loss ratios for the insurers' medicare supplement policies.

## (A5) Task Force Considers Universal Life Model Bill

A proposal to draft a universal life model bill was set forth by the advisory committee to the (A5) Universal Life Insurance Task Force. The advisory committee chairman, James Jackson of Transamerica Occidental Life, indicated that the drafting of such a model bill would be contingent on the ability of the advisory committee to adopt a "workable, acceptable" definition of universal life.

The advisory committee also set out four additional components of their plan: (1) consideration of the scope of standard valuation and nonforfeiture laws to assure that universal life plans will be financially stable and responsible; (2) the issue of grace periods, notices, and similar items; (3) the issue of advertising, including illustrations and a decision on whether there is a logical distinction between invitations to inquire and offers to sell; and (4) an analysis of disclosure statements to existing policyholders.

The task force also heard a report from the New York Insurance Department indicating that before the end of the year New York expects to set forth guidelines for the use of universal life insurers. In addition, the task force considered a suggestion from John Montgomery of the California Insurance Department that its charge be expanded to include all "unusual" life and annuity products not covered by the standard valuation and nonforfeiture laws.

## (D2) Considers Product Liability Risk Retention Model Bill

The (D2) Risk Retention Task Force adopted its proposed Model Product Liability Risk Retention Act with several amendments. The bill is intended to implement the federal Risk Retention Act. Adoption followed a three-hour session during which discussions made it clear that the commissioners still were not overly pleased with the federal act. The Academy was successful in urging the commissioners to include drafting notes which emphasized the authority of the commissioners to require a statement of actuarial opinion from risk retention groups.

## (C) Committee Considers Nuclear Insurance, Contingency Commissions

Two issues of note were considered by the (C) Personal Lines Property and Casualty Committee. The first was a request that the NAIC obtain information from insurers on the cost of providing nuclear insurance in excess of federal Price-Anderson limits. The second was a request that the NAIC study agents' contingency commissions. Both requests came from Robert Hunter, President of the National Insurance Consumer Organization (NICO). The (C) Committee agreed to form an advisory committee, including consumer representatives.

## (EX1) Meeting

The (EX1) Internal Administration Subcommittee chaired by Lyndon Olson of Texas considered two items of note. The first issue concerned formal adoption of a definition of the purposes of the NAIC data base. Olson moved to delay the final adoption of the definition to give industry representatives time to review it. (The EX1 meeting adjourned without taking a vote on the adoption of the defintion.) E. Benjamin Nelson, Director of the Support and Services Office (SSO) of the NAIC, discussed relocation efforts to downtown Kansas City. Nelson said the SSO expects its move to Kansas City to be completed by June of 1983.

## Group Life and Health Task Force

A model group health bill was adopted November 30 by the (A1-B1) Group Life and Health Insurance Task Force. The bill includes a disclosure provision which provides that, in the case of discretionary groups, the prospective insured must be told if the policyholder is to receive compensation from the insurer. The insured need not be told the amount of compensation.

## Blanks Task Force

The (EX4-b) Blanks Task Force agreed

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that completing the new Schedule DA (relating to short-term investments) would be purely optional for the 1982 annual statement, and mandatory thereafter. The action was prompted following an industry request for clarification of the issue.

## Income Investment Task Force Report Delayed

At the (EX4-e) Profitability and Investment Income Task Force meeting, the task force's advisory committee announced that its report on the role of investment income in ratemaking was not ready. Michael McCabe of Allstate, in a progress report on the advisory committee's work, said that plans are to release a 200-page study on the issue of investment income, accompanied by several hundred pages of appendices. Included will be discussions of historical background, the risk factor inherent in the property-liability business, needed rates of return, and methods currently used by states to deal with the role of investment income in ratemaking. The report may be available by the end of January. The (EX4-e) Task Force will then call a meeting to discuss that report.

## (A6) Adopts Variable Life Model Regulation

A model regulation covering flexible premium variable life plans ("universal life II" contracts) was adopted by the (A6) Variable Life Insurance Regulation Task Force. The proposal, a comprehensive updating of the existing NAIC variable life regulation, was endorsed by both the American Council of Life Insurance and the NAIC's technical actuarial staff.

The regulation makes a key distinction between "flexible premium" and "scheduled premium" policies. According to the regulation, this differentiation between the two types of policies is fundamental to the proposal. John Montgomery of the California Department said that the revision would bring the variable life model regulation into conformity with the changes in the standard valuation and nonforfeiture laws adopted by the NAIC in 1980, and would remove redundancy with federal regulation by the SEC.

Montgomery recommended that three guidelines be developed to be used in conjunction with the regulation: (1) the application of the standard nonforfeiture law to flexible premium variable life insurance, (2) the determination of sufficient net investment income and readily marketable assets to meet anticipated withdrawals under policies funded by the account, and (3) the preparation of illustrations specified by the regulation addressing issues regarding guaranteed and nonguaranteed aspects of a variable life insurance policy.

## WC Competitive Rating Act Approved

An alternative model competitive rating act for workers' compensation was approved by the (D3) Workers' Compensation Task Force. The key change from past versions of the bill is a provision mandating the use of a uniform experience rating plan by all WC insurers. Previous versions giving each insurer the option of setting up its own plan had drawn warnings from a number of regulators that the result could be chaotic. Commissioner Low of Arizona, task force chairman, acknowledged these concerns and drafted the amendment requiring uniformity. The bill is considered to be a regulatory alternative for those states favoring competitive rating for workers' compensation.

## (A4) Task Force Adopts Amendments

The (A4) Manipulation, Lapsation, Dividend Practices and Annuity Disclosure Task Force, chaired by Commissioner Redmond of Nevada, discussed proposed amendments to the NAIC annuity disclosure regulation, proposed amendments to schedule M on dividend disclosure, and a proposed lapsation disclosure recommendation. The annuity regulation amendments included a requirement for making available the interest yield on gross accumulations of annuity premiums. Over industry objections, a motion was passed by the task force to require disclosure of interest yields on gross accumulations for all annuities covered by the regulation.

With respect to dividend disclosure to regulators, the task force adopted a requirement that information of the type recommended by a committtee of the Academy be furnished as a supplement to the NAIC annual statement.

As to the third agenda item, a motion was adopted by the task force that lapsation disclosure information, including data beyond the first year, should be maintained by life insurers and be required to be made available on examination or at the request of any commissioner. No consideration was given to the proposition that information on lapsation should be sent to the NAIC, SSO, or be included as an attachment to the annual statement.

## Life Cost Disclosure Task Force

Commissioner Sabbagh of Massachusetts, chairman of the (A3) Life Cost Disclosure Task Force, reported that three submissions on cost disclosure had been received by the task force since the June meeting in Philadelphia. Sabbagh indicated that the proposals would be considered at the next NAIC meeting. A representative of the ACLI said their submission would incorporate seven new elements into the NAIC regulation: (1) the concept of a "nonguaranteed element" to measure the extent to which policy costs can be affected by premiums, benefits, or other items that are subject to change by the company without the consent of the policyholder; (2) a "special plans" section to accommodate the unique features of non-traditional plans such as universal life insurance; (3) provision for disclosure of dividend practices to both new and existing policyholders, in accordance with recommendations presented to the NAIC by the Committee on Dividend Principles and Practices of the American Academy of Actuaries; (4) provision for disclosure to regulators and policyholders of unusual patterns of premiums and benefits, in accordance with recommendations from the NAIC Advisory Committee on Manipulation; (5) provision for policyholders to request additional information relating to future premiums, benefits, and other items affecting policy costs; (6) revision of the requirement relating to disclosure of the policy loan interest rate in order to accommodate the features of the NAIC Model Policy Loan Interest Rate Bill; and (7) a new Buyer's Guide, with changes designed to take account of recent product developments and to enhance the guide's readability and usefulness.

## (B6) Task Force

The (B6) State and Federal Health Insurance Legislative Policy Task Force met to consider adopting a model law creating a health insurance pooling mechanism. That model act was adopted with the provision that the task force would continue to interact with the industry with respect to suggested amendments.

The other item dealt with by the task force was a cooperative effort between the U.S. Department of Labor to assist in state investigations of multiple employer trusts (METs). The Department of Labor, in a letter by its Administrator of Pension and Welfare Benefit Programs, stated that it would cooperate with all states in meeting the challenge of unauthorized METs. The NAIC's Federal Affairs Counsel suggested that Labor's proposal allows states to investigate METS under section 506 of ERISA. Δ