THE ACTUARIAL update

AMERICAN ACADEMY OF ACTUARIES
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THIS MONTH

ENCLOSURES

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

- In Search Of
- ASB Boxscore
- Special Subject Supplement
- Revised Actuarial Standard of Practice No. 10
- Table of Contents and Introduction for ASB Handbook
- Life and Health Valuation Law Manual Order Form

NAIC Approves Risk-Based Capital Model Law for Life & Health Insurers

By David Bryant

New risk-based capital model legislation for life and health insurers was adopted by the National Association of Insurance Commissioners (NAIC) at its winter meeting in Atlanta, December 6–9.

The revised model law, approved in plenary session as part of the report of the NAIC Executive Committee, was drafted by the Life Risk-Based Capital Working Group. The law requires life and health insurers to file an annual confidential report on their risk-based capital with the state commissioner. The amount of risk-based capital will be determined in accordance with a formula set forth in the model law. The working group recommended that a task force be kept in place to monitor the formula and track its accuracy in light of insurance industry trends and growth.

The NAIC Executive Committee narrowly approved a motion urging that the NAIC adopt and "aggressively pursue" legislation within the U. S. Congress to address the treatment of non-U.S. insurers. The proposed legislation would place the NAIC in the role of a "sentry" and require the underlying support of the Non-Admitted Insurers Information Office (NAIIO). The proposed act would enlarge the scope of the NAIIO's function and staff.

Also, it was announced at the plenary session that Alaska, Missouri, Nebraska, New Hampshire, and Utah have received accreditation under the Financial Regulation Standards and Accreditation Program. This brings to fourteen the number of states that have accepted the NAIC's solvency standards. The Executive Committee has set a goal of accrediting a majority of states by January 1, 1994.

Life Insurance Issues: The Life Insurance (A) Committee received the interim reports of several bodies responsible to it. The Insurable Interest Group adopted a guideline on Corporate Owned Life Insurance (COLI) and began to develop a discussion draft for a Living Benefits Model Act. The Life Disclosure Group is continuing the examination of the industry practice of using sales illustrations and has recommended that the issue of rate-of-return disclosure be added to the Life Insurance Committee's 1993 agenda.

In its report, the Life and Health Actuarial (Technical) Task Force (L&HATF) discussed the question of the use of non-admitted assets for asset adequacy analysis, an issue that has grown out of emerging actuarial concern regarding the new NAIC Actuarial Opinion and Memorandum model regulation. The task force has drafted a proposed actuarial guideline (FFF) entitled *Assets Permitted for Use by the Qualified Actuary When Performing Asset Adequacy Analysis.* This guideline proposes that only admitted

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Postemployment Changes from FASB

By Steven Ferruggia and Robin Simon

The Financial Accounting Standards Board (FASB), which already has caused balance sheets to tremble with FAS 106, *Employers' Accounting for Postretirement Benefits Other than Pensions*, recently issued a companion statement, FAS 112, *Employers' Accounting for Postemployment Benefits.*

FAS 112 establishes accounting standards for benefits provided after employment but before retirement (postemployment benefits). The statement defines postemployment benefits as all types of benefits provided to former or inactive employees, including dependents. The benefits may be payable as a result of various contingent events, including disability, layoff, death, or other termination. The benefits may be paid in a lump sum upon cessation of active employment or over a period of time.

The statement for postemployment benefits provides for drastically different attribution patterns for service-related benefits versus non-service-related benefits. Service-related plans

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FROM THE
executive vice president

Making Our Voice Heard in Washington

By James J. Murphy, MAAA

Our Academy's role as the actuarial profession's voice in Washington becomes ever more important as the transition brings a new administration to power on Inauguration Day 1993. The Clinton administration is promising to work with Congress to implement its ambitious domestic agenda. And with Democratic control of both ends of Pennsylvania Avenue, we may see the infamous era of gridlock come to an end.

Thus the American people can expect, for good or for ill, that the new administration's proposals will lead to some form of legislation. It is in this environment that our efforts to bring objective expertise, data, and analysis to public policy makers can be most effective. Our past successes in increasing the profession's visibility undoubtedly will pay dividends as we seek to contribute to the public policy debate on a number of issues.

This year the Academy's focus will be on three major issues: health care; retirement; and, insurer solvency.

Making sure that all Americans have access to quality health care is clearly a top priority for the Clinton administration. Only jobs creation and economic revitalization will take precedence.

Health care reform is cited in polls of both voters and members of Congress as among the most important problems to be addressed in the coming year.

Any health reforms will be employer-based, at least initially. Most probably there will be straight-out employer mandates, perhaps with some political spin to soften their mandatory nature. Anything except employer-based coverage for nearly all workers and their dependents seems almost impossible. A major shift away from employer-based insurance instituted all at once would result in massive dislocations and regulatory chaos.

At present, the leading contender among the competing reform plans is managed competition. Managed competition would provide a means for all Americans to have access to the present free-market health care system. It would give consumers greater purchasing power by pooling them in cooperative entities to negotiate with doctors, hospitals, and insurance providers. There is considerable momentum behind this idea. It was recently endorsed by the Health Insurance Association of America, and the American Medical Association has given it its guarded support.

Whatever the specifics of a Clinton proposal, the Academy Health Practice Council and health committees should be well prepared. They already have established working groups on alternative minimum benefits packages and health risk adjustors. Last year, the Committee on Health did extensive analysis of the proposals for reforming small-group health insurance, and on a number of occasions testified before Congress on these very issues.

In the retirement area, the chief policy concern is likely to be in the area of pension trust fund investments. The new administration will be under strong pressure to use these funds to create jobs. New investment securities, designed to fund infrastructure improvements, are likely to be proposed. The Pension Practice Council and pension committees will resist any requirement or incentives to use pension funds for high-risk investments.

Although the administration is unlikely to consider seriously the adequacy of retirement ben[illegible] until health care is dealt with, pensions will continue to be an important item on the Academy's agenda. In June 1992, we released the results of a survey on termination of defined benefit pension plans. Not only have terminations skyrocketed, but employers are replacing these plans with less adequate and less secure defined contribution plans, or providing no pension at all. Government regulation, in particular the Tax Reform Act of 1986, bears much of the responsibility for this.

The survey results buttress other data that strongly indicate the baby boom will have both lower Social Security benefits and less adequate private pensions. Increasing the rate of saving for retirement will be essential if the baby boomers are to avoid a significant decrease in their standard of living at retirement.

The Academy strongly supports establishing a Presidential Commission on Retirement, [illegible] funds for which are already in the 1993 budget. We will continue to push for the creation of this commission as a first step in initiating a serious retirement policy debate.

The third item on the Academy's public issues agenda is insurer solvency. In September 1992, the Academy released the report of its blue-ribbon task force, which proposed three major reform elements. In the year to come, we will continue to work with both Congress and the National Association of Insurance Commissioners to promote the findings of the task force and to craft the legislation needed to reduce the risk of future failures like that of Executive Life of California.

The Academy has worked closely over the years with many congressional committee members. Early in 1993, we plan to expand our informational [illegible] reach on Capitol Hill by spon[illegible] ing educational briefings for members of Congress and staff. Our primary objective is to open

lines of communication with the many new members of the 103d Congress by ensuring they are aware of the ability and willingness of the actuarial profession to [redacted] in the evaluation and formulation of public policy.

During my four years at the Academy, I have been impressed by the growth and success of our efforts on all fronts. This is no less true in government relations than elsewhere. However, to continue to strengthen the Academy program and assure that public policy does not falter because important actuarial impacts are ignored, the participation of volunteers is essential. In a very real sense, the work of the Academy and the influence of the profession is limited only by the number of members who are willing to work hard to contribute to something that affects us all—public policy. ■

letters
TO THE EDITOR

Amendment Angst

The members of the Academy have been asked to approve four proposed amendments to the bylaws. I have problems with three of them, and the process by which they were handled.

Under the first proposal, up to eight board seats would first be allocated to officers of other unspecified actuarial organizations. Interestingly, I see no explicit requirement of Academy membership. The remaining seats would be filled by vote of our own organization's members.

Is this process not backwards? Would it not be more appropriate to invite officers of other organizations to participate and provide input without being on the board? The proposal also makes a substantive change because individuals not eligible for reelection under current rules [redacted]uld become eligible to be elected as "Special Directors."

The third proposal makes subtle changes in the Actuarial Standards Board (ASB) that deserve discussion. Under this proposal, a member of the ASB would "serve at the pleasure of" the Selection Committee. Presumably this means that the members of the ASB could be removed. By what process and for what reasons? Would this hamper an appointee to the ASB who proved more independent than expected?

The fourth proposal would allow the board to amend the bylaws if the technical amendments do not "affect the substantive rights" of members. As an example of a change now requiring an amendment, the discussion mentions renaming of the Conference of Actuaries in Public Practice to the Conference of Consulting Actuaries. The example is both incorrect and not applicable because the bylaws already referred to the CCA and mentioned successor organizations. I am unconvinced that merely editorial amendments could not wait until amendments of substance were voted upon, thus saving the high costs of printing and postage that were cited.

I am most concerned that the "discussions" sent by the Academy gloss over what could be considered substantive changes in our governance and that insufficient time was allowed for letters such as this one to reach members before the vote. I believe these proposals deserved more scrutiny and debate, to say nothing of more careful review before being sent to the membership.

Allan B. Keith
Boston, Mass.
November 20, 1992

Tea Leaves for Actuaries?

One sentence in "The Question of Professional Liability" article in the November supplement to *The Actuarial Update* inadvertently hits upon the fundamental reason for concern about an actuary's liability in rendering standard valuation law opinions: "The uncertainties inherent in predicting the future demand that actuaries have limited immunity from third-party suits."

By choosing to establish the valuation report as an opinion on the ability of an insurer to meet its obligations in the future, the actuarial profession has put opining actuaries in the prediction business, with the unavoidable consequence that actuaries who wind up providing good opinions for failed companies are going to be in trouble. Rather than hoping for protection under the common law (which seems to be pretty good at finding full pockets to step in for empty pockets), actuaries' protection could be simply and greatly increased by changing the requirement from an inherently predictive opinion to a report on the insurer's sensitivity to various potential future conditions. Such a report would be of no less, and probably even greater, value to a regulator, would carry nowhere near the risk that the present format does, and would be within the profession's competence.

Before some actuaries go home from court in a barrel, we should seriously rethink the value and purpose of the actuarial opinion, even if it requires us to admit that actuaries are no more capable of predicting the future than tea leaves are.

William Schreiner
Washington, D.C.

Standards Need Input

In his editorial "Participation in the Standards Process," (*Update*, November 1992) Actuarial Standards Board (ASB) Chairman Jack Turnquist indicates that standards are improved as a result of the comments received from actuaries as part of the exposure process.

Many standards broadly affect the profession and its publics, and often have important political implications. It is a shame that the standards development process does not solicit broader initial input, not only from actuaries, but from regulators, accountants, lawyers, trade associations, government agencies, and any others who might be affected. Such input could be

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"The actuarial profession has put opining actuaries in the prediction business, with the unavoidable consequence that actuaries who wind up providing good opinions for failed companies are going to be in trouble."

Academy Executive Vice President Jim Murphy addressed BenTrends '93, a meeting of national leaders in the field of employee benefits, at the National Press Club in Washington on December 8. Murphy spoke on a panel of benefits experts who discussed the outlook for change under the Clinton administration and the 103d Congress. Clinton transition health care adviser Bruce Fried and Rep. Jim Cooper (D.-Tenn.), chief congressional sponsor of managed-care legislation, were the featured speakers.

Practice Notes for Appointed Actuaries

By Donna R. Claire

In 1992, many actuaries performed cash flow testing for the first time. The Standard Valuation Law, as amended in 1990, and the 1991 NAIC Model Regulation detail the legal requirements of cash flow testing. Professional requirements are outlined in actuarial standards of practice. However, in some areas, actuaries may wonder what current practices are. To fill the need for more detailed background information, a working group of Academy members has developed practice notes.

These notes are not meant to have the force of a regulation or an actuarial standard of practice. Their tone is informal, and most of them are written in a question and answer style. They are not meant to be cookbooks; where more than one way to do things is acceptable, these notes point out some options. The notes present possible ways of handling certain aspects of cash flow testing, and actuaries are free to deviate from the methods described.

Currently, there are drafts of ten proposed practice notes. The topics are:

General Questions; Suggested Procedures for Accepting or Resigning the Position of Appointed Actuary for Life or Health Insurers in the United States; Interest Rate Models; Special Issues for Valuing Single Premium Group Annuity Contracts; Alternative Methods of Testing for Obligation Risk; Special Issues Involving Structured Settlements; Modeling Bond Default Risk; Use of the AVR/IMR in Cash Flow Testing; Modeling Mortgage and Real Estate C-1 Risk; and, *Modeling CMOs.* In addition, a legal note, *Wording for Actuarial Opinions*, has been prepared by Lauren M. Bloom, Academy general counsel.

The first drafts of many of the practice notes were handed out at the 1992 Valuation Actuary Symposium and at a session sponsored by the Financial Reporting section at the 1992 annual meeting of the Society of Actuaries. Since then, some revisions have been made in the light of comments received from working group members and other interested parties. The revised practice notes, together with the legal note, are available from the American Academy of Actuaries.

The working group wishes to be responsive to the needs of actuaries. In response to requests received at the Valuation Actuary Symposium, two additional practice notes are currently being drafted and should be available shortly. They are *Special Considerations for Health Insurance* and *Analysis of Results.* Actuaries also are encouraged to suggest topics for future notes and to prepare notes on methods that they have found to be useful.

The working group recognizes that current practices in certain areas of asset adequacy testing are evolving. It is anticipated that these practice notes will have to be reviewed annually in order for them to serve their purpose of reflecting current practices of actuaries.

If you have any comments on the practice notes, have a topic you would like to see covered, or would like to volunteer to write or review practice notes, please write me at my Directory address.

Claire is an actuarial consultant in Dix Hills, N.Y. and is a member of the working group on practice notes.

The Actuary in Europe—Togetherness and the Wider Field

By L. John Martin

As I begin my 2-year term as president of the Institute of Actuaries, I have been giving thought to the role of the actuary, not just in Europe but in the world at large. It seems quite clear that our actuarial techniques are needed in fields that are far more diverse than those we currently cultivate. I believe we have a duty to satisfy this need; but it will take energy and initiative to do so.

In Europe we are working together much more closely than ever before. We are learning from one another, and my hope is that this increased cohesion in Europe may help to encourage the long-term development of a worldwide profession with common basic standards of expertise, outlook, and professionalism.

The British may have been considered insular in the past, but certainly this is not now the case. Times change. With the development of the European Communities (EC) and the growth of pan-European services, UK actuaries have been leaders in the development of the role of the actuary at a European level, professionally, technically, and commercially. In Europe we intend to proceed steadily with this development.

It became apparent many years ago that, if we were to gain access to the ears and, more important, the minds of those responsible in Brussels for initiating and carrying out EC legislation, it was essential to speak with one voice, rather than a dozen different ones. In 1978, the *Groupe Consultatif des Associations d'Actuaires des Pays des Communautes Européennes* was established with the prime duty of talking directly with the European Commission and other European bodies on matters touching the actuarial profession. The Groupe is a committee comprising representatives of each of the fourteen actuarial associations in the twelve EC countries.

The Groupe has been very successful in its dealings. It is increasingly consulted in the preparation of directives relating

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FAS 112, *continued from page 1*

would require actuarial computations to accrue the projected postemployment benefits over the active period of service. (FAS 112 provides far less specific guidance than FAS 106 or FAS 87 does with respect to actuarial cost methods and assumptions.)

Non-service-related postemployment plans, however, would be attributed under a terminal accrual method. No cost would be recognized until the event giving rise to the obligation actually occurred. This, of course, greatly simplifies any actuarial computations. Obligations are generated solely from current claimants and not from potential future claimants.

Prior to FAS 106, it was almost a universal practice to have postretirement benefits neither funded nor accrued. This was the one overriding consistency between employers who sponsored very different levels of benefits. For postemployment benefits, however, the historical funding and accounting practices are much more varied. For example, several employers have already prefunded their postretirement life insurance benefits through a waiver of premium provision in their insured life insurance contracts.

Postemployment Medical

For most employers, the largest unrecognized obligation from FAS 112 will come from medical benefits provided to disabled employees and their dependents. The measurement of these obligations entails many of the same assumptions and methods that are used for measuring postretirement medical benefits under FAS 106. However, there are some important differences that should not be overlooked.

The cost of medical coverage for disabled employees is likely to be very much higher than the cost of coverage for active workers (or even early retirees).

The cost of the coverage is affected by the Medicare status of individuals. Even if the disabled individual is eligible for Medicare, the plan may not benefit from this coverage. Medicare is secondary to employer coverage for any "active" medical program.

The treatment of costs for dependent children may also be significant. Typically, the cost of covering dependent children in a retiree group is relatively minor, and most FAS 106 valuations only implicitly measure their obligation. But disabled employees are more likely to have dependent children, so more explicit measurement techniques may be needed.

Few employers segregate historical claims experience for their disabled participants. For those that do, the cost of covering a disabled employee is generally several multiples of the cost of an active employee of the same age. These very high morbidity factors could have a substantial impact on the potential FAS 112 obligation. This cost is duration-dependent: A recently disabled individual will have much higher costs than an individual disabled a decade or more.

Long-term Disability

Once an employee becomes disabled, the value of long-term disability (LTD) income benefits would have to be recognized as an expense, and the net unfunded obligation would be reported as a liability in the employer's financial statements. That is, the liability would be offset by any assets set aside to pay these benefits.

In addition to covering LTD income benefits, the proposed rules would apply to the continuation of health and life insurance benefits for disabled employees. It is currently common practice for employers to reserve for future LTD income payments. Some employers have waiver of premium arrangements that provide life insurance coverage for disabled employees. However, few employers insure the cost of or set up reserves for health insurance continuation for disabled employees and their dependents.

Survivor Income Plans

An employer would be required to record a net obligation equal to the unfunded value of future survivor income payments upon the death of an employee. No reserve would be established for fully insured benefits. The proposed rules would also require employers to recognize a liability for unfunded health benefits provided to the survivors of deceased employees.

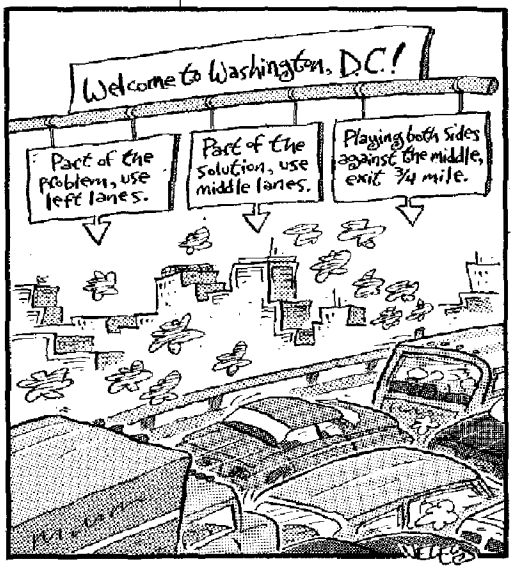
Severance

Non-service-related cash severance payments would have to be recognized at the time of termination of employment under the proposed rules. Service-related severance benefits would have to be recognized over the employee's working lifetime to the extent the amount could be reasonably estimated. Any remaining amounts would have to be recognized at termination.

The level of postemployment benefits varies considerably from company to company. Employers may not be fully aware of all the benefits provided to former employees. Indeed, a number of employers are finding it difficult to catalog all of their postretirement plans before implementing FAS 106.

Employers are urged to prepare an inventory of their postemployment plans and obtain accurate current cost information. With this information in hand, employers should estimate the impact of the new statement and implement appropriate financial controls and design changes. While the impact of FAS 112 is expected to be less significant than that of FAS 106, employers should be prepared for additional financial and administrative costs.

Steven Ferruggia is director of Group Actuarial Practice, and Robin Simon is associate consulting actuary at Buck Consultants in Secaucus, N.J.



Standards Outlook

By Christine Nickerson

The development of actuarial standards of practice is carried out in a careful and deliberate fashion. Drafting committees must work to reconcile conflicting views as they craft a proposed standard. Care is taken to make certain that all interested parties have an opportunity to consider and comment on a proposed standard. Generally it takes two to three years for a concept to become a final standard. The Actuarial Standards Board began 1992 with six proposed standards at the exposure draft stage. These were as follows:

Benefits Upon Involuntary Termination of an Employee Group, approved for exposure in January 1990

Discounting of Property and Casualty Loss and Loss Adjustment Expense Reserves, approved for a second exposure in January 1991

Data Quality, approved for exposure in April 1991

The Actuary's Responsibility to the Auditor, approved for exposure in July 1991

Revised *Actuarial Standard of Practice (ASOP) No. 10*, approved for exposure October 1991

Compliance with SFAS No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, approved for exposure October 1991

Of these exposure drafts, *Discounting of Property and Casualty Loss and Loss Adjustment Expense Reserves*, the revised version of *ASOP No. 10*, and *Actuarial Compliance Guideline for SFAS 106, Employers' Accounting for Postretirement Benefits Other Than Pensions* were approved as final standards of practice by year-end. The data quality exposure draft was revised and released as a second exposure draft. *The Actuary's Responsibility to the Auditor* was reviewed by the ASB and sent back to the Life Committee for further clarification of its scope and purpose. *Benefits Upon Involuntary Termination of an Employee Group* is expected to be incorporated into *ASOP No. 4, Recommendations for Measuring Pension Plan Obligations*, during 1993.

Exposure Drafts Approved During 1992

In April 1992, the ASB approved release of an exposure draft delineating the responsibilities of the appointed actuary. Following the review of comment letters and a public hearing, the ASB approved release of a second exposure draft on this topic, *Statutory Opinions Based on Asset Adequacy Analysis by Appointed Actuaries for Life or Health Insurers*, which was released in October 1992. Also approved for exposure was a standard on economic assumptions for pension plans, *Selection of Economic Assumptions for Measuring Pension Obligations*, approved in July 1992.

Work Underway

Other projects are moving through the operating committees and will be reviewed by the board in coming months. These projects include a revised version of *ASOP No. 3, Relating to Continuing Care Retirement Communities*; selecting noneconomic assumptions for pension plans; and credibility procedures in the property/casualty and health areas. The ASB also expects to release the first edition of an actuarial glossary, a project that has been under development for several years. Consult your monthly "ASB Boxscore" for updates on these and other pending projects.

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invaluable to the standard-setting process and provide a dialogue on important issues.

From such input, an issues paper could be drafted by a committee or task force of the ASB. The ASB could expose such a paper asking for specific responses to issues raised in the initial process. The ASB then could address the issues in a standard in a way more responsive to practicing professional actuaries and the public being served. The need, purpose, and focus of standards would be better established. Such a process would also serve the profession's goal of achieving broader acceptance and understanding of how it benefits the public interest.

Without such an input process, the exposure of a proposed standard will have focused on more narrowly defined issues. Responses to the proposed standard will tend to deal almost exclusively with those issues. In some cases, the already determined form of the standard will not permit a substantial shift in focus, even if such a shift would better serve the needs of the profession and its publics. The committees and task forces that draft standards are usually composed of bright, experienced members of the profession and, as a result, standards are usually developed with thoughtful, professional concern. Yet in many cases, these committees and task forces, and the ASB itself, work with data of rather poor quality. The same professional diligence and care that are the hallmarks of actuarial work should also be the measure we apply to the standard-setting process. As the profession enters this new area of professional standards, it must first broaden its input database.

Jerome F. Seaman
Northfield, Ill.

Jack Turnquist replies:
I am in agreement with Mr. Seaman on the need for broader input into the identification and discussion of the various issues involved in proposed standards of practice.

The ASB has made a concerted effort to secure broader initial participation in the development of standards. Procedures continue to be developed to solicit discussion of issues utilizing the relevant practice committees, sections, and councils of the professional actuarial organizations and the forums available in connection with their meeting programs. Liaison activities with the NAIC, FASB, GASB, AICPA, and other regulatory and professional organizations are designed to elicit input relative to perceived problem areas and needed guidance. Copies of exposure drafts and invitations to participate in public hearings are sent routinely to regulatory officials, congressional staff, members of the accounting profession, and other interested parties.

The ASB plans to try an approach similar to that suggested by Mr. Seaman for developing a standard on illustrations of nonguaranteed benefits for life and annuity contracts. It is proposed that, after appropriate notice, a public hearing be held to afford the regulators the opportunity to identify their concerns and the issues that they would like to see addressed in a standard. The views of individual actuaries, committees, companies, trade associations, and other professionals and interested parties will also be solicited. The ASB and the Life Operating Committee will then consider the views expressed in this hearing in developing a draft of a proposed standard of practice. If this approach is successful, it will serve as a model for the development and updating of standards, where appropriate.

The authors of the recent special subject supplement on insurer solvency reform (*Update*, November 1992) asked readers to respond to a short questionnaire on the issues raised in the report. And respond they have, in large numbers! However, those numbers are almost embarrassingly unanimous: 98% of respondents agree with all the propositions set forth. Now we know how Brezhnev felt. Would anyone care to fax a dissent?

Capitol VIEWS

Maine's workers' compensation reform bill will deregulate the market and allow insurers to set their own rates. The recently enacted bill establishes an eight-member board to oversee the workers' compensation system in the state. Legislators have selected nominees for the board which begins its functions in January. Maine Insurance Commissioner Brian Atchinson has approved rate hikes in workers' compensation averaging 11.5%, which is about one-third of the 32% increase carriers had sought. The rate determination includes an 8.9% increase for policies issued between July 1, 1992 and December 31, 1992. This percentage may be misleading because the surcharges, which vary, will lower that number.

New Jersey enacted a health care reform package aimed at providing quality health care while reducing the number of uninsured persons in the state. On November 30, Governor Jim Florio signed into law a health care reform package that for the next 3 years replaces a portion of the payroll tax paid into the Unemployment Insurance Fund with an identical tax to be paid into a Health Care Subsidy Fund. In addition, the legislation requires all commercial carriers in New Jersey to sell health insurance to any individual or small group that wants to buy it, at rates established without regard to the applicant's age, sex, health status, occupation, or geographic location. All private insurers are required to write their share of individual health insurance coverage or pay an assessment to compensate insurers who write more than their quota of the market. Quotas and assessments will be formulated by a nine-member board which includes four industry representatives. The board will also design five standard health policies to be offered to individuals. All coverage will be on an open-enrollment, community-rated basis. Preexisting conditions may be excluded from coverage for 6 months, but only once during the life of the covered individual. The law also mandates that insurers pay out benefits equal to at least 75% of the premium dollars they collect. New Jersey legislators hope this reform package is viewed as a model for federal reform.

Voters in several states approved pension initiatives affecting the funding or use of assets of public retirement systems. In California, Proposition 162 grants the California Public Employees' Retirement System's board of trustees sole power to provide actuarial services, a function given to the governor under law. Before approval of Prop 162, Governor Pete Wilson was unable to get the state legislature to approve an actuary for the retirement fund. Oklahoma approved Resolution 289, which requires all proceeds, assets, and income of certain public retirement systems to be held in a trust for the purpose of those retirement systems only. New Jersey voters approved Ballot Question No. 2, requiring the state to fund the judicial retirement system that is currently funded by the counties. The change takes effect in 1997.

The U.S. Supreme Court refused to review the *Greenberg v. H&H Music Co.* case, allowing to stand a Fifth Circuit Court of Appeals ruling that an employer may decrease benefits under its health plan to reduce costs without violating ERISA. The U.S. Solicitor General filed a friend-of-the-court brief stating that a review of the case was not warranted. This decision intensifies the debate on whether employers should be restricted from cutting back on benefits under their group health plans and whether current insurance practices, including medical underwriting and experience rating, should be restricted.

In response to Hurricane Andrew, Florida Governor Lawton Chiles has signed a new law that levies a 2% assessment on insurance companies writing property and casualty policies in the state. The measure requires that the assessments be used for debt-service on a $500 million municipal bond issue designed to secure the Florida Guaranty Insurance Fund which is in danger of insolvency. Under the new law, insurance companies will pay the additional assessment for 10 years or until the bonds are paid off. The new law also allows the insurance companies to pass the assessment on directly to policyholders. The new assessment is expected to raise from $65 to $70 million annually. ■

REFORM URGED FOR WOMEN'S PENSIONS

A study group sponsored by the House Select Committee on Aging has completed its review of the issue of retirement income for women and made its recommendations to the committee.

The study group urged the highest priority be given to providing more adequate pension benefits for women based on their years in the paid labor force and in the home.

The study group recommended three options for pension benefit reform: that a surviving spouse receive a benefit equal to two-thirds of that received while both were alive; that a surviving spouse receive 100% of the benefit after the employee dies; or, that a surviving spouse receive 67% of the benefit after the employee dies. In all cases, the initial benefit the family receives would be reduced to offset the cost of this formula change. Currently, ERISA mandates a 50% minimum retirement benefit for a surviving spouse, unless it is jointly waived.

The study group also suggested a divorce default option in which pension benefits would be divisible, unless the couple agrees or the court orders that benefits not be provided. Benefits to be divided would be only those earned during the couple's marriage and while the employee was at the job that provided the pension. According to the study group, if a lump sum is distributed before retirement age, benefits should have to be rolled over either into another qualified plan or into an individual retirement plan. Use of the employer's share would be restricted for retirement purposes only.

The study group agreed that several issues should be examined carefully before taking action. These include: the effects of eliminating integration; the costs and implications of indexing benefits after termination of employment; the implications of the change from defined benefit plans to defined contribution plans; a portable pension system to determine how coverage and benefit losses might be curtailed for women; and, the effects of the shift to more individual responsibility and the implementation of 401(k) plans.

The recommendations and discussions of the group have been presented in a report to Congress by Chairman William Hughes (D-N.J.) of the Subcommittee on Retirement Income and Employment. Hughes plans to introduce legislation in the 103d Congress based on the report. Academy members Ed Burrows, Robert Myers, Anna Rappaport, and Bruce Schobel were among the actuaries serving on the group.

NAIC, *continued from page 1*

assets be used in asset adequacy analysis. Actuarial Guideline FFF has been exposed for comments.

The L&HATF also discussed the development of a set of guidelines for regulators to use in reviewing cash flow analyses. In time, these guidelines might become truly comprehensive, resulting in a manual that regulators could use in their reviews. Both recommendations were approved by the (A) and (B) Committees.

Health Insurance Issues. The L&HATF also reported to the members of the Accident and Health (B) Committee. The task force gave a status report on the Individual Health Insurance Rating Project. The discussion focused on several features requested for inclusion in the draft, among them durational rating. The approach recommended by the Academy Committee on State Health Issues is considered too steep for initial rates. Regulators insist that durational rating be simplified, because it will cause moderately higher rates.

The State and Federal Health Insurance Legislative Policy Task Force and its ERISA working group urged the NAIC to take a more active role in defining the term "fully insured" under current ERISA legislation. Similarly, the task force working group on health care insurance access recommended the development of a technical assistance manual to help states comply with model regulations in the health care field.

Casualty Issues. In a special presentation at the meeting of the Casualty Actuarial (Technical) Task Force, John Montgomery of the California Insurance Department urged the task force members to set up a procedure for insurers to develop catastrophe reserves. Speaking on behalf of California Commissioner John Garamendi, Montgomery stressed that "catastrophic occurrences such as we've seen this year must be prepared for with additional reserving." The California regulators recognize that setting up such a procedure would have to involve the reinsurance industry. The procedure also would raise issues with the Internal Revenue Service on the taxation of the interest earned on those reserves.

Montgomery also asked the task force to consider setting up procedures for reserving for long-tail exposures, such as product liability and professional liability. The task force agreed to set up a special group to study these proposals. It also discussed the possibility of establishing a standard definition of loss adjustment expenses. The representative of the industry advisory committee suggested that the task force first consider defining what constitutes allocated and unallocated expense as a starting point, and then work towards a single definition of loss adjustment expenses.

At its meeting, the Blanks (EX4) Task Force took up the joint request of the L&HATF and the Casualty Actuarial (Technical) Task Force to reconsider agenda item No. 24. Agenda item No. 24 requires "the qualified actuary to report in writing within five business days to the board of directors or its audit committee any determination by the qualified actuary that the insurer has materially misstated its loss and loss adjustment expense reserves policy reserves or other actuarial items." Actuaries present expressed the view that the responsibilities of the opining actuary are regulated by the Standard Valuation Law that has been adopted by the states. Also, apprehension was expressed about the ambiguity of the word "misstated," and the inexact use of the word "materially." The request failed to obtain unanimous consent, and thus the item was not withdrawn. In spite of the many concerns expressed, members of the life and health and property/casualty actuarial groups will work to clarify these terms for their respective practice areas. ■

CALENDAR

Council of Presidents Meeting
January 18

Actuarial Standards Board
January 20-21

Enrolled Actuaries Meeting
March 8-10

EUROPE, *continued from page 4*

to insurance and retirement benefits. Furthermore, its establishment has led to a greater awareness of the similarities in the work of the various European associations. Its role has become one of coordinating and encouraging a more pan-European actuarial profession. It provides a forum for discussion of matters of common interest.

In September, some sixty persons concerned with the education of actuaries in Europe met in Dublin. The purpose was to develop a basic core syllabus and a common level of training and examination for European actuaries upon which each separate association could build. American actuaries attended this meeting, as well as representatives from Eastern Europe. We hope to expand this initiative in the years ahead.

Next year, through the European Economic Area Agreement, seven countries in the European Free Trade Area will participate with the twelve EC countries in many of the benefits of the EC. The role of the Groupe and the opportunities for the profession will be even greater.

As actuaries broaden their geographical horizons, so will they broaden their fields of responsibilities. We have a role to play alongside engineers and economists in developing and financing projects of all kinds that will increase the world's wealth and facilitate the distribution of that wealth. Industrial and technical revolutions of the future are unlikely to be allowed to devour scarce natural resources. Our techniques can help identify priorities and ensure that these priorities are met in a cost-effective fashion. We must use our particular talents and expertise for the advantage of all.

The U.S. actuarial bodies and the associations in Europe have much to learn from one another. Ironically, perhaps the recession is helping to point out some of these wider fields and at the same time provide resources to venture into them.

There is much useful and exciting work to be done. Let's get on with it together.

Martin is president of the Institute of Actuaries of the United Kingdom.