THE ACTUARIAL update

AMERICAN ACADEMY OF ACTUARIES

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Fifth Annual Practitioners' Award Announcement

Michigan Policy Makers Lend Ear to Health Actuaries

by Ken Krehbiel

In the midst of the Michigan legislative session's debate over financing health care, three actuaries met with legislators and the media in Lansing, Michigan, on March 30. They were Academy Executive Vice President Jim Murphy, along with Academy members Gary Brantz and Ken Smith. The engagements were made as part of *Forecast 2000,* the public relations campaign on behalf of the actuarial profession in North America.

In meetings with legislators and policy makers, Murphy, Brantz, and Smith emphasized that there were no easy solutions to spiraling health care costs, but that the successful approach would be a balancing of many concerns and interests. They urged policy makers to take advantage of the expertise of health actuaries in crafting an effective health reform package that will help alleviate the pressures within the current health care system.

Rep. Mary Brown, chair of the Michigan House Committee on Insurance, met with Brantz and Smith, while Murphy spoke to Mark Stadt, Senate Republican Health Policy Adviser, and Helen Freeman, legislative coordinator for Sen. John Pridnea, chair of the Senate Health Policy Committee. Cathy Virskus, legislative liaison for the state's Public Health Department, spoke with the three actuaries about the likelihood of significant health care legislation being enacted in Michigan. They then suggested including some kind of actuarial assessment as part of any prospective legislation to assist in finding workable, actuarially sound solutions to the health care crisis. At the end of the day, Brantz met with Rep. Terry London, who is sponsoring a health care bill in the House.

FORECAST 2000

The three actuaries met with other policy makers in addition to speaking with reporters from the Associated Press, *Detroit News,* and Booth News Service, a statewide news organization. Murphy was also the guest on a thirty-minute local public affairs program, on which he discussed health care reforms being considered on the national level, as well as some of the possibilities in Michigan. Several bills were introduced in Michigan; however, no consensus emerged before the session concluded.

In *Forecast 2000*'s first three years, actuarial spokespersons made media tours targeted for areas in which an issue was of particular interest. That strategy has been modified slightly this year to focus more on involvement with policy makers at the state level. The Michigan meetings came fast on the heels of similar engagements made in Florida by Murphy and Bob Dobson, chair of the Academy's Health Practice Council. Several bills were considered in Florida, and a health reform bill was passed in the final days of the legislative session. (See May 1992 *Update.*)

Krehbiel, assistant director of public relations, accompanied the actuaries on the Michigan tour.

PENSION TERMINATION SURVEY

Last year, at the Council of Presidents' request, the Academy initiated a survey of enrolled actuaries designed to increase understanding of the factors underlying pension plan terminations. The results are being analyzed and will be released at a press conference in late June. Look for a preliminary report on the survey in the July *Update.*

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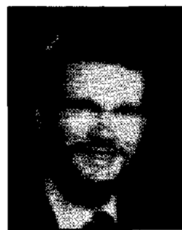
FROM A

guest president



Professionalism, Collective and Personal

by Michael L. Toothman

More and more, we actuaries are coming to grips with what it means to be members of a genuine profession and what it takes for each one of us to hold our heads up high as practicing professionals.

The signs of an emerging actuarial profession in North America are many and visible. The manifestations include:

—the newly adopted code of professional conduct. The code has now been adopted by five of the six North American actuarial organizations and is likely to be adopted by the Canadian Institute of Actuaries this month.

—the proliferation of continuing education programs by various actuarial organizations in order to provide greater assurance that practicing actuaries are staying current with new developments.

—the ever increasing continuing-education opportunities available for actuaries, and the growing number of actuaries who are participating in these programs.

—the creation of the Actuarial Standards Board in 1988 and the issuance of standards of practice (nineteen by the time of this writing), with many more under development.

—the establishment of the Actuarial Board for Counseling and Discipline, effective January 1, 1992. The Academy membership voted to establish this board on the recommendation of a joint task force comprising representatives of all six of the North American actuarial organizations.

—the establishment of two courses, the Fellowship Admissions Course of the Society of Actuaries (SOA) and the Professionalism Course of the Casualty Actuarial Society (CAS), both emphasizing the importance of ethical considerations to professional education and practice.

—the adoption of a managed research program by the CAS—and indeed all of the research activities of the CAS, the SOA, and the Actuarial Education and Research Fund—as we attempt to further expand the scientific body of knowledge underlying actuarial practice.

—the adoption of Rule 19 by the Canadian Institute of Actuaries. This self-policing rule generally requires members to take action if they become aware of another member's noncompliance with either the rules of professional conduct or the standards of practice.

—the expanding role of actuaries in assessing the solvency of insurance companies and the increased public recognition of that role.

—the expansion of the actuarial profession into industries besides employee benefits and insurance (for example, asset management and environmental risk assessment).

—the increased communication and information exchanges with our professional colleagues outside of North America. The presidents and presidents-elect of the actuarial organizations in English-speaking countries all will meet in conjunction with the International Congress of Actuaries in Montreal.

Yes, our collective professionalism is manifesting itself in many ways and in many places. But what about our professionalism as individual actuaries?

I believe that the essence of personal professionalism is summarized in just two maxims, which each of us should internalize and observe faithfully:

—Always do your work as well as you possibly can.

—Always do what is right.

Sometimes the simplest credos are the best. Certainly, they are the least equivocal.

Many of the profession's current activities, including the establishment and enforcement of standards and the expansion and sharing of our collective and individual knowledge base, are intended to improve the quality of work within the profession. Indeed, a key objective of the Actuarial Board for Counseling and Discipline is to provide counseling designed to improve overall work quality.

While these collective efforts are important, the critical test of professionalism ultimately falls to individuals. Each of us must practice our profession in a way that is above reproach. In truth we trade on each other's reputation every day. We need to do our work not only with technical proficiency but also with high ethical standards. As professionals, we must be willing to elevate our ethical and professional standards above our own personal economic gain.

I am proud to be a member of the actuarial profession. The caliber of people who have chosen this profession and who continue to be attracted to it is outstanding. The function that we perform as professionals is a worthy and necessary one. I feel greatly indebted to those actuaries who preceded us and developed the profession to today's high level. I believe that one of our responsibilities along this chain of events is to maintain that history of accomplishment and to make the profession ever stronger for those who follow us. We can do this especially well and meaningfully by serving as role models—as sterling examples of true professionals, in thought, in word, in action, and in attitude.

Toothman is president of the Casualty Actuarial Society.

letters
TO THE EDITOR

Actuaries at Risk?

It seems to me that John Harding's editorial in the April edition of *The Actuarial Update* encourages the perpetuation of an ill-advised role for actuaries: that of apologist for the insurance industry. It is my belief that the insurance industry doesn't need the actuarial profession to carry its water.

More important, our profession must resist the temptation to promise more than it can deliver in order to gain additional assignments and/or public recognition. Such temptation can lead one to advocate, as Mr. Harding does, an extension of the actuarial opinion "to encompass surplus adequacy" when, perhaps, the current version already goes too far.

I have long held that an actuarial opinion on the ability of an insurance company to meet its obligations was an invitation to the legal profession that was bound to be accepted. The burden of potential liability will be placed on the valuation actuary in various jurisdictions, and the magnitude of potential risk attached to actuarial opinions is now being recognized by some who have been strong advocates of the opinion concept.

I, too, have great faith in the insurance industry; my faith includes a belief that the industry can obtain the level of public confidence it deserves, without subjecting actuaries to even greater levels of risk than exist today.

William Schreiner
Washington, D.C.

Harding replies: While I disagree with Bill Schreiner that the work of the Insurer Solvency Task Force puts the actuarial profession in the role of apologist for the insurance industry, I do believe that several points he raises are of real concern and must be resolved before an opinion on surplus adequacy can, in fact, be used in the way we recommend.

First, what should the scope of the opinion include? It obviously cannot include all future economic scenarios. However, it should include the effect of known conditions that could materially affect future surplus adequacy, such as inadequate pricing or over-concentration in certain asset classes.

Second, our profession has a lot to accomplish in support for such an opinion, including setting appropriate practice standards, extending our technology, and educating our membership in the use of that technology. I believe that, if it's given top-priority support by our professional organizations, we can be ready by the time the regulatory structure is put in place.

Third, the professional liability issue is already a serious problem in California. The task force shares this concern, since the exposure would be far greater under our proposal. The Academy will address vigorously the needs of the profession to be supported by appropriate protection from liability in its support of the management of company solvency and of the regulatory structure. This protection exists in the United Kingdom and Canada, has been addressed in the first draft of Rep. John Dingell's bill, and must be part of the process of effective surplus management in the United States.

What's Our Plan?

The April *Update* brings us the 'wonderful' news that the nation's health actuaries don't seem to mind working with a system with which only 2% of them are satisfied.

I was not a participant in the recent survey of health actuaries—nor was I present when the results of the survey were presented at the National Press Club in Washington, D.C.— but I can't help wondering if there weren't just a few reporters who smirked and/or snickered. Do we (or the reporters) need a survey (of health actuaries, no less) to agree with the proposition that the United States is suffering a crisis in health care *financing* (my emphasis). That we have a crisis with the health care system in this country has been accepted by virtually everyone. The question is: What are we going to do about it? A survey that deals with health care financing rather than with the more fundamental problems of access and cost containment is like sticking another finger in that famous dike.

It seems almost obvious that the health care system in this country needs fundamental change; it will happen only when those empowered want it to happen. But I believe that the actuaries are better equipped than most to deal with the crisis. What's *our* plan?

Lawrence Lubin
Englewood, New Jersey

Striking Stat

Ken Krehbiel, in his article on the results of the survey of the nation's health actuaries, reported that ". . . a striking less than 10% favor national health insurance." The only thing "striking" is that the vote wasn't smaller still. I suggest that a survey of personal injury attorneys on the merits of no-fault insurance would evoke a similar response—and the result would be equally meaningless.

Sidney L. Abrams
San Francisco, California

Sniffle, Snuffle, SNFL

The Standard Nonforfeiture Law (SNFL), called "snuffle" by some, was referred to in the last two issues of *The Actuarial Update.* In February, Keith Sloan called for comment on the current draft. In March, John Montgomery mentioned "fan-

Continued on page 8

CALENDAR

Actuarial Standards Board
July 14–15

1992 Valuation Actuary Symposium
September 17–18

Casualty Loss Reserve Seminar
September 20–22

Academy Annual Meeting
September 30

Actuarial Standards Board
October 7–8

Conference of Consulting Actuaries Annual Meeting
October 19–20

American Society of Pension Actuaries Annual Meeting
October 25–28

Society of Actuaries Annual Meeting
October 25–28

Academy Comments on NAIC Risk-Based Capital Formula

The proposed risk-based capital formula places too much emphasis on asset default (C-1) risk.

The Academy's Committee on Life Insurance Financial Reporting recently commented on the risk-based capital formula for life and health insurers that was released at the December meeting of the National Association of Insurance Commissioners (NAIC). (See February 1992 *Update*.) In an April 16 letter to NAIC Life Risk Based Capital Working Group Chairperson Terence Lennon, the committee made these observations:

—The NAIC should ensure that the risk-based capital formula is fully consistent with other solvency-related initiatives, such as the new Asset Valuation Reserve (AVR) and Interest Maintenance Reserve (IMR) requirements, and the valuation actuary concept.

—The NAIC should not allow the need to implement a risk-based capital formula quickly to outweigh the need to develop such a formula carefully. As the committee pointed out, "A risk-based capital structure with serious shortcomings can generate more harm than good."

—The proposed formula is being tested using 1990 and 1991 data; according to the committee, this is too narrow a time frame. The formula should be tested for earlier years in order to include a broader range of economic conditions. Past insolvencies should be analyzed to see if the formula would have predicted them.

—The proposed risk-based capital formula places too much emphasis on asset default (C-1) risk. "Given the recent industry problems with asset defaults, this result is understandable," the committee commented. However, "the formula should stand the test of time and not focus so heavily on one area of risk exposure," the committee added.

—For all practical purposes, a company with a risk-based capital ratio of less than 100% under the formula will be viewed as unsound by the public. If the formula were to place a large number of companies in this category, that would not be in the best interest of the public, the regulators, or the industry.

Currently being tested using 1990 and 1991 company data, the formula is expected to be released for exposure at the September 1992 NAIC meeting. If adopted by the NAIC at its December 1992 meeting, the formula will be effective for the 1993 annual statement.

Copies of the public statement (PS-92L-1) are available upon request from the Academy office.

legal LINES

Professional Liability: Assessing the Risks

by Lauren M. Bloom

This column is the first in a three-part series on actuarial professional liability. Part One examines the elements of a professional liability suit, as modified by statutory and common law. Part Two will consider issues surrounding liability to parties other than an actuary's employer or client. Part Three will discuss typical defenses, focusing on the use of practice standards and actuarial literature as proof of appropriate practice.

Of all the learned professions, actuaries have been among those least frequently targeted for professional liability lawsuits. Regrettably, the recent failure of several major insurance companies is almost certain to yield a significant increase in litigation. Consequently, actuaries may be far more likely to be named as defendants in future lawsuits than they have been in the past.

A professional liability claim may be framed as a suit for negligence, breach of an express or implied contract, fraud, or some other form of wrongful conduct. The framing of the suit is a matter of litigation strategy and is based upon such factors as the applicable statute of limitations, the availability of punitive damages, and whether the plaintiff can prove that the defendant deliberately set out to defraud or otherwise harm the plaintiff. Given the difficulty of proving wrongful intent, most actions are framed as suits for breach of contract or negligence.

The press and the courts refer to such claims as "malpractice suits;" actuaries and insurance companies refer to claims for "professional liability" or "E&O."

Professional liability usually is determined under state law, which may vary considerably from state to state. However, a professional liability suit typically contains several elements. First, the defendant must owe a duty of care to the plaintiff; that duty may be created by contractual relationship or by state law. Where the defendant is a professional, the defendant's duty usually is to exercise the skill and knowledge normally possessed by members in good standing of that profession. Second, the defendant must have breached the duty by failing to exercise appropriate skill and knowledge. Third, the plaintiff must have relied upon the defendant to exercise appropriate skill and knowledge (and, in most states, the defendant's reliance must have been both reasonable and foreseeable). Fourth, the plaintiff must have suffered an injury. Finally, the injury must have been caused by the defendant's breach of duty. It is the responsibility of the plaintiff, as the party initiating the lawsuit, to prove these elements to the satisfaction of the judge or jury.

The elements of a typical professional liability suit may be

Continued on page 6

Standards Outlook

by Christine Nickerson

The Actuarial Standards Board's (ASB) 1992 projects are well underway, as the April 8–9 second-quarter meeting demonstrated. Highlights of the meeting included adoption of the proposed standard on loss reserve discounting and approval to expose a proposed standard on statutory statements by appointed actuaries.

Loss Reserve Discounting

The proposed standard of practice, *Discounting of Property and Casualty Loss and Loss Adjustment Expense Reserves*, was first approved for release in October 1989. Following exposure, it was revised and reexposed. In September 1991 a public hearing was held on the second exposure draft.

The standard applies to situations in which discounting of loss reserves may be appropriate. It specifies the issues and considerations that an actuary should take into account when selecting an interest rate for calculating the present value of loss reserves, but it does not address the appropriateness of discounting in any particular context.

ASB Casualty Committee Chairperson Michael Miller and committee member Spencer Gluck presented the proposed final version of the standard to the board. In its review of the standard, the board discussed concerns about the importance of increased risk margins when discounted reserves are used in financial statements. The board agreed that this is an important issue, one it would prefer to address more completely in a future standard.

A special subcommittee of the Casualty Committee has been formed to develop such a standard.

The board also focused on the use of the term *risk-free interest rate* within the standard and suggested changes to clarify the meaning of the term. Related to this discussion, the board noted the need to consider more generally the terminology and concepts having to do with interest rates.

The board suggested other changes for purposes of clarification and voted to adopt the proposal as a standard of practice. The new standard will be distributed with the July *Actuarial Update.*

Appointed Actuary

The National Association of Insurance Commissioners' (NAIC) adoption of the amendments to the model Standard Valuation Law (SVL) in December 1991, and the model Actuarial Opinion Memorandum Regulation in June 1991, moved the requirement for the statement of actuarial opinion as to reserves and related actuarial items out of the annual statement instructions and into the law itself. Detailed instructions for the form and content of both the opinion and newly required actuarial report and memorandum are now provided in law and regulation.

The most significant changes made by the NAIC were that companies are required to name an appointed actuary and, except for certain small companies, statements of actuarial opinion as to reserve adequacy are required to be based on an asset adequacy analysis.

Paul Kolkman, chairperson of the Life Committee of the ASB, presented a proposed standard that would provide guidance to appointed actuaries on the changes in law and regulation. The proposed standard is titled, *Statutory Statements of Opinion by Appointed Actuaries for Life or Health Insurers.* Kolkman noted that with respect to an SVL Section 7 opinion, the requirements of the standard are more stringent than those of the law. The board examined the standard's requirements carefully and suggested changes to delineate more clearly the responsibility of the actuary in developing the required opinion. The board also asked that the transmittal memorandum include a specific request for comments on the proposed Section 7 requirements.

The board voted to approve release of the proposed standard as an exposure draft. The board plans to have a public hearing on the proposal, June 10, at the Sheraton Washington Hotel in Washington, D.C. (site of the NAIC Summer Meeting). A copy of the proposed standard and the hearing announcement was sent on May 6 to all Academy members.

Meeting with ABCD

The ASB also met with the Actuarial Board for Counseling and Discipline (ABCD). Topics discussed during the meeting of the two boards included the interpretation of standards in discipline cases; the ABCD's role in safeguarding compliance with standards; and the roles of the ASB, ABCD, and other groups in providing additional guidance relating to standards.

The ASB will hold its next quarterly meeting on July 14 and 15 in Washington, D.C.

Nickerson is director of the standards program.

In its review of the standard, the board discussed concerns about the importance of increased risk margins when discounted reserves are used in financial statements.

ADDITION TO STANDARDS HANDBOOK

Included with this copy of *The Actuarial Update* is a booklet containing Interpretative Opinion 3 and Interpretative Opinion 4. The two Opinions were previously part of the Guides and Interpretative Opinions as to Professional Conduct, which were replaced by the Code of Professional Conduct, effective January 1, 1992. Because of the important guidance offered in these Opinions, the board decided they should stay in print unless and until replaced by other standards. This booklet should be added to the appendix section of the standards handbook.

Notes
& COMMENT

Fair Value Accounting: What's in Store?

by S. Michael McLaughlin

Statement of Financial Accounting Standards (SFAS) No. 107 requires *disclosure* of fair value of financial instruments, both assets and liabilities, but it specifically excludes most insurance-contract liabilities. The Financial Accounting Standards Board (FASB) is currently drafting a statement for exposure that would require financial instruments to be *carried* at fair value on financial statements. If the new rule were to exclude insurance-contract liabilities, the resulting inconsistency between insurers' book-value liabilities and fair-value assets could pose serious problems for insurers.

Insurers typically match long-term life and other insurance contracts with assets having similar characteristics in order to limit interest-rate risk as market interest rates change. The new rule would subject shareholders' equity to artificial volatility.

In the past, FASB has been receptive to comments on its proposed rules and, in some cases, accommodated changes. For example, before issuing SFAS 107, FASB had proposed requiring fair value disclosure for only those financial instruments held as assets. Banking interests communicated their need to address fair value on both sides of the balance sheet, and FASB concurred.

FASB also accepted the term *fair value* in lieu of *market value.* Fair value is market value for actively traded securities, but fair value can also be applied to assets that do not have quoted prices but nevertheless have estimable value.

On the other hand, FASB is not free to drop the idea of fair value reporting. The Securities and Exchange Commission has long exerted pressure on FASB to require fair value reporting, and the accounting profession itself supports fair value disclosure and reporting.

Insurance contracts were excluded from SFAS 107 requirements because FASB perceived that estimating such contracts' fair value was difficult. If insurance liabilities' fair value could be reasonably estimated, FASB would probably have extended the SFAS No. 107 disclosure requirement to insurers. It is unlikely that FASB will single out the insurance industry as exempt from fair value measurement in the future.

The Academy Committee on Life Insurance Financial Reporting has not yet taken a formal position on fair value reporting. Committee members agree that determining the fair value of insurance liabilities is somewhat subjective. In addition, requiring fair value reporting for insurance-company assets but not liabilities is simply not viable. For these reasons, insurance company interests have generally recommended that FASB retain book value reporting. Perhaps it's time to re-think that approach.

FASB staff are very active on this project. The actuarial profession, with its tools and training to value liabilities, has an opportunity to work with FASB staff and resolve the difficulties associated with estimating the fair value of insurance contract liabilities. If this opportunity is missed, FASB may adopt inappropriate fair value measures, or worse, require that insurers' liabilities alone be carried at book value.

McLaughlin is a member of the Committee on Life Insurance Financial Reporting.

Several members of the committee and other Academy representatives will be meeting with FASB on June 25.

ADDENDUM TO SUMMARY OF 1991 ACADEMY STATEMENTS

TO: Pension and Welfare Benefits Administration, U.S. Department of Labor (DOL)
DATE: September 18, 1991
DRAFTERS: Academy Task Force on Annuity Standards
RE: Possible regulations for selecting pension annuity insurers.
BACKGROUND: The task force was formed to examine and comment on the DOL's advanced notice of proposed rulemaking on standards for selecting annuity insurers for qualified pension plans, especially at plan termination.

❑ REQUEST NO: PS-91P-5. The task force chose to comment on one issue—the ways in which actuaries could assist plan sponsors in meeting their fiduciary obligations under the Employee Retirement Income Security Act with respect to purchasing annuities for plan participants.

This public statement was unintentionally omitted from the Summary of 1991 Academy Statements mailed with the March 1992 Actuarial Update.

LEGAL LINES, *continued from page 4*

modified by statute or by the courts. A state legislature may determine that the public interest is best served by limiting the liability of a particular group of defendants (for example, some states are considering adoption of statutes capping punitive damage awards in suits against the medical profession). Alternatively, a state statute or court decision may expand liability (for example, some states hold public accountants liable to investors who rely upon the accountants' opinions, even if the accountants have no direct relationship with the investors). Where there is no statute, the common law that is created by judicial opinions applies. If no published opinions exist that are identical to a given case, courts will look to cases involving similar situations and attempt to draw analogies to reach a fair result.

Thus, an actuary who fails to exercise appropriate care and skill in rendering an opinion may face substantial liability, and the risk of liability may be significantly higher in some states than in others. It is recommended that an actuary consult with an attorney concerning the scope of the actuary's professional liability in any state where the actuary signs or files opinions, so that an informed assessment of the risks involved may be made before the actuary agrees to accept a particular assignment.

Bloom is general counsel of the Academy.

Capitol VIEWS

Comprehensive long-term care bill was introduced by Democratic senators on April 9 that would provide coverage for disabled persons of all ages without regard to income. S. 2571 would cover home- and community-based care and short-term nursing stays and would be phased in over time. The bill, which does not include specific financing provisions, is expected to be a companion to the Senate leadership's HealthAmerica bill (S.1227) but not enacted this year.

Legislation to create a universal health care system was introduced on April 2 by Senator Daschle (D-SD). The program would be administered by the states, with its overall budget set by an independent board. S. 2513 would eliminate Medicare and Medicaid, and a federal health board would determine the minimum benefits that states would have to offer.

The health board is modeled on the Federal Reserve Board and would determine which health care services would be covered. The program would be financed with individual and employer premiums placed into a health care trust fund and allocated to the states in the form of grants.

The Federal Insurance Solvency Act of 1992 was introduced by Rep. John Dingell (D-MI) on April 9. H.R. 4900 would establish a voluntary system by which insurance companies could seek solvency regulation at the federal level. Companies choosing federal certification would be exempt from state solvency regulation and would be members of a prefunded federal guaranty fund. States would continue to regulate federally certified insurers in areas other than solvency, including rate making.

The bill establishes a Federal Insurance Solvency Commission (FISC), comparable to the Securities and Exchange Commission. Federally certified companies would provide an annual statement from a qualified actuary or accountant stating that the trust contains sufficient assets to meet the Commission's standards. An actuary who is a member in good standing of the Academy is qualified to certify the reserves of such an insurer or reinsurer. An actuary who in good faith complies with the Commission's reporting requirements will not be liable in any civil action for damages attributable to such reporting.

The PBGC would be required to report to Congress annually on underfunded pension plans under H.R. 3837, a bill approved by the Ways and Means Committee. The bill would require the Pension Benefit Guaranty Corporation (PBGC) to report the names of contributing sponsors of plans that have underfunded liabilities of $25 million or more, or that have underfunded liabilities in excess of $5 billion and a minimum funding waiver exceeding $1 million. H.R. 3837, the Federal Program Improvement Act, also includes provisions for improving Medicare secondary-payor recoveries from primary payors.

The Treasury Department would examine the financial state of the insurance industry under legislation that passed a House Banking subcommittee on April 29. Although lawmakers stressed that recent company failures do not put the industry on a par with the savings and loan industry, they are concerned about the potential impact on the economy. H.R. 4731 would require the Treasury Department to evaluate the effectiveness of state insurance regulation.

Regulatory Actions to Note

The Equal Employment Opportunity Commission (EEOC) is asking for comments on the Older Workers Benefit Protection Act (Betts' law), which amended the Age Discrimination in Employment Act to cover employee benefits plans. The EEOC invites comments by July 27 from employers regarding the type of early retirement plans they would view as consistent with the new law. The notice also solicits comments on health and life insurance plans, severance pay, and long-term disability.

The Financial Accounting Standards Board (FASB) is seeking comments on an exposure draft that would require defined benefit pension plans to account at fair value for guaranteed investment contracts issued by insurance companies or similar contracts issued by others. The proposal would be effective for calendar years after 1992. Comments are due by June 18 to FASB, 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856-5116.

For more information on the regulatory or legislative actions noted above, contact Christine Sand at the Academy's Washington office.

INSURER SOLVENCY TASK FORCE ISSUES POSITION STATEMENT

The Task Force on Insurer Solvency released its position statement on insurance company solvency on April 21. The statement addresses three elements of reform that the task force believes must be included in any state-level or federal proposal to safeguard insurer solvency.

First, the task force calls for a stronger role for actuaries in helping insurance companies manage insolvency risk. This would include requiring companies to obtain an actuarial opinion on surplus adequacy each year, as well as compliance monitoring. The opining actuary would look both at the company's current financial position and the potential impact of a range of future economic conditions.

Second, the task force advocates a closer tie between solvency regulators and actuaries opining on insurer solvency. The task force believes that a structure, similar to the "appointed actuary" system that exists in Canada and the United Kingdom, could be customized for U.S. regulatory and business environments. (The NAIC and several states have already moved in this direction.)

Lastly, the guaranty system should be strengthened to better safeguard insurer solvency. "The public would be best served by a coordinated system," states the task force, one that has the authority to intervene before an insurer declares insolvency and to rehabilitate companies that have been declared insolvent.

The task force will continue to examine the policy issues related to insurer solvency. Currently, it is preparing comments on the Federal Insurance Solvency Act of 1992.

Copies of the position statement on insurer solvency may be obtained from the Academy. Please refer to PS-92G-1.

DID YOU KNOW . . .?

That Earnest Hemingway got started by writing for *Contingencies*? Although some hopelessly pedantic scholars have argued that there are slight problems with the chronology, the vast majority of academics are convinced that Hemingway's first published piece was in fact a "Workshop" article for this illustrious magazine.

So if it can happen to Hemingway (namely, fame, fortune, and fish)—why can't it happen to you? Have faith: It can! The editors of *Contingencies* are there to give you all the help you need to turn that tiny acorn of an idea into the mighty oak of an article.

In truth, the magazine can serve its principal purpose of demonstrating the broad applicability of actuarial analysis only if you send us articles that prove this very point. So, regardless of how inchoate your story ideas may seem to you at present, please give *Contingencies* a call at (202) 223-8196—the editors will most happily discuss them with you, give you some guidance, and then keep working with you to get your article into print.

"Lady Brett Ashley looked at Congressman Dingell. He looked at her. They both looked at the draft bill. She looked away." Well, that's Hemingway; don't tell me you can't do better than this.

Task Force to Study Need for Technical Guidance

Academy President Harry Garber has appointed a task force to study whether the Academy should provide technical support to members regarding compliance with professional standards. Professional standards include the code of conduct, the Academy's qualification standards, and standards of practice issued by the Actuarial Standards Board (ASB).

The Task Force to Study Technical Support for Professional Standards is chaired by Past President Harold (Joe) Brownlee. Other members of the task force are Robert Dobson, David Flynn, Kenneth Hartwell, James Hickman, Joseph Leube, and Robert Likins.

When it submits a report by year-end, the task force will recommend whether the Academy should provide technical guidance and compliance assistance to members and, if so, what form it should take.

Recognizing that actuaries will have diverse views as to what technical guidance would be helpful and appropriate, Brownlee is seeking members' input at this early stage. He would like to hear from any member who has an opinion as to what compliance guidance would be useful, especially with regard to a specific standard of conduct or practice.

The task force will solicit input from the other organizations representing actuaries in the United States and keep both the ASB and the Actuarial Board for Counseling and Discipline (ABCD) informed of its progress.

Address comments to Joe Brownlee at his directory address or to General Counsel Lauren Bloom at the Academy's Washington office.

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tasies" in reference to the cash value calculations and the need for a SNFL that prevents such fantasies.

In response to Sloan's February article, I sent the by now usual and unheeded plea to the National Association of Insurance Commissioners (NAIC) to produce a draft that treats life policies uniformly, expresses cash values as asset shares (accumulated gross premiums less actual charges), and contains no reference to guaranteed maturity premiums, nonforfeiture factors, or net level annual premiums. That is, I asked the NAIC to produce a simple document based on actuarial principles and purged of actuarial excess.

A few days later, an event of incredible timing occurred. Walter Rugland circulated an elegant document that met all of my requirements and eliminated most of the "fantasies" referred to by John Montgomery. My only major criticism is the continued inappropriate inclusion of a variable-life type of cash-value adjustment clause.

Anyone interested in a great solution to all of the problems with current SNFL proposals should request a copy of Rugland's draft. Those who support the current law or other extant, proposed boondoggles, should relax. Rugland's proposal is probably too good to be seriously considered.

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