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“The Academy does not take stands on policy issues, and for the good of the profession we must maintain solid relationships with all participants in the public debate,” said Wyatt. “We will continue to act promptly to correct misrepresentations about actuaries and the Academy’s role.”

Reporters’ reference to the Academy as “a leading organization of statisticians” also drew a word of correction from Academy member Marc Whinston. In a February 10 letter to the editor of the Times, “Actuaries Do More Than Crunch Numbers,” Whinston wrote that “calling the Academy a statisticians’ group” was like referring to the American Institute of Certified Public Accountants as a bunch of tax preparers.” Actuaries’ duties go far beyond statistical work and include product development and management, as well as financial reporting, he added.

Whinston also explained that actuaries “put prices on contigent events by assessing the likelihoods of various cash-flow patterns under different scenarios,” which is what the Academy was doing in its analysis of the Kassebaum-Kennedy bill.

## Setting the Record Straight

The Academy acted swiftly last month to correct inaccuracies in an article in the February 6 New York Times.

In “Actuaries Fault Health Insurers’ Stand on Bill,” reporter Adam Clymer wrote that Academy was accusing the HIAA of exaggerating premium increases under Kassebaum-Kennedy. (See right.) He cited a February 2 letter from Academy Executive Director Wilson Wyatt to the HIAA’s Hill Gradison as evidence.

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## Store Your Update

Slipcases for storing back issues of the redesigned *Actuarial Update* will be sent to all Academy members with the May mailing.
Assumption Process Explained

Actuaries are careful to select reasonable assumptions for pension plan spinoffs because they must defend those assumptions to the profession's disciplinary body, Academy Pension Practice Council Vice Chairperson Larry Sher told a Pension Benefit Guaranty Corporation (PBGC) regulatory committee on February 14.

The PBGC issues assumptions that actuaries may use as a safe harbor in estimating termination liabilities under IRS Code Section 417(b), which governs pension plan spinoffs. Recently the PBGC has shown concern about actuarial assumptions that yield lower termination liabilities. In a December memo to all enrolled actuaries, Academy Pension Vice President Vince Arena focused on the PBGC's need to be careful with assumptions.

Scher and Arena both appeared before the PBGC regulated rule-making committee to explain the assumptions. They emphasized that actuaries were professionals subject to the standards of practice of the Actuarial Standards Board and the disciplinary processes of the Actuarial Board for Counseling and Discipline.

Scher explained that the PBGC assumptions for plan spinoffs are not always appropriate, citing for example large plans that are able to obtain better returns on annuities. Actuaries use their best professional judgment to set assumptions that protect plan participants.

"Assumptions should be judged on results," said Sher. "The bottom line: Are appropriate returns transferred to ensure that no employee is adversely affected?"

Life Disclosure

Answers to Come

Life actuaries: Are you scratching your head over the newly adopted Life Disclosure Model Regulation? You're not alone, it seems. A number of actuaries have contacted the Academy with questions about interpreting the regulation and how to apply it in practice. While the Academy cannot answer questions from individual actuaries, the Life Practice Council is undertaking two initiatives to make sure your questions receive a timely response.

First, Academy Life Vice President Arnold Dickie has arranged with Under Insurance Commissioner Robert Wilcox, chairman of the National Association of Insurance Commissioners Life Disclosure Work Group, to obtain written answers to questions about interpretation of regulation language. Actuaries' questions will be submitted to the NAIC group, which will publish the final document.

The Academy also plans to issue notes on appropriate actuarial practice for the new regulation. While there is no practice experience that relates directly to the regulation, the practice notes will refer to procedures carried out in analogous life insurance situations.

To submit questions for the NAIC or the Academy practice notes, send a private message to Academy staff Jeffery Speicher via Actuaries Online at 7756,2620, or by mail to his attention at the Academy's Washington office. Please do not include recommendations for changes to the regulations or comments on its merit or ask for the status of the generally recognized expense tables. However, if you can illustrate your questions with truthto-life numerical examples that will permit more definitive answers, names of actuaries who submit questions and their company affiliations will be kept strictly confidential by Academy staff.

Academy Looks at Tax Reform

Will tax reform have unintended consequences on pensions, health insurance, and other employee benefits? Over the next several months, a newly established Academy task force will study leading tax reform proposals and their impact on employer-sponsored benefits. The goal is to ensure that lawmakers and the public understand how tax changes will affect employer benefits and to recommend ways to preserve them under reform.

"Everyone should understand the implications for employee benefits. Without tax incentives, employers might reduce or eliminate many benefits," said Ron Gebhardtsbauer, task force chairperson. "We will carefully study the tax plans and report back to Congress in May on how changing the tax code will affect employee benefits. In the meantime, the Academy will continue to provide educational and professional candidates pertinent actuarial information relating to these proposals."

Joining Gebhardtsbauer on the task force will be pension actuaries Larry Johnsnone, Judy Latta, James Taphem, and Lane West; health actuaries Don Giaparco, Geoff Sandler, and Tom Wildenthal; and life actuary Bruce Schobel. The actuaries will consult with elected officials, congressional staff, and administration officials during the 4-month study.

The Academy recently released a report on the effect of comprehensive tax reform legislation on private pensions. The report was widely distributed to the media, elected officials, and presidential candidates, and yielded requests for more detailed information from lawmakers. So far, such requests have come from the House Ways and Means Committee, Senate Finance Committee, and the Joint Committee on Taxation.

The new task force was to brief Washington policy specialists on the Hill and in executive branch agencies on its findings.

Actuaries, Start Your Research!

The Actuarial Education and Research Fund (AERF) is sponsoring the 1996 Individual Grants Competition. The AERF grants will fund actuaries' education or research projects that result in published work. Research projects that relate to current policy issues or that have direct practical application will be given preference. All members of the AERF sponsoring organizations—including the Academy—are invited to submit a proposal. The deadline is November 3 for a grant proposal form. Contact Paulette Haberschot at the AERF office at 847-706-3584. Send proposals to: Curis H. Huntington, AERF, The New Director, University of Michigan, Dept. of Mathematics, 3020 Angell Hall, Ann Arbor, MI 48109-1003.

A Dynamic Profession for the Future

he achievements of the North American actuarial profession since the founding of the American Academy of Actuaries and of the Canadian Institute of Actuaries have been impressive. Thirty years ago, we were a relatively unknown profession except for those who benefited directly from our expertise.

Today, we have become much more visible and have established credibility with legislators, elected officials, and the media. For instance, we are increasingly recognized as experts who provide unbiased and reliable cost analyses of social security programs to help policymakers make informed decisions. We have worked hard to establish our actuarial practice on a strong professional basis. As in the past, we put great emphasis on the thorough education of new actuaries and, in addition, we have implemented a code of professional conduct, adequate standards of practice, and a disciplinary process to ensure compliance. Formal continuing education programs have also been established.

The next step was to let the public know of our expertise and professionalism. A major achievement of the Council of Presidents—created a few years ago to foster cooperation between the North American actuarial associations—has been the setting up of Summer 2000 a comprehensive tax reform program to increase the visibility of the actuarial profession. Policymakers are the primary audience of the program, but there are others, such as business associations, industry leaders, and employees in traditional and nontraditional areas.

While our profession has evolved over the last 30 years, our society has also been changing rapidly in many different ways. Business, mergers and acquisitions have resulted in the elimination of many smaller corporations and the consolidation of activities in a more limited number of larger corporations. This trend, of course, affected our traditional areas of practice where demand for our services has decreased significantly. This, in turn, led a number of actuaries to develop new areas of practice. We can expect this trend to continue and accelerate.

So far, the application of actuarial science to models involving business or commercial risks has been primarily limited to finance. This is not to say that only life, health, or casualty contingencies have been analyzed. After all, insurance companies face large business risks unrelated to these contingencies. Drawing on their experience with business risks in insurance companies, actuaries should be able to build financial programs to deal with future contingent events in various business environments. This is where our profession can make a major impact on business society.

The Society of Actuaries is currently redesigning its education system so that future actuaries will have the kind of broad training required to fulfill this role. The current draft of the new syllabus puts much more emphasis on basic principles. Practical applications to a specific area of practice would come at a much later stage than in the current syllabus.

It is interesting to note that the need for broader actuarial education is being recognized by at least one other actuarial organization. In the December 1995 issue of the Actuary, the magazine of the actuarial profession in the United Kingdom, an article summarized the report of a study group to the councils of the Faculty of Actuaries and the Institute of Actuaries. In particular, the report identified additional or enhanced skills needed for the future, which are very much those that the draft syllabus of the Society of Actuaries would develop. The report also reveals the belief that actuarial skills are too narrowly focused on specific sectors, at too early a stage in the education process.

I believe the new approach to the education of actuaries endorsed by the Society of Actuaries is a major positive step in the evolution of our profession. The next step will be partial restructuring of the current committee if we are to expand into nontraditional areas of practice. A significant effort will also be needed to convince the business community that actuaries can help corporations manage their business risks.

For more information, contact the Academy at 847-706-3584 or for a grant proposal form, contact Paulette Haberschot at the AERF office at 847-706-3584. Send proposals to: Curis H. Huntington, AERF, The New Director, University of Michigan, Dept. of Mathematics, 3020 Angell Hall, Ann Arbor, MI 48109-1003.
"The Academy’s Public Work Is Important for the Profession"

In his 15 years as chief actuary of the Health Care Financing Administration (HCFA), Guy King earned a reputation as Washington’s leading authority on Medicare and Medicaid financing. Lawmakers of both parties, as well as his executive branch employers, came to trust his impartiality and thoroughness. Since he left HCFA for private practice in 1994, King has volunteered his talents for several Academy projects. He currently heads the Academy Medicare Work Group, which last December delivered a preliminary report on the Republican Medicare reform plan and President Clinton’s alternative proposal. He recently sat down with the Update’s managing editor to discuss Medicare, his days at HCFA, and his work for the Academy.

Academy on Lifetime Caps

A n editorial in the February 20 USA Today cited an Academy analysis of proposed legislation to remove lifetime caps on health insurance payments. The editorial quoted Academy figures that show premiums would increase on average about $8 per year per covered adult under a proposal sponsored by Sen. James Jeffords (R-Vt.).

This is true—up to a point, according to Harry Sutton, member of the Academy Health Practice Council and source for the newspaper’s figure. In a letter to Jeffords’s chief health aide last summer, Sutton cited the $8 average figure as the cost to increase caps from $500,000 to over $1 million for large employers and individuals.

Sutton’s letter also detailed other factors that might make removing caps unwise, none of them necessarily captured by data, behavioral changes that will occur in the marketplace, for instance.

And what were your conclusions?

Most of us were very supportive of the thrust of the legislation—giving Medicare recipients more choice, allowing the market to work better than it does now. However, we told the Senate leadership that they weren’t going far enough in letting the market work and gave them specific suggestions to improve the legislation.

Were any of your recommendations written into the bill?

Yes, for instance, in the original bill medical savings accounts were available only with catastrophic health policies. We suggested that MSAs be available to Medicare beneficiaries in HMOs and other managed-care settings. When the bill came out of committee conference, an MSA that is compatible with managed care was included.

Did you also give assistance to the Democratic side?

The Academy made a serious offer of help to both the administration and the congressional Democrats, but no one contacted us either formally or formally. Perhaps they consulted with their own actuaries.

There’s no difference between the advice you offer now through the Academy and what you offered toward 1994 HCFA

The advice I offered as a federal employee had to be as private. While it’s important for the Academy to work quickly to influence policy for the better, the Academy’s work has a public aspect that is important for the profession.

How are Academy actuaries perceived on the Hill and in federal agencies?

Extremely favorably. In sessions on the Hill, policymakers demonstrate that they pay attention to the Academy by asking substantive questions about the work we’ve done. They don’t always like what they hear, but they do pay attention.

What will Medicare be like for tomorrow’s retiree?

In the not-too-distant future, Medicare will evolve into a system of choice. It’s not going to look like today’s Medicare. The only reason we can maintain such an expensive system is the temporary presence of the baby boom generation in the labor force. There are only two choices: Tax our children and grandchildren or reduce benefits.

The system will have to get a lot more efficient to keep benefits to a minimum. And I contend the system can become more efficient.

Through managed care?

Managed care is not the silver bullet. Politicians are always casting around for a painless solution to problems, and both the Clinton administration’s health care reform proposals and the Republican Medicare plan have latched onto managed care. But you won’t get everyone into managed care voluntarily.

Speaking of the Clinton plan, will we ever see a similar universal reform plan again?

I hope not! The Clinton plan was what its critics called it: a federal government takeover of 14% of the economy. My experience with the government convinces me that would be bad for the country. Polls show that federal executives are more dubious than any other group about the government’s ability to solve social problems. They’ve seen politics at work from the inside.

Is there a solution to the problem of the uninsured?

It’ll be tough. Traditional health care coverage is in a slow classic death spiral. Basing coverage to include more Americans will mean making it less deep. The Clinton plan proposed to make coverage wider and deeper at the same time, which would have been disastrous.

What was your biggest frustration at HCFA?

It had nothing to do with my professional activities, but sitting through meetings on total quality management (TQM) was almost unbearable. The most satisfaction was the intelligence and dedication of the people I worked with—particularly the people in the office of the actuary. I’ve always treasured.

Did you use the resources of the Academy while you were at HCFA?

The contacts within the profession I made through the Academy were invaluable. Working in Washington, you become a captive—all the people you talk to think of the same way. I learned through a network of actuaries who shared information and offered me their point of view. As a matter of fact, they were more generous about sharing things when I was still in government. Now, I’m a potential competitor.

The other aspect of HCFA’s work in Medicaid. Are black grunts to the statute the way to go?

There’s been a lot of gaming among the states to attract federal Medicaid matching money, and block grants would put an end to that. But at the same time they would lock in the current formulas and reward the states that have gotten the most. So it’s not a simple question.

Recently, Speaker Gingrich has gone on record attacking HCFA, calling it for 10"other ways." Do you agree?

As long as there’s a Medicare insurance program, there will have to be HCFA. If they abolished it, they’d just have to recreate it under a different name.
Board Spells Out Academy Title Use

At its January 30 meeting in San Antonio, the Academy Board of Directors adopted rules to govern members' use of Academy titles and designations. The board's action follows Precept 13 of the Code of Professional Conduct, which restricts use of actuarial organization's titles and designations.

Under the board-approved rules, Academy members may identify themselves with any of the following designations: Member of the American Academy of Actuaries; Member, American Academy of Actuaries; Member, AAA; or MAAA. Academy leaders may use their titles when speaking on behalf of the Academy or conducting Academy business. These include the president, president-elect, vice presidents, and members of the board of directors, as well as chairpersons, vice chairpersons, and members of Academy practice councils, committees, task forces, and work groups.

Academy members may use their titles in biographical material, sworn testimony, or announcements of employment—but only if it is clear they are not speaking or acting on the Academy's behalf.

Meaningless Projections?

Regarding the recommendations of the Academy Pension Accounting and Social Insurance Committee to the Federal Accounting Standards Advisory Board, reported in the January Update, it is difficult to support a long-term approach to social insurance solvency given the diurnal record of past efforts to predict the long-term financial condition of social insurance programs.

Changes in women's work force participation, fertility rates, retirement patterns, and medical technology have rendered meaningless projections made a mere 25 years ago. Over the next 25 years, similar changes are likely to make today's projections equally useless. Yet the Academy committees are advocating yet another round of projections 75 years into the future. It's good to see the Academy enhancing public awareness of actuaries and encouraging their employment in solving our nation's problems. However, I think this goal has warped the objectivity of the committees' recommendations. Let's hope somebody notices the emperor has no clothes.

-ERIC J. KLIEBER

Cleveland

Washington Wants Academy Health Care Numbers

Canada's Fernet on Facing the Future

Guy King on Managed and Managed Care

Action Deferred on Pension Standard

At its January 24-25 meeting in Atlanta, the Actuarial Standards Board (ASB) considered changes to two pension standards and discussed committee projects that will affect casualty, health, and life actuaries. A few highlights:

Pension Committee Chairperson Heidi R. Dexter responded to board questions on the proposed standard, Selection of Economic Assumptions for Measuring Pension Obligations. The board considered changes to two pension standards and discussed committee projects that will affect casualty, health, and life actuaries. A few highlights:

- The Casualty Committee's Task Force on Rate of Return, chaired by Mark Whitman, plans to submit the proposed standard, Treatment of Assumptions for Measuring Pension Obligations, to the ASB in July.
- The Health Committee will focus on four projects: responding to comment letters on the exposure draft, Compliance with Statutory and Regulatory Requirements for the Actuarial Valuation of Small Employer Health Benefit Plans (comment deadline: March 29), completing the final version of a working draft, fax a request to Cheryl Padilla at 202-872-1948.)
- The board also reviewed ASB operating committees' 1996 plans. The CASB, in its report to the ASB, reviewed current projects and discussed the inclusion of new projects.
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