THE ACTUARIAL
update

AMERICAN ACADEMY OF ACTUARIES

VOLUME 23
NUMBER 2
FEBRUARY 1994

THIS MONTH

2
From the President

3
Letters to the Editor

3
Academy Task Force to Examine Retirement Trends

4
Actuaries and Advertising

5
Measuring Pension Costs

6
Academy Group Advises Hill Staffers on Solvency

7
Capitol Views

8
Winning in the Public Eye

ENCLOSURES

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

In Search Of

ASB Boxscore

1992–93 Academy Committee Reports Supplement

Nomination Card

Academy Group To Assess Clinton Health Care Cost Estimates

By Erich Parker

The Cost Estimates Work Group of the Academy's Health Practice Council has begun an independent analysis of the cost estimates contained in President Clinton's Health Security Act.

The work group, one of seventeen Academy groups established to analyze components of the health care plan, is formally headed by Academy Vice President Howard Bolnick and staffed by Academy members Hal Barney, Phyllis Doran, Alice Rosenblatt, and Dale Yamamoto. These actuaries, working essentially full time on the project, have set a late March deadline for completion of their analysis, which will ultimately be published as one of a series of health care reform monographs.

Estimated costs will be a key issue in the congressional debate on health care reform. Already, the administration's estimates have been challenged by Republican opponents of the Clinton plan and, more recently, by the Congressional Budget Office. The Academy's Board of Directors and its Health Practice Council believe the actuarial profession, given its unique expertise in future cost analysis, bears a public responsibility to study the accuracy and the adequacy of the cost estimates.

The work group's effort will be the most comprehensive independent actuarial analysis of the cost estimates. Since the beginning of the debate on the issue, the administration has often invoked the name of the profession to imply that its package had passed actuarial muster. President Clinton himself suggested as much in a speech to a joint session of Congress last September.

However, the actuaries who were consulted by the administration provided a limited analysis of some of the assumptions provided them by senior members of Hillary Rodham Clinton's health care reform task force. Their opinions were never intended to convey the impression that the profession as a whole had endorsed the accuracy of the administration's numbers.

On January 24 and 25 Barney, Doran, Rosenblatt, and Yamamoto met with the actuarial staff of the Health Care Financing Administration in Baltimore to discuss the methodological underpinnings of the administration's estimates. They will continue to meet on an accelerated schedule in order to make their March deadline.

When asked about the work group's effort, Academy Executive Vice President Jim Murphy said, "Given the sweeping social changes that health care reform could well bring about, it is essential that the American public and Congress understand both the best estimate of future costs, as well as the most reasonable range of variations around that estimate. That is why the actuarial profession is committing its time, talent, and resources to this project. The Academy is also prepared to consider the relative costs of any other health care reform proposals that gain prominence over the next several months." ■

For a look at another aspect of the Academy's health care reform effort, see page 6.

Cost Estimates Work Group members Hal Barney and Alice Rosenblatt.

AMERICAN ACADEMY OF ACTUARIES
President
David G. Hartman
President-Elect
Charles A. Bryan
Vice Presidents
Howard J. Bolnick
Howard Fluhr
Paul F. Kolkman
Stephen P. Lowe
Jack M. Turnquist
Secretary-Treasurer
James R. Swenson
Executive Vice President
James J. Murphy

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

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

THE ACTUARIAL UPDATE
Committee on Publications Chairman
E. Toni Mulder
Editor
Adam Reese
Executive Editor
Erich Parker
Associate Editors
William Carroll
Ronald Gebhardtsbauer
Patrick J. Grannan
Managing Editor
Jeffrey Speicher
Contributing Editor
Ken Krehbiel
Production Manager
Renée Cox

Statements of fact and opinion in this publication, including editorials and letters to the editor, are made on the responsibility of the authors alone and do not necessarily imply or represent the position of the American Academy of Actuaries, the editors, or the members of the Academy.

FROM THE **president**

Actuaries and Public Service

By David Hartman

As president of the Academy, one of my stated goals has been to encourage a spirit of service among the members of our profession.

Not that such a spirit is lacking! Far from it. The hours and effort that our members donate to the Academy and its sister organizations are literally incalculable. These volunteer efforts make possible our work of advancing the profession and raising its public profile. Anyone who has occupied a leadership role in the profession is aware of the importance of our volunteers. Speaking for myself, I am grateful to them all for the generous gift of their time and talent.

However, service to our profession is just part of the story. As true professionals, we also have a responsibility to share our expertise with society at large. Just as doctors and lawyers make pro bono work a normal part of their professional practice, so should actuaries consider it a duty to contribute our skills where needed. Our ability to quantify the financial aspects of future contingent events is valuable in many areas.

Our talents as actuaries can be helpful to a variety of institutions in our own communities—school boards, city councils, charitable or religious institutions. Such volunteer service can improve the lives of our communities, enrich our own lives, and cast a most favorable light on our profession.

Of course many actuaries have made careers in the public sector where their talents are essential to the sound regulation of the insurance industry, the public and private pension system, and Medicare and Medicaid. Actuaries play vital roles at the IRS, the Pension Benefit Guaranty Corporation, and the Health Care Financing Administration, as well as on the state level. These individuals often have made significant sacrifices in earning potential and career opportunities to carry on the important work of government.

Still, the need for actuaries in government is not universally recognized. A recent survey by the General Accounting Office found fourteen state insurance departments that do not employ actuaries, even though the presence of in-house actuaries has been shown to be an important element in maintaining adequate solvency standards.

Situations such as these are perfect opportunities for actuarial volunteers, perhaps retired or semi-retired actuaries who don't wish to withdraw completely from professional activity. State insurance departments facing budgetary constraints would be quite receptive to receiving such valuable assistance.

The Academy Committee on Actuarial Public Service, headed by Ed Hustead, has as its goal the advancement of the profession in the public sector. One way to enhance the stature of public sector actuaries, whether volunteers or paid professionals, is to bestow public recognition on outstanding achievement in the field.

With its annual Jarvis Farley Service Award, the Academy already honors a member who has made an outstanding contribution to the advancement of the profession itself. The Committee on Actuarial Public Service has proposed that the Academy establish a second award, to be given to an actuary whose contribution to the public good has been particularly noteworthy.

After careful thought, I have decided to recommend to the Academy Board of Directors that it authorize such a public service award. While we do not want to clutter our profession with a plethora of awards, I believe that this award would fulfill an important need. As recognition for public service, it would complement the Jarvis Farley Service Award. Together, they would honor both aspects of service—service to the profession and to the public.

Besides honoring worthy public service, the new award would encourage some actuaries to consider ways to serve and act as an incentive to others to persevere in their efforts. And, we should not overlook the public relations value to the profession of spotlighting an actuary's contributions to the public good.

The specific criteria that would be applied to the award's recipient are still to be determined. Whether the focus should be strictly on actuarial contributions to government or to the broader public sector of our society also must be agreed upon. But whatever qualifications are ultimately put in place, I hope that this award, and the idea of public service that it honors, will earn broad support from all members of our profession.

This editorial is the second of three to appear in The Update *during Hartman's presidency.*

***The Update* welcomes letters from its readers. Letters for publication should be submitted to "Letters to the Editor," and must include the writer's name, address, and telephone number. Letters may be edited for style and space requirements.**

letters
TO THE EDITOR

In his December *Update* editorial, "The ABCD: A Help, Not a Threat," Norm Crowder quotes "an experienced actuary" who believes "the ABCD poses a threat to actuaries comparable to the KGB." I am that actuary and I'm afraid Mr. Crowder totally missed the point.

When I wrote my *Actuarial Review* editorial shortly after the creation of the Actuarial Board for Counseling and Discipline, I was unequivocally supportive of the concept behind the organization. In fact, I had served on the two Academy task forces that conceived and advocated the idea that led to the establishment of the Actuarial Standards Board, a critical necessity for the effective operation of the ABCD.

The concern I expressed about the ABCD is rooted in an attitude permeating its operating rules that seems to that say, "Trust me, I will do the right thing, my intentions are good." The cost of such trust might be surrendering the right to due process for individuals accused of some misdeed. We all know the road to hell is paved with good intentions.

At the time I expressed my views in my editorial, I was beginning to see early signs of the corruption of a good idea. My cautionary remarks comparing the ABCD to the KGB were intended to highlight the fact that, unless each of us as individual practitioners and as members of the professional community remains totally vigilant, the ABCD can easily slip into an entirely different role. Citing the KGB was a bit of hyperbole that served the purpose of getting people's attention.

Even at this point, the caution flag must be up at all times if we are to be true to the original motivation for creating the ABCD—for otherwise the idea of an actuarial KGB might not be so absurd after all.

C. K. Stan Khury
New York City

CALL FOR NOMINATIONS

The Nominating Committee is seeking nominations for the Academy Board of Directors. Nominations will be presented to the membership for election at the Academy's 1994 Annual Meeting in September. Please forward nominees' names to Nominating Committee Chairperson Harry D. Garber, in care of the Academy, using the postcard included in this mailing of *The Actuarial Update*. The deadline for nominations is April 20.

Academy Task Force to Examine Retirement Trends

By Larry Zimpleman

The Academy has recently established a Task Force on Trends in Retirement Income Security. This task force, which I chair, is charged with studying the trends that will come into play as the baby boom generation reaches retirement age over the next 30 to 40 years.

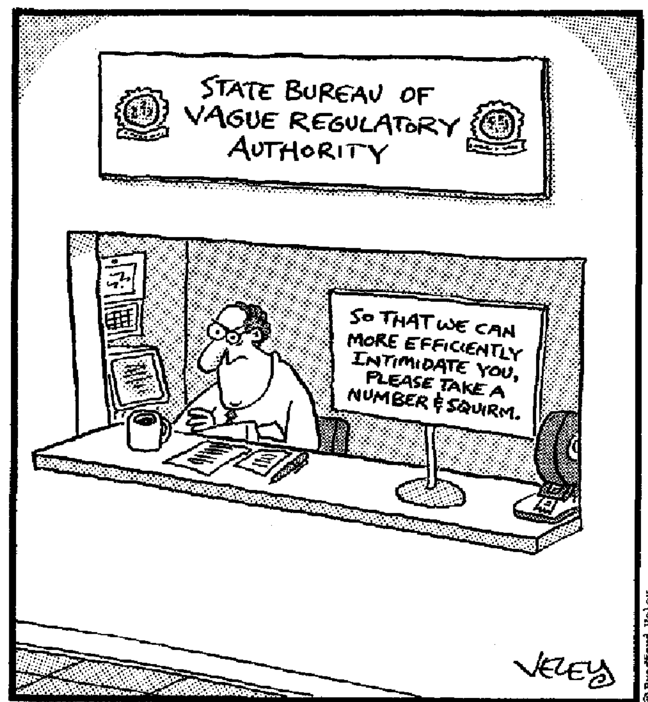
The task force will examine the major components of retirement income, including earnings replacement under OASDI, public employer and private pension plans, and sources such as savings, part-time work, and other personal assets. The task force will also study future trends in such areas as pension plan coverage and participation in the labor force.

The work of the task force is intended to duplicate the efforts of the American Society of Pension Actuaries (ASPA)task force on national retirement income policy, which recently issued its report. Rather, we hope to build on the findings of the ASPA study, allowing the actuarial profession to be in the best possible position to contribute to the coming national debate on retirement income security.

The task force will devote the rest of 1994 to a review of the data and projected trends, issuing periodic progress reports throughout the process. It plans to issue its final report and any recommendations by mid 1995, when it is expected that the spotlight of national attention will have turned from health care reform to retirement security.

The task force is working under the guidance of the Academy Pension Practice Council, which will review its final report. Along with actuaries, the task force includes economists and members from other disciplines who have expertise in retirement issues. If you have information you believe would be of interest to the task force, or if you would like to assist them in carrying out their mission, please contact Christine Cassidy at the Academy's Washington office.

Zimpleman is second vice president of the Principal Financial Group in Des Moines.



Actuaries and Advertising

By John Fibiger

—"Tired of paying too much interest on your credit card? Move your balance to our card and SAVE!"

—"Tired of spending hours waiting for an oil change? We'll have you in and out in 15 minutes—WE'RE FASTER!"

—"Tired of paying too high property taxes? We'll get your tax assessment reduced for half the first year savings—you DON'T PAY if you DON'T SAVE!"

These were just three of the offers waiting in my accumulated mail when I returned from a recent Actuarial Board for Counseling and Discipline (ABCD) meeting. All were legitimate sales approaches—protected commercial speech under the First Amendment—and the type of advertising we are exposed to on a daily basis. Many of us have trained ourselves to ignore messages like this unless the product or service being offered arouses our interest.

These ads piqued my interest not because I was in need of the services they offered, but because the members of the ABCD had just engaged in a broad discussion of Precept 12 of the Code of Professional Conduct, which treats the subject of advertising.

In the competitive environment that we face today, soliciting new clients is important to all businesses. However, as professionals, it is important that we remember that our advertising practices should not bring disrepute on ourselves or on the profession as a whole.

Precept 12 states: "An actuary shall not engage in any advertising or business solicitation activities in respect of professional services that the actuary knows or should know are false of misleading.

Annotation 12-1. The term "advertising" as used in the Code of Professional Conduct encompasses all communications by whatever medium, including oral communications, that may directly or indirectly influence any person or organization to decide whether there is a need for actuarial services or to select a specific person or firm to perform actuarial services. The intent is to discourage advertising that contains any statements or claims that are in any material respect false, fraudulent, misleading, or deceptive."

How would those advertisements read if placed by actuarial firms?

Suppose the three offers had been in a blind solicitation to the head of a small business with a defined benefit plan and read:

—"Tired of paying excessive actuarial fees for your pension plan? My fee schedule is guaranteed to SAVE you money!"

—"Tired of hearing from your actuary that the forms haven't been filed yet? We guarantee to file your form 5500 FASTER!"

—"Tired of having to put too much into your pension plan each year? We're so confident that our actuarial methods will lower your contribution that our fee will be half of the reduction in your contributions. YOU DON'T PAY IF YOU DON'T SAVE!"

I think you'll agree that most actuaries would be very uncomfortable sending out such solicitations, and that these advertisements would violate Precept 12 and its associated Annotation 12-1. The key point to remember is the difference between acceptable commercial advertising, in which inflated claims and hyperbolic language are commonplace, and professionally acceptable business solicitation, subject to the precepts of our profession's code of conduct.

The ABCD has dealt with several cases that concern an actuary's complaint about another actuary's advertising. None of the actuaries named in the complaints had issued solicitations as blatantly in violation of the code as the examples above. However, the ABCD did counsel the cited actuaries to change the wording of letters soliciting new clients, and urged them to send clarifications to correct any misinterpretations in material already distributed.

Courtesy and Cooperation

Precept 11 of the Code of Professional Conduct is also relevant to the topic of business solicitation.

Precept 11 states: "An actuary shall perform professional services with courtesy and shall cooperate with others in the client's or employer's interest.

Annotation 11-3. A principal (any present or prospective employer) has an indisputable right to choose a professional advisor. An actuary may provide service to any principal who requests it even though such principal is being or has been served by another actuary in the same manner."

A checklist of advertising do's and don'ts, by no means complete, might include:

EMPLOYMENT ASSISTANCE FOR ACTUARIES

The Society of Actuaries has established a résumé matching service for actuaries. Unemployed members of the SOA and nonmembers with at least 100 credits on SOA examinations are eligible to register for this service without charge. Employers may also list available positions in their companies with the service. Registered actuaries will be categorized by education, experience, professional level, and practice area and matched with available actuarial positions.
Employers and eligible actuaries who wish to register for the Society of Actuaries' résumé matching service should contact Pat Holmberg at 708/706-3527.

You may:

- ❑ Let potential clients know who you are, where you are, and what [illegible] do.

- ❑ Let potential clients know the areas in which you practice.

- ❑ Let potential clients know of your professional qualifications and memberships.

You may not:

- ❑ Falsely imply that membership in an organization implies certification by that organization.

- ❑ Imply that membership alone, without meeting other requirements such as continuing education, qualifies you to practice.

- ❑ Comment on another actuary's fees, speed of service, work product, or competence when you have no knowledge of those attributes.

- ❑ Promise or guarantee results without sufficient knowledge of [illegible] facts involved.

- ❑ Imply that you have methods available to you that are unavailable to other actuaries.

I don't mean to harp on the Code of Conduct, but it does provide sound guidelines for our professional behavior. According to Precept 1, "An actuary shall act honestly and in a manner to uphold the reputation of the actuarial profession and to fulfill the profession's responsibility to the public." This applies to all actuaries, in all matters, not just in soliciting business.

In closing, I encourage all actuaries to reread the Code of Conduct periodically and think about how it applies to their professional activities. Use it as a guide to be sure that you and your peers are in conformance with the standards our profession upholds.

Fibiger, a charter member of the ABCD, retired from the board at the end of 1993.

Measuring Pension Costs

By Gregg Richter

Company sponsors of defined benefit pension plans keep two sets of books for tracking pension cost.

❑ Cash cost—The actual funds needed to deliver the benefits promised. There are two aspects to this measurement of cost. The first examines how funds already on hand compare to the value of plan benefits accrued to date (the funded status of the plan.) The second is the contribution needed to fund benefits each year as they are earned, plus an installment toward any unfunded liability for earned benefits.

❑ Accounting cost—The cost of the pension plan as recorded in the sponsor's annual financial statements. Standards issued by the Financial Accounting Standards Board govern the methods and assumptions that must be used to determine a company's annual plan expense and accrued cost.

The two calculations apply similar actuarial methods. Assumptions are made regarding the economic and demographic factors that will affect future benefit payments to covered employees. Then the actuary projects the timing and amount of those payments.

Actuarial assumptions are selected by reference to historical experience and judgment as to future experience. Most factors involved—inflation, rates of return on invested funds, employee turnover—are extremely variable in the short term. Over the longer term, more predictability can be found by looking at *relationships* among the various factors. For example, periods of general cost inflation in the economy similarly affect rates of return realized on invested assets and salary increases granted by employers. Inflation is the tide that raises all ships.

The longer term relationships allow the actuary to develop annual cost estimates, whether on a cash or an accounting basis, that are stable from year to year. However, cost stability is not the only financial goal. Certainly employees and retired beneficiaries of the plan are more interested in whether the plan has sufficient cash resources to meet its promises. As is the federal government, not least because it has agreed to insure those promises through the Pension Benefit Guaranty Corporation.

The long-term actuarial assumptions used to develop annual cash cost or accounting cost are of little value in testing plan solvency under a termination of plan scenario. At any particular point in time, the long-term interest rate assumption is either too optimistic (high) or too conservative (low) to place an accurate value on what the annuity marketplace will charge to settle the benefits earned under the plan at that time.

Rules for both cash-cost and accounting-cost determinations have been refined to incorporate some recognition of the market value-of-plan obligations. In either case, special action is required if assets are insufficient to cover the market value of plan liabilities on the valuation date.

Significantly, ongoing plan solvency is a key objective of the cash cost valuation methodology. The accounting methodology is motivated by the matching principle: a company's revenue for a period should be matched with the expense it took to produce the revenue. Thus, if a company pension plan does not have the funds to cover the market value of its pension, the accounting adjustment is not a cash contribution but an addition to a book reserve.

There is another reason for caution in using accounting cost disclosures to reach conclusions about pension plan solvency. The accounting cost methodology makes use of two different interest rate assumptions:

Continued on page 8

1994 CALENDAR

Joint Executive Committee Meeting
March 21

Society of Actuaries Spring Meeting with AFIR Colloquium
April 20–22

Actuarial Standards Board Meeting
April 27–28

Casualty Actuarial Society Spring Meeting
May 15–18

Society of Actuaries Spring Meeting (Financial Reporting, Investment)
May 26–27

National Association of Insurance Commissioners Summer Meeting
June 12–15

Society of Actuaries Spring Meeting (Pension, Health)
June 15–17

Actuarial Standards Board Meeting
July 19–20

Academy Group Advises Hill Staffers on Health Insurer Solvency

By Bill Bluhm

The Academy Work Group on Health Insurer Solvency has completed its monograph, which is now being distributed to policy makers on Capitol Hill and in the Clinton administration. The monograph is also available upon request to all Academy members. To obtain your copy, contact David Rivera at the Academy's Washington office.

One way the Academy carries out its role as the actuarial profession's liaison with governmental bodies is to provide technical advice to policy makers on the implications of their policy decisions. The Academy's government information department maintains close links with key decision makers on Capitol Hill and in federal agencies, giving us the opportunity to respond to requests for our assistance.

On January 11, I was one of four actuaries who met with Democratic and Republican subcommittee staff members from the House Energy and Commerce Committee. I was there representing the Academy's work group on health insurer solvency issues; the other actuaries at the day-long meeting were Academy members Alan Ford, head of the Academy Health Practice Council's work group on transition rules, Geoff Sandler, and Mike Thompson.

The Academy government information department arranged the meeting at the request of the subcommittee staffers, who over the years have come to see the Academy as a trusted source of good advice. The staffers asked the Academy to discuss two aspects of President Clinton's Health Security Act: guaranty funds for health insurers and issues arising from the transition to a reformed health care system. These topics are under the purview of the Energy and Commerce Committee, and it is that committee's subcommittees that will draft the actual legislative language pertaining to those issues.

Bill Bluhm

As introduced by President Clinton, the Health Security Act requires that each participating state establish a guaranty fund to protect "providers and others" in case of a health plan insolvency. Our discussion of guaranty funds took an interesting turn—some of us started the day believing they were an important and necessary element for the protection of consumers under reform, and ended by defining certain entirely feasible circumstances under which they might not be necessary at all to protect consumers.

Our group of actuaries told the subcommittee representatives that guaranty funds might not be necessary for consumer protection because of three aspects of reform: (1) guaranteed issue and continuation of insurance coverage; (2) an assumption that providers will not be permitted to charge consumers for money owed them by a bankrupt plan; and (3) the assumption that state insurance commissioners will be given authority to transfer covered participants from insolvent health plans to solvent plans. In the event of a plan's insolvency, policyholders would be transferred to another health plan that would be responsible for all claims. Thus, the main purpose of a guaranty fund would be to insulate medical providers and other creditors from the business risk of not being reimbursed for services rendered before the insolvency. Our group stressed that establishing guaranty funds to protect providers is a public policy issue, not an actuarial question.

On the question of transition rules, the staffers asked about several perceived weak spots in the administration's language, especially on the subject of risk pools and their regulation. Alan Ford's work group is preparing a monograph that will examine risk pools, and he promised to [illegible] the staffers once the monograph is completed. The actuaries defended the broad need for transition rules, citing for instance the need for regulations that would allow companies short-term flexibility in setting premiums during transition.

Our discussion turned to the question of which entities should be the focus of solvency regulation that would protect the public. Our group suggested that solvency standards be applied to all entities that had pledged to meet the risks of insuring health coverage, usually health plans.

As the discussion evolved, the Capitol Hill group also asked our advice on payment priorities in case of bankruptcy. We offered the opinion that in bankruptcy priority be given to providers still providing services to insured individuals.

The staffers who met with our group were very bright and knowledgeable about the issues. They seemed honestly interested in what we had to say and seemed to value our input. I was impressed with their ability to weigh the truthfulness and technical correctness of the information they receive, balancing it against the political considerations that necessarily permeate their work.

While the four actuaries who participated in the meeting invested time and expense to do so, it was an important investment in building the Academy's reputation and relationship with Capitol Hill. This is a uniquely opportune time for health actuaries to make an impact on the future of health care in America. I was pleased to be able to contribute to the legislative process, and to further our profession's growing reputation as a source of impartial analysis among our nation's policy makers.

Bluhm is a member of the Academy Board of Directors and chairperson of the Health Practice Council's work group on health insurer solvency.

Capitol VIEWS

The financing package for a single-payer health proposal was unveiled by Rep. Jim McDermott (D-Wash.) and Sen. Paul Wellstone (D-Minn.). Under their plan, employers would pay a new 8.4% payroll tax, and employees would pay 2.1% of all taxable income. However, businesses that employ fewer than seventy-five employees who make less than $24,000 a year would pay only 4%. In addition, the bill proposes a $2-a-pack cigarette tax and a 50% excise tax on handguns and ammunition. The single-payer proposal would abolish Medicare and Medicaid, incorporating those programs into the national health plan. McDermott's bill has over ninety cosponsors in the House of Representatives. According to a Congressional Budget Office memorandum, the national single-payer health reform system proposed by McDermott would reduce national health expenditures by $114 billion annually by the year 2003. Under the single-payer proposal, a national health board would establish a national health budget that would grow no more rapidly than the economy plus the rate of population increase. CBO's report also concluded that a single-payer system could operate with administrative costs of just 3.5%, compared to current administrative costs in the private sector of 17%.

Lack of actuarial resources are among the impediments that face state regulators in detecting health insurer solvency problems, according to a report by the General Accounting Office (GAO). The survey reports that in 1991 twenty-one states had at least one actuary (associate or fellow) on staff to work on health insurance matters, and eleven others had an actuary under contract. However, fifteen states did not have an actuary on staff or under contract for health insurance monitoring. The GAO study also found wide variations among the states in the funding used to monitor health insurers. Rep. Pete Stark (D-Calif.), chairman of the Health Subcommittee of the House Ways and Means Committee, said the study casts doubt on the capacity of states to successfully implement the long list of new obligations required under President Clinton's health reform bill. Responding to Stark's comments, the National Association of Insurance Commissioners (NAIC) called the data used in the GAO report "embarrassingly outdated." Furthermore, the NAIC said the report failed to mention several health reform initiatives the NAIC has under development, including a model act on which states will be able to pattern their regulation of health care purchasing alliances and a risk-based capital formula for health providers such as HMOs and Blue Cross/Blue Shield plans.

An actuarial study by the Health Insurance Association of America (HIAA) reports that the Clinton administration's estimates of premium costs under its Health Security Act are understated by nearly one-third. The HIAA's analysis, which uses data supplied by the industry group's member companies, shows that premium costs for a single individual would be $2,509 per year, versus the $1,932 per year estimated by the administration. HIAA projects annual premiums of $7,278 for a two-parent family, while the administration's numbers show the same family paying $4,360.

New York state HMOs have sued the state insurance superintendent in the state Supreme Court to invalidate the revised factors the department used to determine HMO contributions to a market stabilization pool. The pool was established under the state's community rating regulation to stabilize rates in the small group and individual markets. The suit seeks to enjoin the department from implementing the new factors until they are subjected to a full rulemaking process, submitted to the New York Secretary of State. The HMOs also demand an investigation of the significant changes made to the original factors issued by the department in its community rating regulations. The suit alleged that the insurance superintendent violated the state's administrative procedure act by promulgating the new factors outside the rulemaking process and abused his discretion by issuing them when "he knew or should have known that there were significant unanswered questions." The suit also contends that the demographic factors, revised in August 1993, are based on erroneous information, not sound actuarial theory.

Continued on next page

VALEDICTORY PUSH SEEN LIKELY FOR PENSION REFORM BILLS

Retiring members of Congress may give new impetus to the enactment of sweeping pension legislation in 1994. Four key congressional advocates of pension reform have announced their retirement this year. Most recently, Rep. William G. Hughes (D-N.J.) and William Ford (D-Mich.) have joined Rep. J. J. Pickle (D-Tex.) and Sen. Howard Metzenbaum (D-Ohio) in announcing that this session of Congress will be their last. Hughes is the sponsor of legislation to establish a national commission on retirement income policy, while Ford, chairman of the House Education and Labor Committee, is the sponsor of the administration's PBGC reform proposal. Ford's announced departure may accelerate the movement of pension reform legislation through his committee. Meanwhile, retiring Sen. Metzenbaum is expected to introduce comprehensive ERISA reform legislation in March. Last June, Metzenbaum, chairman of the Senate Labor and Human Resources Subcommittee on Labor, withdrew legislation intended to overturn the Supreme Court decision in *Mertens vs. Hewitt Associates* that declared ERISA does not authorize suits for compensatory damages against non-fiduciaries such as actuaries, lawyers, and accountants, for knowing participation in a fiduciary's breach of duty. Metzenbaum's new bill is expected to allow monetary damages for plan participants and increase benefit coverage to all employees. Furthermore, the proposed bill would give plan participants more information on their benefits and change funding rules for underfunded plans.

Metzenbaum's retirement, coupled with the departure of the three pension reform advocates on the House side, will create a considerable void for leadership on the issue. Names most mentioned to emerge as future leaders for pension reform include Congressmen Gerald Kleczka (D-Wis.); Bill Brewster (D-Okla.); Andrew Jacobs, Jr. (D-Ind.); Fortney "Pete" Stark (D-Calif.); and Benjamin Cardin (D-Md.). In the Senate, Bill Bradley (D-N.J.) and Paul Wellstone (D-Minn.) are viewed as potential leaders.

CAPITOL,
continued from previous page

The maximum monthly benefit guaranteed by the Pension Benefit Guaranty Corporation (PBGC) increased from $2,437.50 in 1993 to $2,556.82 in 1994. The maximum guaranteed amount applies to a single life annuity beginning at age 65. The maximum guarantee is adjusted annually, based on changes in the Social Security contribution and benefit base, in accordance with ERISA.

The 1994 pension plan limitations for cost-of-living adjustments were announced by the IRS on January 13. The new limits, which became effective January 1, include an increased maximum limitation for defined benefit plans of $118,800, up from $115,641 in 1993, and a rise in the maximum 401(k) plan contributions for any participant from $8,994 in 1993 to $9,240 in 1994. The limitation for defined contribution plans remains at $30,000 for 1994 because the law provides that it will not be changed until the defined benefit limit exceeds $120,000.

Modifications to a plan banning age-weighted profit sharing plans are being considered by the Treasury Department. Treasury officials have been meeting with employer groups to discuss allowing companies to use such plans. Under one alternative, age-weighted plans would have to offer some type of minimum benefit with accelerated vesting, while another option would require that benefits for older, top-paid workers not be substantially more than benefits provided to younger, lower-paid workers. Specifically, the department is trying to determine how much disparity it will allow in the amount of benefits provided to older and younger employees under such plans. The provision to ban age-weighted profit sharing plans is included in the administration's PBGC reform proposal.

For more information on the legislative and regulatory actions noted above, contact David Rivera of the Academy government information department.

Practice Note for Casualty Actuaries

The Academy Committee on Property and Liability Financial Reporting has prepared a practice note on statements of actuarial opinion on property\casualty loss reserves. It is intended to assist actuaries by describing practices that the committee believes will be commonly employed in issuing statements of actuarial opinion on loss and loss adjustment expense reserves in compliance with the National Association of Insurance Commissioners' Property and Casualty Annual Statement Instructions for 1993. The practice note is not binding on any actuary and is not a definitive statement of what constitutes generally accepted practice in the area.

To obtain copies of the practice note for casualty actuaries, contact Cheryl Ayanian at the Academy office.

WINNING IN THE PUBLIC EYE

Paralyzed at presentations? Nerve-wracked in interviews?

Don't worry, there is succor for the shy! The Academy has reprinted its popular guide to public communications for actuaries, *Winning in the Public Eye.*

This primer was written by Academy Director of Public Relations Erich Parker to help you improve your ability to communicate confidently with all types of audiences.

Winning in the Public Eye focuses on the fundamentals of public speaking: writing a speech, the use of visual aids, techniques to make you a more persuasive speaker, and handling difficult questions. It also provides concrete advice on handling the scariest audience of all—the news media. The whimsical cartoons of Richard Thompson leaven the guide's message with humor.

Winning in the Public Eye is available without charge through the Academy office. To order your copies, please contact Andrea Pinkney by telephone at 202/223-8196 or fax at 202/872-1948.

PENSION COSTS,
continued from page 5

❑ A liability discount rate, which is used to place a value on the plan's benefit obligations. The accounting standard calls for this assumption to be representative of what the annuity marketplace would use to develop a settlement price for the obligation, i.e., a market rate.

❑ An assumed rate of return on assets, used only to develop accounting costs charged to the company's profit and loss statement. As such, at any particular point in time the rate will either be high or low compared to returns available in the capital markets at that moment.

It is a mistake to use the rate-of-return assumption disclosed by a company to reach conclusions about how well the company is funding its pension plan obligations. The rate of return assumption does not factor in the market value of either assets or benefit obligations. Further, it is not used to calculate the cash contribution needed by the plan. The assumption's utility lies entirely in assigning an accounting charge for the period that is fair to current shareholders.

Richter, of Sedgwick Noble Lowndes in Chicago, is chairperson of the Academy Pension Committee.