Wilson Wyatt Named Academy Executive Director

Wilson W. Wyatt, Jr. has been appointed Academy executive director. Wyatt’s appointment was announced by Academy President Chuck Bryan in a January 6 letter to the board of directors and follows a 4-month-long search conducted by a blue-ribbon Academy task force.

Wyatt brings over 17 years’ experience in corporate communications and public affairs to the Academy. Most recently, Wyatt served as senior vice president of corporate communications for the Travelers Insurance Companies, where he managed all communications and government relations activities. While at Travelers he developed a communications strategy to improve the corporation’s credibility prior to its recent merger with Primerica and also directed its “America’s Umbrella” advertising campaign.

As senior vice president of corporate and public affairs for PNC Financial Corporation, he participated in drafting banking reform legislation for the U.S. Senate. His 13-year career with BATUS, Inc., an $8 billion U.S. management holding company in Louisville, included 4 years as its Washington, D.C.-based vice president for public policy and 4 years as vice president of corporate affairs. Among his achievements at BATUS was the design of a successful US communications program to defend its British parent corporation against a $21 billion hostile takeover attempt by Sir James Goldsmith.

Wyatt began his career in 1965 as a reporter with The Courier-Journal in Louisville.

In 1969 he was elected to the Kentucky General Assembly, where he served as vice chair of the Appropriations and Revenue Committee.

“We are enthusiastic about adding Wilson Wyatt to our team of staff and volunteers,” said Academy President Chuck Bryan. “He is a bold and dynamic leader with a proven record in public policy issues. Wilson’s aggressive leadership will propel the Academy to even greater prominence as the public policy voice of the actuarial profession, as outlined in our 5-year strategic plan.”

Wyatt took up his Academy post January 30.

Sales Illustration Exposure Draft and Hearing

The Actuarial Standards Board anticipates that at its April meeting it will approve for exposure a standard of practice for life insurance sales illustrations. The ASB would then hold a hearing on this issue May 24 from 8:00 a.m. to 1:00 p.m. in New York City, immediately following the Society of Actuaries meeting. A special mailing of the exposure draft will be sent to members of the SOA Financial Reporting and Product Development Sections. If you are not a member of these sections and would like to receive the special mailing of the sales illustration exposure draft, please contact Christine Nickerson at (202) 223-8196.

KEY ISSUES AT A GLANCE

Pages 3-5 of this month’s Update feature a boxscore of the Academy Practice Councils’ key issues for 1995, the Academy’s objectives in taking on those issues for the profession, and any action taken to date. We hope our readers find this a useful reference guide. Academy members with comments or suggestions are encouraged to call the practice council vice presidents at the voice mail numbers listed in the boxscore’s left column.
FROM THE P resident

New Strategic Plan Sets Academy Priorities
By Chuck Bryan

Our Academy has now reached an important milestone on the way to becoming a more effective organization for our members. We have developed and implemented a 5-year strategic plan. The plan focuses the Academy's efforts on a clearly stated dual mission of ensuring actuaries a strong public policy voice and maintaining a high level of professionalism, including effective standards of practice and counseling and disciplinary structures.

Last year, 1993-94 Academy President Dave Hartman energized Academy strategic planning. Traditionally, the Academy Planning Committee consisted of the presidents-elect of the other U.S.-based organizations. We supplemented that structure by creating an operating committee chaired by Walt Rugland and including Bill Carroll, Janet Fagan, Steve Goldberg, Jim Murphy, John O'Connor, John Radek, Carl Shalit, Tim Tinsley, and Larry Zimpleran to develop a strategic plan. We also engaged a facilitator, Ralph Kuehl, to help us. After many meetings and discussions, we agreed on a plan that our board of directors approved last September. It's an exciting plan, as you will see.

You can find the strategic plan's mission and general objectives in the 1995 Academy Yearbook. If you have not yet read it, please spend time familiarizing yourself with the plan. We now have a very well articulated Mission Statement which focuses your Academy on two areas. The first area is making sure that we have a strong voice among legislators, regulators, and the business community, including all those organizations that affect our actuarial work. During 1993 and 1994, under the leadership of Presidents John Harding and Dave Hartman, the Academy was very effective in a number of public policy areas, including solvency, health care reform, risk-based capital, actuarial opinions, and many others. But we cannot rest on our laurels. We have agreed upon key issues for each of the four practice councils and the Council on Professionalism. On pages 3-5 of this Update, you will find a list of the practice council issues. If we can be successful in improving the public debate and decision-making on many of these issues, then we can be even prouder of our profession.

The second part of our mission is directly related to the first. We are committed to strengthening the already excellent structures in place to support standards of practice and counseling and disciplinary procedures. Much of this structure is relatively new in our profession. In 1986 the Interim Actuarial Standards Board was established on a trial basis; the board became permanent in 1988. Since then, dedicated actuaries have refined a standards-development process that is becoming the envy of other professional organizations. Even more recently, in 1992, the Actuarial Board for Counseling and Discipline was founded to bring a profession-wide approach to professional guidance and disciplinary matters. The ABCD is handling its responsibility very well. Both these structures are managed by the Academy on behalf of the entire profession in the United States.

Our members should also be excited about the Academy committee structure that has been evolving over the last several years in support of the strategic plan. We now have very active practice councils in the life, health, pension and casualty areas and for issues of professionalism. Each practice council is headed by a vice president who takes an active role in that area of practice. It is easy for you as a member to relate to a particular practice area and to decide how to provide specialized knowledge, volunteer time, or other assistance. The practice councils are tasked with achieving specific objectives of the strategic plan.

The strategic plan outlines five general objectives: public policy interface; professionalism; interorganizational relationships; communications; and resources. All Academy goals and activities are now linked to these objectives and a comprehensive staff plan is being organized to support each one. We will make astounding progress toward achieving these objectives in the near term under the leadership of Wilson Wyatt, the new Academy executive director.

What does this strategic plan mean to you as Academy members? First, it means that we have a much better feel for what the Academy is doing and how it is assisting us as a profession. Second, we are better able to influence key issues that affect actuaries and evaluate how our dues and volunteer time are spent. Third, sharpening the Academy's focus increases its influence in the public policy area, which enhances the prestige of all actuaries.

It is you, our members, who deserve a thank you for your ongoing support for the Academy during this transition period as it becomes focused on the new strategic plan. If you have any questions about the plan, feel free to direct them to me, to Academy staff, or to one of our vice presidents. We can all take pride in the achievements of our Academy and, with this new plan, be confident that even more achievements are in our future.

Copies of the complete Academy Strategic Plan are available from the Academy's Washington office.
<table>
<thead>
<tr>
<th>Practice Council</th>
<th>Key Issue</th>
<th>Academy Objective</th>
<th>Academy Action</th>
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</thead>
<tbody>
<tr>
<td><strong>Casualty</strong></td>
<td>1. Casualty Loss Reserve Opinions</td>
<td>Assist property/casualty actuaries in keeping abreast of state loss reserve valuation laws and regulations</td>
<td>Property/Casualty Loss Reserve Manual mailed to 200+ subscribers in January</td>
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<td>ave Flynn</td>
<td></td>
<td>Conduct study of sources of potential deficiencies in industry reserves</td>
<td>Committee on Property/Liability Financial Reporting (COPLIFR) reviewing responses to survey of companies</td>
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<td>vice president</td>
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<td>Assist NAIC Casualty Actuarial Technical Task Force in drafting instructions for residual market pools</td>
<td>COPLIFR subcommittee circulated draft of instructions for review at January meeting</td>
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<td>(202-223-8196, ext. 250)</td>
<td></td>
<td>Provide technical support to NAIC Task Force on other loss reserve issues</td>
<td>COPLIFR sent letters to Casualty Actuarial Task Force on loss reserve discounting guidelines and rule for calculating unearned premium reserves</td>
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<tr>
<td>2. Redlining</td>
<td></td>
<td>Provide technical support to state and federal policy makers</td>
<td>Committee on Property/Liability Insurance forming work group</td>
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<td>3. Workers' Compensation</td>
<td></td>
<td>Develop monograph on alternative treatments of WC in health care reform</td>
<td>Draft monograph completed</td>
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<td></td>
<td></td>
<td>Develop written materials on other WC issues for state policy makers</td>
<td>Work to begin as health care reform monograph nears completion</td>
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<td>4. Medical Malpractice Reform</td>
<td></td>
<td>Provide technical support to state and federal policymakers</td>
<td>COPLI work group tracking developments in federal legislation; developing additional documents for congressional staff; reviewing status of major state initiatives; developing technical support plan for state and federal policy makers where appropriate</td>
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<tr>
<td>5. Catastrophe Reserves and Natural Disaster Insurance Reform</td>
<td></td>
<td>Provide technical support to state and federal policy makers</td>
<td>COPLI work group to identify potential actuarial involvement and to produce one or more brief white papers</td>
</tr>
<tr>
<td>6. Environmental Liabilities (including Superfund)</td>
<td></td>
<td>Provide technical support to state and federal policy makers</td>
<td>COPLI work group to identify potential actuarial involvement and to produce one or more brief white papers</td>
</tr>
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<td>7. Reinsurance regulation and legislation</td>
<td></td>
<td>Provide technical support to state and federal policy makers</td>
<td>COPLI work group to identify potential actuarial involvement and to produce one or more brief white papers</td>
</tr>
<tr>
<td><strong>Health</strong></td>
<td>1. Contribute to the Health Care Reform Debate in National and State Arenas</td>
<td>Practice council work groups will produce and distribute monographs</td>
<td>Medical Savings Accounts Work Group is completing its first monograph; second monograph is planned for spring</td>
</tr>
<tr>
<td>John Bertko</td>
<td></td>
<td>Ensure Federal Health Committee's timely response to policy maker requests</td>
<td>ERISA Preemption Work Group is established and is preparing a monograph</td>
</tr>
<tr>
<td>vice president</td>
<td></td>
<td>Universal Coverage/Guaranteed Issue Work Group is being established</td>
<td>Community Rating Work Group is being established</td>
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<td>Community Rating Work Group is being established</td>
<td>Universal Coverage/Guaranteed Issue Work Group is being established</td>
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<td>Any-Willing-Provider Legislation Work Group is being established</td>
<td>Medicaid Fold-In Work Group will be established</td>
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<td>Medicaid Fold-In Work Group will be established</td>
<td>Committee met with key congressional and administration staff and set up technical resource groups to respond to requests</td>
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<td>Medicaid Fold-In Work Group will be established</td>
<td>Practice council created two SHC subcommittees: State Health Initiatives and NAIC Liaison</td>
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<tr>
<td>Health</td>
<td>1. Contribute to the Health Care Reform Debate in National and State Arenas</td>
<td>Increase interaction with the NAIC and raise the Academy’s profile as a technical resource</td>
<td>SHC presented its recommendations on a risk-based capital formula for health organizations and will continue to provide technical assistance to the NAIC HORBC Working Group as needed</td>
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<td>SHC representatives monitored all relevant sessions at the NAIC December meeting and will do so at NAIC 1995 quarterly meetings</td>
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<td>SHC is preparing and distributing background materials on NAIC issues to its subcommittee members.</td>
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<td>SHC is cosponsoring a reception at the NAIC spring meeting with Academy life and casualty committees.</td>
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<td>2. Increase Public Visibility of the Profession Via Joint Academy/ SOA Communications Committee</td>
<td>Contract freelance technical writer to prepare final report on 1994 Academy health care reform activities</td>
<td>Final draft being completed</td>
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<td>Add health policy organizations and academics to the contacts and monographs list</td>
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<td>In progress</td>
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<td>Compile lists of key issues meriting Academy response, of potential Academy members who could serve as state contacts, and of organizations to contact</td>
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<td>3. Set Goals and Priorities for the Long-Term Care Committee</td>
<td>Respond to Federal and state legislation on LTC provisions.</td>
<td>Committee is preparing a statement on LTC provisions in the House Senior Citizens' Equity Act</td>
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<td>Life Practice Notes 1–14 updated and mailed in December</td>
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<td>2. Life Practice Notes</td>
<td>Assist life &amp; health actuaries in keeping informed on state valuation laws and regulations</td>
<td>ASB is completing working draft of an actuarial compliance guideline; Committee on Life Insurance (COLI) will provide support to ASB and NAIC Life Insurance (ALI) Life Insurance Disclosure Working Group</td>
</tr>
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<td>3. Life Insurance Sales Illustrations</td>
<td>Provide technical expertise to NAIC, states, and federal government on actuarial aspects of this issue</td>
<td>NAIC Life Actuarial Task Force has temporarily suspended efforts to redraft law and will provide comments as needed.</td>
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<td>4. Life Nonforfeiture Model Law</td>
<td>Provide technical expertise and assistance to NAIC Life Actuarial Task Force in drafting model law</td>
<td>NAIC Life &amp; Health Actuarial Task Force recommended revised draft be exposed by Life Insurance (ALI) Committee at March meeting; COLI is monitoring progress of law</td>
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<td>5. Annuity Nonforfeiture Model Law</td>
<td>Provide comments to NAIC committees as law moves through adoption process</td>
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*SHC*
1994 Academy Public Statements

General Academy Statements

TO: Darren F. Cook, Director of Financial Services, National Association of Insurance Commissioners (NAIC)
DATE: June 2, 1994
DRAFTERS: Financial Reporting Steering Committee
REQUEST NO.: PS-94G-1
BACKGROUND: The Academy requested an opportunity to speak at a June 10 hearing regarding the proposed Statutory Accounting Principles (SAP) Statement of Concepts. In written comments on the Draft Statement of Concepts for SAP included with the letter, the Academy agreed that the primary focus of statutory accounting should be solvency management. The letter also stated that, as actuaries, the committee members were not proponents of a specific accounting system. However, the committee stated its belief that the proposed use of the existing GAAP framework, to the extent that its objectives coincide with the SAP objectives, makes sense. The letter also supported a conservative approach to regulating insolvency risk.

TO: United States Court of Appeals for the Fifth Circuit
DATE: December 20, 1994
DRAFTERS: Lauren M. Bloom, Counsel to the American Academy of Actuaries
REQUEST NO.: PS-94G-2
BACKGROUND: The United States District Court for the Western District of Texas declared that actuaries are fiduciaries as a matter of law in Texas. The Academy amicus curiae brief argued that the district court did not have such a sweeping declaration to decide the case, because the court had already determined that the facts of the case were sufficient to demonstrate that a fiduciary relationship existed between the parties and that the relationship had been breached. Further, the Academy argued that the district court erred in its analysis of the relationship between professional standards and fiduciary duty. The court's opinion suggested that a violation of professional standards is significant only in the context of a fiduciary breach. To the contrary, the Academy wrote, professional codes imposed by associations upon their members represent contracts between the association and the members and may be enforced by the association regardless of whether a member has breached a fiduciary duty to some third party. The district court's decision, if uncorrected, could seriously hamper the Academy's authority to enforce the code upon its members, according to the brief.

Casualty Statements

TO: Donna Imhoff, Counsel, Maryland House of Delegates
DATE: March 15, 1994
DRAFTERS: Malpractice Reform Work Group
REQUEST NO.: PS-94C-1
BACKGROUND: The work group addressed the pros and cons of three major approaches to workers' compensation as part of health care reform: ignoring workers' compensation, coordinating the medical component with other medical insurance, and merging occupational medical compensation with other medical insurance.

TO: Robert F. Lowe, Casualty Actuaries Inc.
DATE: January 5, 1994
DRAFTERS: Committee on Property and Liability Financial Reporting
REQUEST NO.: PS-94C-4
BACKGROUND: The committee responded to Lowe's suggested addition of a line of business chart to the Annual Statement Instructions. The letter recommended that another group, such as the NAIC Blanks task force, review the proposal.

Continued next page
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with recent experience—is the parry is paying today consistent current scale—the values acorn-
task force stated its opinion that BACKGROUND: The Academy REQUEST NO.: PS-94C-7
RE: Life Insurance Illustrations DATE: May 25, 1994
DRAFTERS: Committee on Property and Liability Financial Reporting RE: Implementation of Tabular Reserve Definition REQUEST NO.: PS-94C-6
BACKGROUND: The committee commented on a proposed transition rule for implementation of the tabular reserve definition adopted by the NAIC Blanks Task Force in December 1993. The committee suggested that consideration be given to implementing the definition prospectively by allowing companies that gave tabular treatment to workers' compensation medical claims to continue to do so for claims in accident years 1993 and before. An alternative suggested by the committee would be to phase in the changed definition over a period of years.

TO: NAIC Cost Disclosure Working Group DATE: March 1, 1994
DRAFTERS: Task Force on Illustrations RE: Life Insurance Illustrations REQUEST NO.: PS-94C-7
BACKGROUND: The Academy task force stated its opinion that current scale—the values a company is paying today consistent with recent experience—is the best basis for illustrating values. The task force recommended that current values, together with values shown at an alternative lower scale, be provided on a consistent basis throughout the industry. The task force also noted that the Actuarial Standards Board could play a role by issuing a standard of practice to support a regulation to require an actuary to certify illustrations.

TO: Robert W. Gosrow, Illinois Department of Insurance DATE: March 22, 1994
DRAFTERS: COPLFR RE: Asbestos/Environmental Reserve Disclosure REQUEST NO.: PS-94C-10
BACKGROUND: The committee made editorial suggestions to an Asbestos Environmental Reserves Disclosure that Gosrow had proposed to the NAIC Casualty Actuarial Task Force as an addition to the Notes to Financial Statements section of the Annual Statement.

TO: Frank P. Dino, Chief Actuary, Corporate Affairs, Colorado Division of Insurance, Department of Regulatory Agencies DATE: June 17, 1994
DRAFTERS: COPLFR RE: Proposed Regulation 3-1-3 REQUEST NO.: PS-94C-11
BACKGROUND: The committee reviewed a proposed change in Colorado's actuarial opinion requirements. The committee recommended that actuarial opinion requirement changes be taken through the NAIC, and adopted, modified, or rejected by the states as a group. The committee also offered specific suggestions to improve the proposed regulation.

TO: Bruce Patton, Staff Counsel, California Department of Insurance, Rate Enforcement Bureau DATE: June 17, 1994
DRAFTERS: COPLFR RE: Workers' Compensation Rate Filing Regulations REQUEST NO.: PS-94C-12
BACKGROUND: The committee made specific recommendations on the wording of compensation rate filing regulations and suggested that the regulation definition of actuary specify Academy membership as the sole qualification criterion for public statements of actuarial opinion.
Health Statements

TO: Thomas Foley, Chairman, NAIC Ad Hoc Group on Health Insurance Rating, Florida Insurance Department
DATE: January 13, 1994
DRAFTERS: State Health Committee
REQUEST NO.: PS-94H-1
BACKGROUND: The committee commented on the Ad Hoc Group's report on health insurance rating. The committee stated that guidelines for primary policies must be distinguished from secondary policies guidelines.

TO: Mark Peavy, Life/Health Actuary, NAIC
DATE: March 31, 1994
DRAFTERS: State Health Committee
REQUEST NO.: PS-94H-2
BACKGROUND: The committee focused on the scope, pooling, rate structure, and frequency of rate increase sections of the Ad Hoc Working Group's draft regulation.

TO: Lowell Solomon, Sen. Edward Kennedy's Office
DATE: August 11, 1994
DRAFTERS: Federal Health Committee
REQUEST NO.: PS-94H-3
BACKGROUND: The committee provided estimates of the impact on community rating for varying employer-size thresholds under Sen. George Mitchell's health care reform bill (S. 2357).

TO: Selected Members of Congress
DATE: August 29, 1994
DRAFTERS: Medical Savings Account Work Group
REQUEST NO.: PS-94H-4
BACKGROUND: The work group addressed widespread misunderstandings of how MSAs would work under a number of the health care reform proposals before Congress. The work group noted that employers generally would not realize enough savings from replacing their low-deductible health plans with high-deductible plans to be able to contribute the full deductible amount to an MSA for all their workers.

TO: All Members of Congress
DATE: April 1994
DRAFTERS: Solvency Work Group
REQUEST NO.: PS-94H-5
BACKGROUND: Monograph Four, Actuarial Solvency Issues of Health Plans in the United States, addressed actuarial issues related to monitoring and regulation of insured health plan solvency. Proposed changes in the private insurance market raised the concern that many health care plans could become insolvent, particularly at the outset of health care reform.

TO: All Members of Congress
DATE: March 1994
DRAFTERS: Guaranteed National Benefits Package Work Group
REQUEST NO.: PS-94H-6
BACKGROUND: Monograph Five, Actuarial Issues Involved in Evaluating a Guaranteed Standard Benefit Package Under Health Care Reform, discussed the actuarial issues involved in evaluating the design of guaranteed standard benefit packages, with a particular focus on the Health Security Act of 1993.

TO: All Members of Congress
DATE: April 1994
DRAFTERS: Budget Development and Enforcement Work Group
REQUEST NO.: PS-94H-7
BACKGROUND: Monograph Six, Actuarial Issues Related to Budget Development and Enforcement Under Health Care Reform, examined the elements of the Health Security Act of 1993 that designed to control future health care cost increases. Specifically, it addresses the actuarial implications of using a premium cap and an assessment mechanism to achieve a global health care budget in the United States.

TO: All Members of Congress
DATE: July 1994
DRAFTERS: Cost Estimates Work Group
REQUEST NO.: PS-94H-8
BACKGROUND: Monograph Seven, A Review of Premium Estimates for the Health Security Act, reviewed the assumptions and methodologies used by the Clinton administration to develop premium estimates for the Health Security Act.

TO: All Members of Congress
DATE: May 1994
DRAFTERS: Mental Health Benefits Work Group
REQUEST NO.: PS-94H-9
BACKGROUND: Monograph Eight, Actuarial Issues in Designing Mental Health Benefits Under Health Reform, examined the benefit design and cost issues for the mental health benefits proposed under the Clinton administration's Health Security Act.

TO: All Members of Congress
DATE: June 1994
DRAFTERS: Administrative Costs Work Group
REQUEST NO.: PS-94H-10
BACKGROUND: Monograph Nine, Administrative Costs for Regional Alliances and Health Plans under the Health Security Act, focused on the functions necessary to administer health alliances and health plans under the Health Security Act of 1993.

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TO: All Members of Congress
DATE: July 1994
DRAFTERS: Health Plan Pricing Work Group
RE: Pricing Health Plans under Health Care Reform
REQUEST NO.: PS-94H-11
BACKGROUND: Monograph Ten, Actuarial Issues Related to Pricing Health Plans Under Health Care Reform, discussed the methods currently used by health plan managers to price health plans and how to set health plan premiums under a reformed health care system.

TO: All Members of Congress
DATE: August 1994
DRAFTERS: ERISA Changes Work Group
RE: ERISA Under the Health Security Act
REQUEST NO.: PS-94H-12
BACKGROUND: Monograph Eleven, Actuarial Implications to ERISA under the Health Security Act, addressed proposed changes to ERISA in the Health Security Act and the impact of those changes on employers currently subject to ERISA. The monograph focused on ERISA provisions that employers use in managing the health benefit plan costs through self-insurance or through innovative arrangements with insurers and health maintenance organizations.

TO: All Members of Congress
DATE: August 1994
DRAFTERS: Health Alliances Work Group
RE: Regional Health Alliances Under Health Care Reform
REQUEST NO.: PS-94H-13
BACKGROUND: Monograph Twelve, Actuarial Perspectives on Regional Health Alliances under Health Care Reform, examined the intended purposes of regional health alliances and discusses the implications of various organizational structures on these purposes. In addition, the monograph discussed the size and membership of health alliances, health alliance structure, health alliance administration, and alternatives to health alliances.
BACKGROUND: The committee offered its assistance to the NAIC effort to solve life insurance illustration problems. The committee enclosed a statement that analyzed proposals made to date and compared the different bases of illustrations proposed. The committee also identified certain problems with illustrations and suggested remedies.

TO: U.S. Supreme Court
DATE: September 7, 1994
DRAFTER: Lauren M. Bloom, Counsel to the American Academy of Actuaries
RE: NationsBank of North Carolina v. VALIC
REQUEST NO.: PS-94L-3
BACKGROUND: The Academy submitted an amicus curiae brief in this case, which concerns whether national banks are permitted by federal law to act as agents in the sale of annuities. The banking industry is appealing a ruling by the Fifth Circuit U.S. Court of Appeals, which held that national banks' ability to sell annuities is limited by the National Bank Act. The act prohibits banks in towns of more than 5,000 residents from selling insurance. The Academy's brief requested that the Court affirm the appeals court decision that annuities constitute insurance.

Pension Statements
TO: Committee on Ways and Means, U.S. House of Representatives
DATE: April 19, 1994
DRAFTER: Pension Committee
RE: Pension Benefit Guaranty Corporation Reform Legislation
REQUEST NO.: PS-94P-1
BACKGROUND: This testimony examined the administration's proposal to reform the Pension Benefit Guaranty Corporation's single-employer defined benefit plan termination insurance program. The committee provided additional recommendations to the PBGC proposal including suggestions for strengthening funding requirements, modifying funding requirements to smooth out volatility caused by actuarial gains and losses, and improving interaction between the actuarial profession and federal regulators.

DATE: May 10, 1994
DRAFTER: Pension Committee
RE: Wheat's Pension System Reform Proposal
REQUEST NO.: PS-94P-2
BACKGROUND: The committee responded to a request from Wheat's office to review his pension reform proposal. The committee concluded that the draft legislation will not simplify pension regulation in ways that are sufficient to encourage greater private pension coverage. The committee questioned whether the proposal would offer enough incentive to employers who already have pension plans to broaden pension coverage to all workers and provide a minimum benefit. The committee also stated that the proposal's incentives to employers that do not offer private pension programs are insufficient to stimulate new plan formation.

TO: Committee on Ways and Means, U.S. House of Representatives
DATE: August 26, 1994
DRAFTER: Pension Committee
RE: Cross-Testing Provision of the Administration's PBGC Reform Bill
REQUEST NO.: PS-94P-3
BACKGROUND: The committee addressed a proposal in the Clinton administration's PBGC reform bill to eliminate cross-testing. The committee acknowledged administration concerns about potential abuses in the design and operation of profit-sharing plans that utilize age as a basis for measuring nondiscrimination. However, the committee stated that any solution should encourage good plan design and not cause termination of good plans because of a limited number of abuses.

TO: U.S. Senate Finance Committee
DATE: August 26, 1994
DRAFTER: Pension Committee
RE: Cross-Testing Provision of the Administration's PBGC Reform Bill
REQUEST NO.: PS-94P-4
BACKGROUND: The committee urged members to strike the cross-testing provision from the PBGC reform proposal and to substitute language identical to that in the bill reported by the House Ways and Means Committee in July (i.e., to drop the elimination of cross-testing, but direct Treasury to study possible abuses).
The committee also recommended that the ASB is actively developing pension valuation standards. The committee noted that the provision would specify the mortality and interest assumptions to be used in valuing a pension plan's current liability. The committee argued that the provision does not serve plan participants or the public at large. The committee stated that the prescribed mortality table, based on the 1983 Group Annuity Mortality (GAM) table, is inappropriate for many plans. A far better approach, the committee wrote, is to enhance cooperation between regulators and the profession. The committee noted that the ASB is actively developing pension valuation standards. The committee also recommended the establishment of an Office of Government Actuary that would work with the profession and the ASB in establishing and monitoring standards of practice as they apply to ERISA plans.

TO: U.S. House Committee on Ways & Means, Subcommittee on Social Security DATE: November 15, 1994 DRAFTERS: Committee on Social Insurance RE: Proposals to Restore Social Security's Financial Soundness (H.R. 4245, H.R. 4275, and Rep. Timothy Penny's Proposal) REQUEST NO.: PS-94P-9 BACKGROUND: This letter, which was also submitted to the record for a Ways and Means Social Security Subcommittee hearing on September 27, reviewed estimates prepared by the Social Security Administration's Office of the Actuary on the effects of reform proposals. The committee concluded that comprehensive action to eliminate the long-range actuarial deficit is preferable to a piecemeal approach.
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<tr>
<td>Life Kolkman</td>
<td>6. Quality of Asset Adequacy Opinions</td>
<td>Improve the consistency of application</td>
<td>COLIFR reviewing the possibility of a conference for opinion writers to discuss quality issues</td>
</tr>
<tr>
<td>Howard Fluhr</td>
<td>7. Life Risk Based Capital</td>
<td>Develop recommendations for improving the quality of actuarial opinions; identify concerns within the profession about standards of practice</td>
<td>NAIC study not complete</td>
</tr>
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<td></td>
<td></td>
<td>Ascertain regulators' perceptions of the utility and quality of asset adequacy opinions</td>
<td>No action taken</td>
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<td></td>
<td></td>
<td>Educate regulators and companies on the use of dynamic analysis of financial condition.</td>
<td>No action taken yet in 1995</td>
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<td>8. SAP/GAAP</td>
<td>Provide analytical and research support to NAIC Life Risk Based Capital Working Group</td>
<td>No action taken</td>
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<td></td>
<td></td>
<td>Monitor and review NAIC staff study of the impact of proposed changes in the RBC formulas on insurers</td>
<td>Life Practice Council forming a Life Risk Based Capital Task Force in response to request from NAIC group</td>
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<td></td>
<td>Provide NAIC with theoretical study of C-1 risk issues in Life RBC formula</td>
<td>Action dependent upon NAIC decision to undertake this study</td>
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<td>9. Life Insurance Risk Classification</td>
<td>Develop recommendations for improving the quality of actuarial opinions; identify concerns within the profession about standards of practice</td>
<td>Committee on Risk Classification white paper for state commissioners, consumer advocacy groups, and interested policymakers slated for June</td>
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<td>Educate policy makers and consumer groups on risk classification issues</td>
<td>Appropriate volunteers being added to Committee on Risk Classification</td>
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<td></td>
<td>Provide technical support to NAIC in developing positions on risk classification and genetic testing in life insurance</td>
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<td>10. Fair Value Accounting Project</td>
<td>Educate FASB on actuarial aspects of the treatment of liabilities</td>
<td>Final report being reviewed for early spring release; COLIFR and Financial Reporting Steering Committee members to discuss findings with FASB members; COLIFR to adapt study for broader audience</td>
</tr>
<tr>
<td>Pension</td>
<td>1. Developing Cohesive National Retirement Income Policy</td>
<td>Encourage establishment of a congressional commission</td>
<td>Practice council contacting congressional offices to garner support for such a commission</td>
</tr>
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<td>Analyze long-term trends in income replacement at retirement</td>
<td>Established Academy task force to report on 40-year trends in retirement income security and produce one or more reports</td>
</tr>
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<td></td>
<td>2. Improving the Status of Pension Actuaries with Policy Makers</td>
<td>Support ASB efforts to enhance pension actuaries' role</td>
<td>Pension Committee commented on ASB economic assumptions for pension plans draft standard</td>
</tr>
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<td>Develop a more cooperative relationship with Washington pension policy makers/regulators</td>
<td>Academy established position of senior pension fellow and began selection process</td>
</tr>
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<td></td>
<td>3. Future Financial Status of Social Security and Other Programs</td>
<td>Provide technical analysis to policy makers</td>
<td>Committee on Social Insurance sent letter to House Ways and Means Committee on legislative proposals to correct Social Security deficit; committee is working with ASB on social insurance draft standard</td>
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<td>4. Regulatory Efficiency and Shorter-Term Pension Reform</td>
<td>Analyze technical aspects of current legislative proposals</td>
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<td>Provide technical input and suggestions for changes in existing and proposed legislation</td>
<td>Pension Committee letter to IRS recommended reinstatement of Rev. Proc. 85-29; committee recommended 1995 priorities to the IRS and the PBGC; committee letter to IRS advocated 6-month extension for restated defined contribution plans.</td>
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<td>5. Financial Accounting Standards for Private and Government Plans</td>
<td>Provide technical support to FASB, GASB, and the FASAB</td>
<td>Article appeared in February Enrolled Actuaries Report to raise awareness among the profession and policy makers of the effects of inconsistent tax policy</td>
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<td>Promote National Uniformity of State Taxation of Pensions</td>
<td>Pension Committee peer-reviewed draft of pension cost accounting standards for government contractors; committee commented to Federal Accounting Standards Advisory Board on draft standard for accounting for federal government liabilities.</td>
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Anatomy of a Standard: The ASB Exposure Process

By Anne M. Rankin

Every writer faces some trepidation at facing a blank page or screen. Yet actuaries who volunteer to draft standards for the Actuarial Standards Board face a lot more than simply the terror of the blank slate. Exactly what is involved in the standards process? How does one proceed from the very beginning—when the need for a standard is determined—to the final printing of the small, teal green booklets? Here is the story of how the Task Force on Rate of Return created the exposure draft, Treatment of Profit and Contingency Provisions and the Cost of Capital in Property/Casualty Insurance Ratemaking.

In many ways, the ASB Casualty Committee’s Task Force on Rate of Return—comprising Mark Whitman, chairperson, David Appel, Robert Bailey, Robert Butsic, Steve Lehmann, Claus Metzner, Michael Miller, and Richard Woll—is similar to other ASB subcommittees. Yet this task force took a decidedly individual path.

The Need for Guidance

The process began where it usually begins—when the need for some form of counsel is felt in the actuarial community. In this case, the ASB Casualty Committee wanted to provide some instruction for casualty actuaries who were trying to follow the Casualty Actuarial Society Statement of Principles Regarding Property and Casualty Insurance Ratemaking. As Mark Whitman said, “The Casualty Committee wanted to provide guidance on appropriate techniques for incorporating the cost of capital in ratemaking. The cost of capital is one of the cost items enumerated in the CAS Statement of Principles that must be provided for by a rate.”

In 1991 ASB Casualty Committee Chairman LeRoy Boison asked Mark Whitman to chair the Task Force on Rate of Return to develop a standard. Whitman’s selection as chairperson was unusual because he is not an expert in this area. Yet his willingness to become involved brought a nontechnical perspective to the group. As the task force deliberated, each task force member took a leadership role in the discussions involving their particular areas of expertise. And, as Whitman admitted, “These guys... cared a lot about this subject. They all had different areas of expertise. And it wasn’t hard to keep them focused.” In fact, the passion of the task force members created initiative, drive, and energy.

Also unusual was the invitation to join the task force extended to nonactuary Appel, a Milliman & Robertson economist, who brought yet another perspective to the project.

Debating the Issues

In the initial meetings, the group studied what a standard is and how a standard is set up. For this, the group tried to focus on what represented a consensus of opinions among practicing actuaries. Basically, the group concluded that anything for which there was no consensus should not be in the standard. Of course, the task force also used the question, “Do we need it?” as another criterion for possible subjects to include.

What were some of the issues that the task force addressed? At first, the task force was not sure how it would deal with contingency provisions. Although this subject was not part of the original charge, the task force made an early decision to cover contingency provisions, as well as profit provisions, in the standard.

Another issue that was discussed throughout the drafting process was what comprises the prices that are charged in the market versus the actuarial assessment of the costs. Often a company will charge a price that implicitly includes a different profit provision than what the actuary will assess to be the required cost of capital. This issue could have been difficult to handle. However, standards of practice are not intended to cover pricing. Thus, the task force determined that this standard should focus on actuarial assessments of costs.

The task force struggled to find a way to make it clear that methods to price products are not covered by the standard, without limiting the actuary’s role in the pricing process. The task force believes the standard is now clear on this issue.

Another issue that the task force grappled with was the actuarial determination of a fair and reasonable rate of return. Whitman noted, “Later on in the process we determined that we were not determining fair or reasonable anything. We were just assessing costs. And when we kept returning to the issue of assessing the costs, like the cost of capital, then we knew we were doing better.”

Spreading the Word

From the beginning of its work, the task force was committed to presenting its ideas, intentions, and conclusions at professional

Continued on page 8
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In a major victory for banks, the Supreme Court ruled unanimously on January 18 that national banks in large and mid-sized cities may act as agents for insurance companies in the sale of fixed and variable annuities. The issue arose in 1990, when the Office of the Comptroller of the Currency, which regulates national banks, approved a proposal by NationsBank of North Carolina v. VALIC. The issue arose in 1990, when the Office of the Comptroller of the Currency, which regulates national banks, approved a proposal by NationsBank of North Carolina to sell annuities. The IRS' ruling does not address other issues related to plan amendments, such as the extent to which employers may reduce plan benefits or increase potential reversions. The IRS will issue future guidance on which mortality table should be used under Section 412. The Academy's Pension Committee has recommended to the IRS that the Section 412 mortality assumption should be sex-distinct and not incorporate any projection for future improvement.

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1995 LIFE & HEALTH MANUAL

The Life & Health Standard Valuation Law Manual has been updated to reflect recent changes in state valuation laws and regulations. Included are changes in law in thirty-eight states and two new regulations, No. 126 and No. 147, promulgated by the New York State Insurance Department. Materials for the 1995 updates were mailed to all SVL Manual subscribers in early January. Academy members who wish to obtain the update packet should fax a request with a mailing address and phone number to the attention of Assistant Director of Government Information Jean Rosales at (202) 872-1948. Individuals wishing to purchase the Life & Health Standard Valuation Law Manual, including the 1995 update material, for $90 per copy, may fax a request to the above number.

Many thanks are due the volunteers who helped review changes in NAIC and state laws and regulations and prepared materials for inclusion in the update materials. Of particular note are the efforts of Donna Claire of Claire Thinking, Inc., Timothy Harris of Milliman & Robertson, and Anthony Spano of ACIL.

Special recognition also goes to William Carmello of the New York State Insurance Department, who conducted a thorough survey of the New York sections of the manual and provided extensive and helpful commentary on all of the materials relating to New York laws and regulations.

The task force was especially happy to receive input at conferences from regulatory actuaries. And one conference attendee, Bob Butsic, actually joined the task force as an official member at the conference! Whitman remarked, “There was an unexpected fringe benefit, I think, of doing these exposures. We picked up another committee member.”

Drafting

During the process of receiving comments, discussing issues, and attending meetings, the task force began to write the exposure draft. Often, the group used information gleaned from input to narrow the choices of material for the proposed standard.

The writing of the draft, like everything else accomplished in this project, was a matter of giving-and-take, push-and-pull. Each task force member had his own opinion on various methods and calculations. As chairperson, Whitman found it helpful for each member to occasionally go off on a tangent and present his point of view for an extended period of time.

Regarding this part of the process, Whitman had this to say: “We had to let this happen because during this process people found out that they were not using the terms the same way... You had to really listen to what each person was saying.” Only this way could the members understand each other’s concerns and vocabulary.

Of course, now that the exposure draft has been printed and distributed to Academy members, the process will continue. Whitman is slated to do a presentation at the CAS Ratemaking Seminar, at which he will bring people up to date on what is happening with the standard. And the task force will be doing another panel at the April CAS Rate of Return/Probability Seminar. These efforts at communication and increased feedback should pay off in the long run, in terms of composing a final version of the standard.

The Profession’s Response

Of course, all of this effort is intended to benefit the actuarial profession. The task force hopes that one benefit will be greater acknowledgement that return on capital and the role of investment income in generating that return is critical to profitability. In addition, as is stated in the exposure draft’s transmittal memorandum, the proposed standard will assure users of the actuarial work product that appropriate procedures have been used to determine the rate.

Whitman added that his task force “tried to keep [the standard] fairly neutral in the sense that the standard should provide guidance both to actuaries that are working on rate filings as well as actuaries that are preparing analyses for their own company’s management or for their own client’s management.” It is now the actuarial profession’s responsibility to join the Task Force on Rate of Return in the process of creating a standard. If the profession responds with the determination and energy of the task force, the final standard will truly reflect the consensus of the profession.

The comment deadline for the exposure draft, Treatment of Profit and Contingency Provisions and the Cost of Capital in Property/Casualty Insurance Ratemaking, has been extended until April 17. Letters and comments should be sent to: Profit and Contingency Provisions, Actuarial Standards Board, 1100 Seventeenth Street NW, 7th Floor, Washington, DC 20036.

Rankin is standards editor for the ASB.