The Actuarial Update

VOLUME 16 NUMBER 1 AMERICAN ACADEMY OF ACTUARIES JANUARY 1987

In this issue

Enclosures

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

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- In Search Of . . .
- IASB Boxscore
- Recommendations Concerning the Redetermination (or Determination) of Non-Guaranteed Charges . . .
- Exposure Draft: Recommendations for Actuarial Communications Related to Statement of Financial Accounting Standards No. 87

EA Continuing Education Report Calls for Voluntary Self-Education

Following almost a year spent exploring alternatives to the current voluntary system of continuing education for enrolled actuaries, the Task Force on Continuing Qualification for Enrolled Actuaries has issued its report to Leslie S. Shapiro, executive director of the Joint Board for the Enrollment of Actuaries.

Four members of the eight-member task force recommended that the present system be maintained as is. They cited the "increased cost, time and effort" beyond what enrolled actuaries are presently doing on a voluntary basis as an unjustifiable burden. "The role of the government is to require enrolled actuaries to meet minimum standards, not to require all enrolled actuaries to advance their knowledge under a rigid set of rules," reads the statement of the four issued on November 18, 1986.

The task force was convened in February 1986, at Shapiro's behest. The panel met three times with Shapiro and altogether on seven occasions to consider the feasibility of adopting either: (1) a voluntary self-education program with no requirements to any specific number of continuing education credits for renewal of enrollment status; (2) a periodic proficiency examination; (3) establishment of a peer review committee; or (4) establishment of a formal continuing education program of either a compulsory or voluntary nature.

Background

To achieve enrolled status, pension actuaries, under provisions of the Employee Retirement Income Security Act (ERISA), must pass two initial examinations given jointly by the Joint Board for the Enrollment of Actuaries, the Society of Actuaries (SOA), and the American Society of Pension Actuaries (ASPA). Renewal is accomplished through a process of formal application, but does not require re-examination nor proof of continuing professional education. The *Federal Register* of January 22, 1986 (51 FR 2875; 31 CFR Part 10) contains regulations describing a program of continuing education that must be maintained by attorneys, certified public accountants, and enrolled agents, practicing before the Internal Revenue Service. However, Gary D. Simms, the Academy's general counsel, emphasizes that although enrolled actuaries are included in the title page to this regulation, these requirements do not apply to enrolled actuaries.

At the first general session of the Enrolled Actuaries Meeting in February 1986, Shapiro outlined the then newly-created regulations for enrolled agents and indicated that a decision regarding a continuing education requirement for enrolled actuaries would await the submission of proposals from a task force comprising representatives from the Academy, the SOA, the Conference of Actuaries in Public Practice, and ASPA.

The Report

In its report, the task force asserted that the "vast majority of enrolled actuaries already voluntarily obtain significant amounts of continuing education through formal and informal means." The benefits of adopting a formal continuing education program were assessed in terms of enhancing the quality of the individual actuary's work and uplifting the profession by making available "a structure and the best talent to assist professionals who work in this difficult and challenging environment."

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IASB Issues First Standard

The Interim Actuarial Standards Board has issued "Recommendations Concerning the Redetermination (or Determination) of Non-Guaranteed Charges and/or Benefits for Life Insurance and Annuity Contracts." Story inside on page 6.

The Actuarial Update

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Notes and Comments

William T. Tozer

Non-Guaranteed Promises: A New Standard of Practice

At the 1986 Annual Meeting of the American Council of Life Insurance (ACLI) Chairman John Pearson stated: "Our products must do what we say they do. Our companies must fulfill their promises. All the words in the world—the best government relations, the best public relations—will not be enough without performance." In the January 1987 issue of *Insurance Forum*, Joseph Belth makes the statement: "In my opinion, life insurance sales illustrations are out of control. Furthermore, I am not aware of any significant attempts by any insurance organization or by the actuarial profession to deal with the problem." At its December meeting, the Academy's Board of Directors took steps to "deal with the problem" by adopting "Recommendations Concerning the Redetermination (or Determination) of Non-Guaranteed Charges and/or Benefits for Life Insurance and Annuity Contracts."

There is hardly a life insurance company in the United States today that doesn't sell some products that have non-guaranteed elements. They may be universal life, term insurance with non-guaranteed premiums, or annuities with current interest rates. As a result, practically every actuary should become immediately familiar with these Recommendations, which are part of this *Update* mailing.

The Recommendations give actuaries the opportunity to provide the benefit of their expertise and, at the same time, properly limit their responsibility in this very significant area of non-guaranteed promises. The Recommendations require an actuary to give management an actuarial report stating how the actuary arrived at the recommended non-guaranteed charges and benefits. The actuary is to state what assumptions were used in developing these recommendations and the significance of any deviations from those assumptions. The purpose of the actuarial report is to properly inform company management of the various ramifications of their promises, so that management can make the proper decisions. Company management is where the final decision and responsibility resides, not with an individual actuary. It is going to be the responsibility of *company management* to deliver on the promises made, *not the actuary*.

The Interim Actuarial Standards Board (IASB) was established to enable the profession to be more pro-active. It is very significant that one of the first areas the IASB has addressed is this very important area to the profession, the industry, and the buying public.

The Academy board has appointed C. Larry Edris to chair a task force to publicize these standards of practice to the profession in the near future. Because of the importance of this topic, it is essential that actuaries and management know what is necessary to comply with these new standards of practice and how the information provided will be helpful to all parties.

The Academy has also taken an additional pro-active position by recommending changes to the National Association of Insurance Commissioners (NAIC). First, the Academy has recommended to the NAIC that the Life Insurance Solicitation Model Regulation be modified to better inform the buying public about the insurance company's redetermination policy. The NAIC has agreed to expose these recommended modifications for comment. Second, the Academy has recommended modification be made in the Model Life Insurance Advertising Regulation. These modifications require more disclosure to the public, permitting more intelligent buying decisions. The modifications also limit non-guaranteed illustrations to those benefits currently being provided. The NAIC has appointed a subgroup to review the Life Insurance Advertising Regulation and referred the Academy's modifications to that subgroup. Third, the Academy has recommended changes in the Annual Statement. The changes require an actuarial opinion, a description of the determination procedures for non-guaranteed elements, and the answers to a series of eight interrogatories.

The NAIC Blanks Committee will review these changes at their mid-March Meeting in New Orleans. If adopted, they would be required for Annual Statements filed as of December 31, 1987 and after.

William T. Tozer chairs the Subcommittee on Dividends and Other Non-Guaranteed Elements of the Life Committee of the IASB.

Letters to the Editor

More on Committee Volunteers

In the October issue, one of our members reportedly wrote that he "would be more likely to volunteer [for Academy committee work] if I know to what I was being asked to respond." The editor's note which followed was, in my opinion, unresponsive. Yet the question deserves an answer. So let me try again with a set of questions which goes through the rational member's mind:

(1) How often (per year) is the committee expected to meet, when, and for how long each time?

(2) Will I have to travel anywhere, and, if so, where, how often (per year), for how long each time, and at whose expense?

(3) What guarantees do I have that my time and money will be productively spent? Do committees operate under standard written procedures designed for the economical conduct of productive, time-efficient, and democratically held meetings? For instance, are meetings by conference calls encouraged? Are written agendas and minutes prepared and distributed regularly and on a timely basis? Are there provisions for dissent (e.g., in committee reports)? Do procedures exist for the automatic expulsion and replacement of members who don't work or don't show up?

The days of benevolent and patronizing employers who would unreservedly and fully underwrite the time and expense involved in actuarial committee work are, I suspect, fast waning away. So who pays, and what guarantees are there the work will be productive and worth the member's time, effort, and out-of-pocket disbursements?

These are questions that deserve explicit answers. Until they are answered, many members without strong political ambitions will remain wary.

Claude Y. Paquin
Fayetteville, Georgia

Editor's note: When one volunteers for committee service, one is offering time and expertise subject to the conditions surrounding that voluntary service. Such concerns as frequency of committee meetings, length and location of meetings, meeting style and format (letter votes and conference calls, for example), written agendas, minutes, and the like differ from committee to committee. These are conditions and concerns that are discussed with the committee chairperson if one is asked to consider joining a committee. Space does not permit us to give that kind of detailed rundown for every Academy committee, nor is that information always available at press time. Apropos of guarantees: there can be no guarantees, because judgments of what is a worthwhile expenditure of time are very individual judgments. Regarding cost, committee members serve at their own expense. 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.

Seeking Your Advice

The Academy's "Guidelines for Making Public Statements," which appear in the yearbook, were issued in 1982. Since that time, the Academy's public information and government relations programs have expanded both in scope and reach. The public statement guidelines are now being reviewed, with an eye towards possibly revising them to bring them in line with the requirements of our current outreach programs. If you have any comments on the guidelines as they are currently written, or suggestions on how they might be revised, we would like to hear from you. Please send your comments to General Counsel Gary D. Simms at the Academy's Washington office by Friday, February 6, 1987.

EA CONTINUING EDUCATION
(continued from page 1)

Toward that end, the task force considered but did not recommend a proposal to establish periodic proficiency examinations to test continuing qualifications. The task force cited the difficulties inherent in designing and scoring such examinations, as well as the necessity of creating a costly bureaucracy to administer them.

The formation of a peer review committee to identify a "minority" of individual practitioners who may be deficient in their practices was also evaluated. Establishment of the Enrolled Actuary Practices Review Board, to which enrolled actuaries would refer matters of questionable practice or possible incompetence, was viewed as more cost-effective than a compulsory program affecting every enrolled actuary. But the task force noted disadvantages to this idea, including the anticipated reluctance of actuaries to "turn in" fellow professionals and the difficulty in defining "acceptable" practices. Additionally, by concentrating on the negative aspects of a few individuals, it was determined that this approach would not help uplift the public's perception of the profession.

Compulsory Education

The adoption of a compulsory continuing education program, to be under the direction of the Enrolled Actuaries Continuing Education Committee (the committee), was explored and ultimately recommended by three members of the task force. Under the proposed guidelines, the continuing education requirement would be satisfied by earning twenty-four credit hours during each three-year period (or some variation geared to the current five-year re-enrollment period). The task force calculated that half of the current 4,000 enrolled actuaries already attend an average of eight hours of meetings or seminars a year. Under the proposed program, the other 2,000 would be seeking eight credit hours annually for a total of 16,000 personhours. The estimated cost of this proposal was between $2.5 and $3.5 million. The cost to an individual actuary was set at between $1,000 and $2,500 per year.

While this compulsory program promised to provide "meaningful edu-

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NAIC Report

by Gary D. Simms

Actuarial Task Force presents new guidelines and exposure drafts . . . Health standards are delayed . . . "Dynamic solvency" emerges as new discussion focus . . . Yield index exposure approved . . . Costing tort reform advanced by ISO study announcement . . . AIDS underwriting guidelines adopted . . . Academy qualifications underscored in risk retention model. . . Muhl elected new NAIC president.

These headline phrases concerning the 1986 Winter National Meeting of the National Association of Insurance Commissioners (NAIC) held December 7-11 in Orlando, Florida illustrate the unusually large number of actuarial issues on the NAIC's agenda. Record-setting temperatures in central Florida, green, manicured golf courses, and Mickey and his friends were unsuccessful at keeping meeting attendees away from the business at hand.

Academy Briefing Session

The Academy's regular briefing session was attended by more than thirty individuals, including representatives from insurance departments in California, Illinois, New York, Oregon, South Dakota, Texas, and Wisconsin, together with actuaries from consulting firms and insurance organizations. Academy Executive Director Stephen G. Kellison welcomed the group and reviewed major NAIC agenda items where the Academy committees had issued public statements in recent months, including health reserve standards, disclosure standards for non-guaranteed elements, comments on discounting of loss reserves, tort reform costing, and AIDS.

Other reports, including information detailed below, were received from Ted Becker and John Montgomery concerning the work of the Life and Health Actuarial Task Force, Stanley Dorf on the work of the Casualty Actuarial Task Force, Robert Gossrow on the activities of Actuaries in Regulation (AIR), and Carl Ohman on the Academy's Committee on Liaison with NAIC and developments concerning the valuation actuary concept.

Life and Health Actuarial (EX5) Task Force

The Life and Health Actuarial (EX5) Task Force met December 6 and 7, prior to the official start of the NAIC meeting. (It should be noted that the Saturday and Sunday sessions of the task force and other task forces of the NAIC continue to grow in significance; those with a keen interest in NAIC developments who attend the meetings should seriously consider being present on the preceding weekend to take advantage of detailed discussion at the task force level.)

The task force generated the following reports and recommendations:

- To the Life Insurance (A) Committee: The task force recommended adoption of sex-blended smokers and nonsmokers mortality tables and the adoption of Actuarial Guidelines XVI through XX. These guidelines, for insertion in the Financial Examiners Handbook, include: XVI—Calculation of CRVM Reserves on Select Mortality and/or Split Interest; XVII—Calculation of CRVM Reserves When Death Benefits Are Not Level; XVIII—Calculation of CRVM Reserves on Semi-Continuous, Fully Continuous or Disconnected Continuous Basis; XIX—1980 CSO Mortality Table with 10-Year Select Mortality Factors; and XX—Joint Life Functions for 1980 CSO Mortality Table.

  The task force also recommended that various projects now underway dealing with valuation issues be merged into a single project dealing with a study to revise the Standard Valuation Law (incorporating the valuation actuary concept). These recommendations were all adopted by the Life Insurance (A) Committee.
- To the Universal and Other New Plans (A) Task Force: The Life and Health Actuarial Task Force submitted a draft amendment to the NAIC Universal Life Insurance Model Regulation for exposure and for potential adoption at the June 1987 meeting of the NAIC. The task force submitted a new revision to the universal life nonforfeiture provisions of the current NAIC model, also for exposure and discussion in June. Both drafts were adopted by the Universal and Other New Plans (A) Task Force and the parent Life Insurance (A) Committee for exposure at this time. It was noted that these are short-term measures, and the task force has asked the Academy Committee on Life Insurance to suggest long-term revisions to the valuation and nonforfeitures sections of the NAIC model.
- To the Accident & Health Insurance (B) Committee: The Life and Health Actuarial Task Force recommended that the Accident and Health Insurance (B) Committee adopt the revised version of the proposed revision to the NAIC Reserve Standards for Individual and Group Health Insurance Contracts, which had been prepared by the Academy's Health Subcommittee on Liaison with NAIC and reported on in the January 1986 issue of *The Actuarial Update*. The Accident & Health Insurance (B) Committee decided to postpone consideration of the matter until the June 1987 meeting of the NAIC, when final discussion is anticipated. The Life and Health Actuarial Task Force also recommended that new Guidelines for Filing Rates for Individual Health Insurance Forms be exposed for comment; the committee concurred. A new project by the task force concerning universal disability income was approved by the (B) Committee as well.
- Other Discussion Items: The task force discussed at great length the concept of the valuation actuary, with a primary focus on what was called "dynamic solvency." This concept suggests that, as an interim step along the way towards the adoption of the valuation actuary concept, companies that place greater reliance on actuarial opinions and are acting appropriately regarding reserves would be permitted to maintain reserves at a level lower than the min-

Help Us Complete Our Collection

The library at Academy headquarters houses a complete set of yearbooks, save for the year 1969. That edition, we are missing. In an effort to complete our collection, we are placing this plea in *The Actuarial Update:* If you have a copy of the Academy's *1969 Yearbook* and would like to donate it to our library, please contact Erich Parker, the Academy's director of public information, at the Academy's Washington office. Our thanks to you will be made public in an edition of *The Update*.

imum requirements of the Standard Valuation Law. A working group on "dynamic solvency" has been appointed and will report to the task force regularly.

Another matter that received much attention was the need to deal appropriately with reinsurance and its impact on minimum valuation standards. A proposal by the task force's advisory committee to expand current guidelines was, however, not recommended for approval. Additional work will be required, and the task force called for input from industry groups and referral to the Interim Actuarial Standards Board.

Actuaries In Regulation (AIR)

AIR, a constituent body of the Casualty Actuarial Society comprising actuaries who work for state insurance departments in the property and liability insurance field, held its meeting on December 8. Their roundtable discussion included a call for consideration of changes to Schedules O and P, including a requirement for separate reporting of reinsurance. The need to keep AIR alive and active was also discussed by the group.

Casualty Actuarial (EX5) Task Force

The Casualty Actuarial (EX5) Task Force met on December 9. At its formal meeting, the task force appointed a subcommittee to review proposed changes to Schedules O and P in the Fire and Casualty Blank, which are needed as a result of the increased use of claims-made policies, reinsurance concerns, loss reserve discounting, fronting, and other related problems. The subcommittee is to report back as soon as possible. In a related move, the task force's advisory committee was asked to draft a proposal for separate reporting of claims-made and occurrence policies in Schedule P in the 1987 Blank as an interim step.

The previous year's proposal regarding increased reliance on actuarial opinions had been returned by the Blanks (EX4) Task Force for further consideration. A discussion ensued on methods to describe appropriate qualifications for non-actuaries who are approved as loss reserve specialists; it concluded with an observation that two states (New Jersey and Florida) have already adopted qualification requirements at least as stringent as those suggested by the task force last year.

Academy Appoints Two New Task Forces

In response to two important emerging issues the Academy has appointed two new task forces.

The first is the Universal Life Task Force. This task force is developing changes for the valuation and nonforfeiture sections of the NAIC Model Regulation on Universal Life Insurance. The chairperson is Douglas C. Doll; the task force reports to the Committee on Life Insurance.

The second is the Task Force on Non-Discrimination Rules. This task force is considering the valuation of plan benefits for health and welfare plans arising as the result of the Tax Reform Act of 1986. The chairperson is Richard Ostruw; the task force reports to the Committee on Health and Welfare Plans.

It was also reported that the costing of tort reform proposals, which has been on the task force agenda for some time, was being shifted to the Legal Liability Insurance (D) Task Force, the group within the NAIC most involved in the issue of tort reform.

Life Cost Disclosure (A) Task Force

The Life Cost Disclosure (A) Task Force met on December 8 and received a report from the Yield Index Advisory Committee, which included a draft Yield Index to Life Insurance Disclosure Model Regulation and a Technical Memorandum on the Development of the Yield Index Computation Mechanism. The report was received by the task force as an exposure draft for possible adoption in June of this year.

The task force also received a report from William Tozer, on behalf of the Academy's Subcommittee on Dividends and Other Non-Guaranteed Elements, regarding sales disclosures for non-guaranteed life insurance and annuity policies sold by stock companies. The report was accepted as an exposure draft, and additional discussion is anticipated this spring. A related submission made to the Blanks (EX4) Task Force by Tozer needed to be reformatted and was resubmitted on December 17.

Legal Liability Insurance (D) Task Force

The Legal Liability Insurance (D) Task Force received a report from its Statistical Information Advisory Committee on currently available statistical measures regarding costs of liability insurance, profitability, and proposals for tort reform. The extensive report included a statement submitted by the Academy's Committee on Property and Liability Issues concerning the costing of tort reform proposals. (The Academy statement is discussed more fully elsewhere in this edition.)

In a related development, a representative from Insurance Services Office (ISO) announced that the organization will sponsor two high-priority projects concerning the availability and cost of commercial liability insurance in order to estimate the impact of tort reform proposals on claim costs. The first study, short-term in nature, is an evaluation of typical liability insurance claims. It is expected to be completed in March 1987. The second study, more comprehensive and longer term, will analyze about 12,000 commercial claims and include cases from twenty-seven states that have enacted tort reforms. It will include both closed claims and open claims in a effort to be as up-to-date as possible. This second report is anticipated to be out in late 1988.

AIDS and Insurance

In an unusual joint meeting of the Life Insurance (A) Committee and the Accident and Health Insurance (B) Committee, the report of the AIDS Advisory Committee was received and debated. As recommended by the advisory committee, the Life and the Accident & Health Insurance Committees both approved guidelines to assist insurors in formulating medical/lifestyle questions in applications and underwriting standards affecting both life and health insurance. In general, the guidelines prohibit inquiries directed towards the assessment of an individual's sexual orientation and underscore that such an orientation may not be used in underwriting. Insurance support organizations are also advised to avoid inquiry in this area. These guidelines

(continued overleaf)

will appear in a bulletin to be issued shortly by the NAIC.

The committees did not take a position on whether testing for exposure to the AIDS-virus should be permitted. In fact, the advisory committee had failed to reach accord on this issue. A lengthy debate regarding the propriety of testing for AIDS exposure followed, without definite conclusion. The guidelines that were adopted leave to the individual states whether they will inquire about prior AIDS test results in underwriting or application processing.

Technical Services (EX5) Subcommittee

The Technical Services (EX5) Subcommittee met December 10 and received reports from both the Life and Health and the Casualty Actuarial Task Forces, thereby endorsing their current agendas. The subcommittee also received an information report from the Academy's Committee on Liaison with the NAIC, which noted the myriad activities now underway within the Academy on issues relating to the NAIC agenda. Carl Ohman, speaking for the Academy committee, announced that the Academy plans to publish all twenty current Actuarial Guidelines issued by the NAIC in the Academy's *1986 Journal*, providing ready access to these important guidelines for all actuaries in the United States.

Other NAIC News

In her farewell address as NAIC president, Oregon Insurance Commissioner Josephine M. Driscoll stressed the need to maintain a unified NAIC in the face of increasing pressures for federal regulation. She pointed with pride to success in defending the state regulatory system during the recent liability crisis. In the plenary session held on December 10, Edward J. Muhl, insurance commissioner for the State of Maryland, was elected president of the NAIC for 1987. Illinois Insurance Director John E. Washburn was elected vice president, and will succeed Muhl in 1988.

A major panel discussion also took place regarding the continued need for insurance industry antitrust immunity under the McCarran-Ferguson Act and was led off by Daniel Oliver, chairman of the Federal Trade Commission (FTC). He made it clear that he would like to have restored to the FTC the authority to study the insurance industry, an authority that was taken away by Congress in the early 1980s. He asserted that the industry was "able to set prices and agree on products to be sold." Other panelists, including representatives from the industry and from the regulatory arena, disagreed with the FTC chairman. A discussion regarding the relative competitiveness of the industry followed, together with comments regarding the alleged impropriety of federal regulation.

As a result of the recent passage of amendments to the federal Risk Retention Act (See *The Actuarial Update*, October 1986), the NAIC reformatted and amended its model Risk Retention Act. As is the case with the federal statute, the NAIC model act calls for "a statement of opinion on loss and loss adjustment expense reserves made by a member of the American Academy of Actuaries or a qualified loss reserve specialist. . . ." Δ

IASB Issues First Standard

The Interim Actuarial Standards Board (IASB) has adopted its first standard of practice, "Recommendations Concerning Non-Guaranteed Elements in Life Insurance and Annuity Contracts," which is included in this mailing of *The Actuarial Update*. You will note that the final standard is a grey booklet; from now on, all final standards will appear in grey booklets.

In addition, you will find an exposure draft in this *Update* mailing; it is entitled "Recommendations for Actuarial Communications Related to Statement of Financial Accounting Standards No. 87." The exposure draft is a light brown booklet, the new color for all IASB exposure drafts.

The Update will continue to publish quarterly IASB reports, following each meeting of the standards board. These reports will include a listing of future meeting dates and sites. In addition, with this issue of *The Update*, the Academy begins publishing a new newsletter insert: IASB Boxscore. Like the GRW, it will appear with each issue of *The Actuarial Update*. The boxscore will give the status of standards in process; that is, in quick reference format, you will be able to track the progress of a standard from its earliest discussion stages through exposure drafts, comment periods, redrafting (when applicable), and final issuance. If you have comments on this new service, please relay them to Standards Coordinator Eleanor Mower at the Washington office. Δ

EA CONTINUING EDUCATION
(continued from page 3)

cation" for all enrolled actuaries, the task force agreed that such a program would not guarantee the competency of enrolled actuaries. Moreover, it was pointed out that several actuarial organizations already have in place or are developing continuing education programs. "It would be simpler to adapt one of these programs or to allow satisfaction of any pre-approved specified program or attendance at the Enrolled Actuaries Meeting to satisfy the continuing education requirement," the report states. Another drawback mentioned was the possible unavailability of classes for actuaries from small firms or those located in geographically remote areas.

A voluntary formal continuing education program, operated like the compulsory system, but without a minimum credit-hour requirement, was advocated by at least one task force member who argued that, "A voluntary approach leaves the task of assessing competence in the hands of the purchasers of actuarial services where it belongs. This approach also avoids creating a burden for already competent actuaries and providing a possible illusory badge of competence for some incompetent practitioners." Overall, the task force was uneasy about the quality of response a purely voluntary program might engender.

In conclusion, the task force reiterated its recommendation to the Joint Board to continue with the present system of voluntary self-education. "The vast majority of enrolled actuaries comply in a satisfactory manner to all of their legal and professional requirements," states the report. "We believe that few actuaries prepare reports of questionable quality. The task force believes in the value of continuing education, and we encourage our fellow actuaries to avail themselves of the many valuable programs currently being offered."

The report of this task force is available from the Academy's Washington office.

Academy Analyzes Civil Justice Reform Proposals

The Academy's Committee on Property and Liability Issues has issued a statement that sets forth which of the proposed civil justice reforms have predictable impacts on the cost of liability insurance. The committee released the statement at the December 1986 meeting of the National Association of Insurance Commissioners (NAIC) in Orlando, Florida. (A complete report of that meeting appears elsewhere in this issue.)

The statement suggests that a claims file review can sometimes provide the information necessary to estimate the impact of proposed reforms on insurance costs. In such a review, individual claims files are re-examined by experienced claims examiners. Based on an accumulation of such reviews, an actuary can in some cases estimate the expected impact on the cost of liability insurance.

The committee emphasized that the claims files review process is "expensive and has inherent difficulties." In anticipation that "the intent of these reforms may not be sustained by the courts," the report recommends that "careful consideration should be given to potential cost/benefit tradeoffs when a claim study is proposed."

The Academy's statement analyzes the expected impacts of the following civil justice reforms:

Restricting the application of strict liability doctrine—A claims files review in this case "could often reveal those claims settled under the strict liability doctrine," states the report.

Restricting the application of joint and several liability doctrine—The impact of this reform, which would "in many cases" result in lower claim costs, can also be estimated.

Limiting the amount of non-economic damages—This reform could result in lower claims costs without affecting the actual number of claims. While a claims file review could reveal a split between economic and non-economic damages, the distinction is "not always clear" and extra judgment must be applied.

Providing for future periodic payments of future damages—Because replacing lump-sum payments with periodic payments would result in offsetting changes, this reform "will have no impact on losses and loss adjustment expenses," the report states.

Reducing awards by collateral sources of compensation received for the same injury—Since information on collateral sources is not generally in claims files, estimating the impact of this reform requires making assumptions about the availability of medical coverage, workers' compensation, and salary continuation programs. While this can be accomplished, "the resulting estimates will not be precise," the report concludes.

Scheduling contingency fees—Information on compensation received by the plaintiff's attorney is not in the claims files and, furthermore, there is uncertainty about the impact such a reform would have on the size of claims.

Reducing the statute of limitations on filing suits—If the time limitations for liability claims were reduced, the number of claims would also diminish. This information is available in the claims files, and the impact of such a change could be estimated.

The statement in its entirety is available by contacting Christine E. Nickerson in the Academy's Washington office.

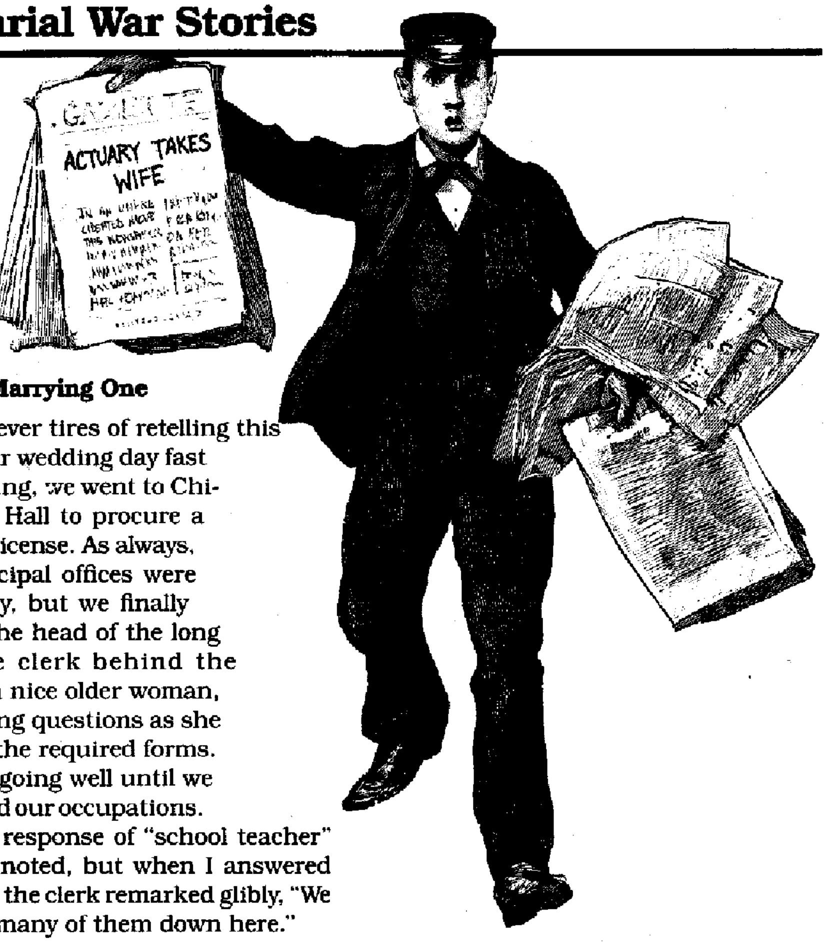
Non-Routine Board Actions

by Robert H. Dobson

At its meeting on December 12, 1986, in Naples, Florida, the Board of Directors of the American Academy of Actuaries took the following non-routine actions. The board:

- Authorized the submission of a bylaw amendment concerning waiver of dues to the general membership for a vote. The proposed amendment will be mailed in February.
- Approved the appointment of Walter N. Miller by the Interim Actuarial Standards Board (IASB) Nominating Committee to fill a vacancy on the IASB created when John A. Fibiger assumed the office of president-elect of the Academy.
- Authorized mailing to the membership of guidance for dealing with Financial Accounting Standards Board Statement No. 87. This item was distributed in December.
- Approved the IASB promulgation of Recommendations Concerning the Redetermination (or Determination) of Non-Guaranteed Charges and/or Benefits for Life Insurance and Annuity Contracts, subject to establishment of an appropriate effective date. (That final standard is included in this *Update* mailing.)
- Received a report of the Joint Committee on the Valuation Actuary and requested that the joint committee provide additional information on the strategic direction of the valuation actuary process.
- Discussed the current status of the Actuarial Education and Research Fund and moved to defer further consideration of this subject until its next meeting, at which time more information is expected to be available.
- Approved the appointment of Robert S. Miccolis as chairperson of the Joint Program Committee for Casualty Loss Reserve Seminar. Δ

Actuarial War Stories



Yes, I'm Marrying One

My wife never tires of retelling this story. Our wedding day fast approaching, we went to Chicago City Hall to procure a marriage license. As always, the municipal offices were quite busy, but we finally reached the head of the long line. The clerk behind the counter, a nice older woman, began firing questions as she filled out the required forms.

All was going well until we were asked our occupations. My wife's response of "school teacher" was duly noted, but when I answered "actuary," the clerk remarked glibly, "We don't get many of them down here."

My wife's snappy rejoinder: "They don't usually marry."

—John Pierce

Bird Brains

We were letting nearby college career placement centers know that we were interested in hiring some recent math graduates. Most counselors asked for full details on the actuarial profession, so that the posted information could be complete and accurate.

One counselor, however, stopped me in my tracks. "Oh yes," he exclaimed with confidence, "I know what an actuary is. Aren't you the folks who watch birds?"

I was perplexed. After all, how could one confuse an ornithologist with an actuary? Then it came to me, he was thinking—aviary!

—Joan S. Freed

Testimony Before NAIC Working Group

The Academy's Committee on Property and Liability Insurance Financial Reporting, in the person of Chairman Stephen P. Lowe, testified November 19, 1986 in Chicago, before the Working Group on Loss Reserve Discounting of the National Association of Insurance Commissioners. The testimony on discounting of property and liability loss and loss adjustment expense reserves for statutory financial reporting purposes was one of ten statements delivered by spokespersons for the Alliance of American Insurers, American Institute of Certified Public Accountants, American Insurance Association, Medical Mutual Liability Insurance Society of Maryland, National Association of Independent Insurers, Reinsurance Association of America, Ernst & Whinney, PHICO, and State Farm. The majority of those who testified or submitted written statements opposed the concept of loss reserve discounting for statutory financial statements.

The Academy's statement reads, in part, ". . . the fundamental issue is not whether discounting is 'right' or 'wrong,' but whether the degree of conservatism inherent in the use of full value reserves is appropriate, or whether the public policy objective of assuring insurer solvency can be maintained in a statutory financial reporting system that permits the use of discounted reserves . . . Our committee is not in a position to make a recommendation either for or against the use of discounted reserves for statutory reporting purposes." The committee, instead, offered assistance in analyzing financial implications of this complex question.

Checklist of Academy Statements—November 1986

Copies are available from the Washington office.

TO: Financial Accounting Standards Board, November 3, 1986. RE: Insurance accounting. BACKGROUND: Supplementary material submitted to FASB on accounting for universal life insurance.

TO: NAIC Loss Reserve Discounting (EX4) Study Group, November 19, 1986. RE: Casualty loss reserves. BACKGROUND: Testimony at public hearing on discounting casualty loss reserves.

TO: Financial Accounting Standards Board, November 21, 1986. RE: Accounting for income taxes. BACKGROUND: Statement in response to FASB exposure draft.

TO: NAIC Life and Health Actuarial (EX5) Task Force, November 21, 1986. RE: Health insurance reserve standards. BACKGROUND: Expanded report containing final proposals.

TO: General distribution to a variety of audiences, November 24, 1986. RE: Liability insurance. BACKGROUND: White paper on estimating the impact of tort reform.

TO: NAIC Life and Health Actuarial (EX5) Task Force, November 25, 1986. RE: Universal life. BACKGROUND: Preliminary report on revisions in valuation and nonforfeiture provisions in NAIC model regulation. Δ