MAY 2002

THE NEWSMONTHLY OF THE AMERICAN ACADEMY OF ACTUARIES

Actuarial UPDATE

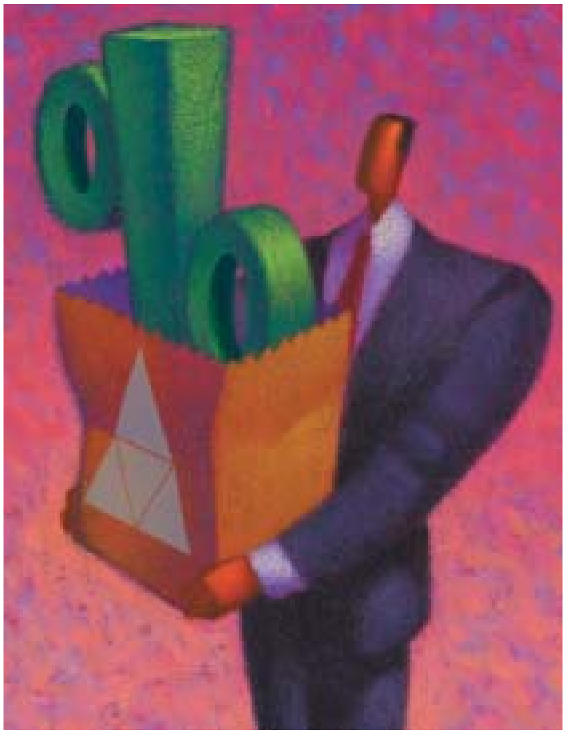
Academy Helps Shape Pension Rate Relief

WHEN PENSION INTEREST RATE RELIEF was enacted on March 9 with the passage of the Job Creation and Worker Assistance Act, it was a welcome accomplishment for all pension professionals.

It was also a victory for the Academy, the culmination of months of behind-the-scenes effort.

"We were among the first to identify the problem, and we were actively involved in drafting a solution," said John Parks, the Academy's vice president for pension issues. "This issue is a perfect example of how actuaries can contribute to the public debate on issues of importance to the profession."

Last July, the Academy's Pension Practice Council issued a public statement, drafted by Senior Pension Fellow Ron Gebhardtsbauer, warning that sagging 30-year Treasury rates were adversely affecting the maintenance of current defined benefit plans and discouraging the formation of new plans. The Academy also brought this message directly to policy-makers on Capitol Hill and in the executive branch. In February, when the Academy's Pension Committee visited more than a dozen key congressional and government agency offices in its annual Capitol Hill visits, pension interest rate relief topped the agenda.



These educational efforts clearly had an effect. Last December, the House passed a pension interest rate provision as part of an economic stimulus bill. Academy members, including Ethan Kra, vice chairperson of the Pension Practice Council, and Donald Segal, chairperson of the Pension Committee, working through the American Benefits Council, provided direct input into the specifics of the interest rate provision that was passed. While December's economic stimulus bill was not ultimately enacted, the bill signed into law in March retained the pension interest rate provision from the earlier legislation.

Under the old law, actuaries were required to use the 30-year Treasury bond interest rate in certain pension plan

See **PENSION RATE RELIEF**, Page 6

Inside

Insurance: The New Basics

IT WAS BILLED as a general informational session on how insurance is regulated.

But the big question at the Academy's April 12 Capitol Hill briefing was how urgent was the need for terrorism insurance legislation.

"The industry absorbed 9/11, and did it very well. But it can't take a second hit like that," said Bob Anker, the Academy's president-elect. "Is something like 9/11 going to happen again? I don't know. My view is there needs to be backup capacity."

Speakers Patricia Teufel, Julia Philips, and Bob Anker

The issue had just regained prominence on Capitol Hill: Only a few days earlier, President Bush, in a speech to business leaders, had urged the Senate to act

See **INSURANCE**, Page 7

Calendar

MAY

2 Academy Pension Accounting Committee meeting, Chicago

3 Academy policy sessions with congressional staff, New York

5 Academy Pension Practice Council meeting, Savannah, Ga.

6 Academy Pension Committee meeting, Savannah, Ga.

6 Academy Life Practice Council meeting, New York

4-7 ASPA business leadership conference, Lake Tahoe, Nev.

9-10 SOA critical illness seminar, New Orleans

15 Academy Committee on State Health Issues meeting, Washington

16 Academy Washington Forum, Washington

17 Academy Board of Directors meeting, Washington

19-22 CAS spring meeting, San Diego

21 Academy Casualty Practice Council meeting, San Diego

21 ASB Life Committee meeting, Chicago

29 Academy Capitol Hill briefing on prescription drugs, Washington

30-31 SOA spring meeting (life), Colorado Springs, Colo.

JUNE

3-4 CAS reinsurance seminar, Tarrytown, N.Y.

5 Academy COPLFR meeting, Chicago

6 Academy Social Insurance Committee meeting, New York

6-7 NAIC Life and Health Actuarial Task Force meeting, Philadelphia

8-11 NAIC summer meeting, Philadelphia

18 ASB meeting, Washington

18 Academy Life Financial Reporting Committee meeting, Newark, N.J.

20-21 ASB Pension Committee meeting, San Francisco

24-26 SOA spring meeting (health, pension), San Francisco

25-26 SOA retirement issues symposium, San Francisco

26 CIA professionalism workshop, Halifax, Canada

26 Academy Health Rate Filing Task Force meeting, San Francisco

27-28 CIA annual meeting, Halifax, Canada

JULY

8-9 CAS risk and capital management seminar, Toronto

24 Academy Committee on Professional Responsibility meeting, Washington

26 Academy Life Capital Adequacy Subcommittee meeting, Chicago

28 Academy Pension Practice Council meeting, Santa Fe, N.M.

29 Academy Pension Committee meeting, Santa Fe, N.M.

AUGUST

7-10 SOA conference on actuarial research, Waterloo, Canada

SEPTEMBER

7-10 NAIC fall meeting, New Orleans

9-10 NAIC Life and Health Actuarial Task Force meeting, New Orleans

12-13 ASB Pension Committee meeting, Washington

19-20 SOA valuation actuary symposium, Orlando, Fla.

19-20 CIA appointed actuary seminar, Toronto, Canada

23-24 Casualty loss reserve seminar, Arlington, Va. (Academy, CAS, CCA)

PLANNING AHEAD?
Bookmark the complete calendar at
www.actuary.org/calend.htm.

Academy NEWS Briefs

Boosting Academy Communications

Chris Robichaux is the Academy's new assistant director of communications for public affairs. Tapped to oversee the Academy's media relations operations, Robichaux spent a decade on Capitol Hill, serving as press secretary to Rep. W.J. "Billy" Tauzin (R-La.) and as House Veterans' Affairs Committee communications director for former Chairman G.V. "Sonny" Montgomery (D-Miss.). He also served on the staffs of Reps. Mike Doyle (D-Pa.) and the late Frank Tejeda (D-Texas). More recently, Robichaux was manager of communications for a national trade association and public information officer for a local public safety agency in the Washington area.

Robichaux, originally from southwest Louisiana, is a graduate of Louisiana State University, where he earned a bachelor's degree in political science. Robichaux was deputy director of the Louisiana Democratic Party in the mid-1980s.

Deferred action The ASB voted April 5 to defer the effective date of the recently revised Actuarial Standard of Practice No. 7, *Analysis of Life, Health, or Property/Casualty Insurer Cash Flows*, while reviewing its applicability to certain aspects of P/C practice. The ASB is undertaking the review at the request of the Academy's Casualty Practice Council. The new effective date is July 15.

Retirement revolution Changes in work and family patterns, greater longevity in retirement, and other factors are joining to create new strains on retirement systems and on the work force. To look at these and related issues, the Academy and the SOA are jointly sponsoring a symposium on the retirement implications of demographic and family change, June 25-26 in San Francisco. For further information, go to **www.soa.org/conted/bro150.html**.

Professionalism report Enclosed with this issue of the *Update* is the annual combined professionalism report for 2001. This year, the printed form of the report contains only letters from the chairpersons of the ABCD, the ASB, the Joint Committee on the Code of Professional Conduct, and the Academy's Committee on Qualifications, and statistical information on the cases administered by the ABCD. A fuller report appears on the Academy's website at **www.actuary.org**.

You're welcome The Academy recently received a note from the city manager of Victorville, Calif., complimenting the quality and depth of the Academy's website and thanking Public Policy Director **Todd Tuten** and Senior Pension Fellow **Ron Gebhardtsbauer** for providing information to the managers of Victorville's public employee pension plan about the actuarial valuation method of pension assets.

HEALTH NEWS

Richard Foster, chief actuary for the Centers for Medicare and Medicaid Services and a member of the Academy's Health Practice Council, participated in a March 27 forum at the American Enterprise Institute on Medicare solvency. Foster presented findings from the 2002 Medicare trustees' reports, which were released on March 26.

► **Rowen Bell**, an associate actuary with the Blue Cross and Blue Shield Association in Chicago, is the new vice chairperson of the Health Practice Financial Reporting Committee.

► The Academy has re-established its Association Health Plan Work Group to consider language on association health plans contained in the patient protection bills that passed in the House and Senate last year. Chairperson of the work group is **John Schubert**, a senior consultant with PricewaterhouseCoopers in Chicago. Other members of the work group are **David Bahn**, an actuary with Blue Cross and Blue Shield of Florida in Jacksonville, Fla.; **Karen Bender**, a principal with MMC Enterprise Risk in Milwaukee; **Donna Novak**, former Academy vice president for financial reporting issues and president and CEO of Novarest Consulting in Fox Lake, Ill.; and **Mark Wernicke**, vice president and chief actuary of the small group division of Humana Inc. in Green Bay, Wisc.

► New members of the Committee on State Health Issues are

Steve Stribling, senior actuary for Northwestern Mutual in Milwaukee, and **Tim Patria**, assistant vice president of The Hartford Life Insurance Cos. in Simsbury, Conn. **Bob Meilander** has left the committee.

LIFE NEWS

The following are new members of the Life Financial Reporting Committee: **Bill Jaksich**, senior actuary with Principal Financial Group in Des Moines, Iowa; **Patricia Matson**, manager and consulting actuary with Arthur Andersen in Hartford, Conn.; **Godfrey Perrott**, consulting actuary with Milliman USA in Boston; and **Larry Rubin**, a managing director of Bear Stearns in New York.

► **Dave Neve**, second vice president and appointed actuary with Principal Financial Group in Des Moines, Iowa, is a new member of the Life Capital Adequacy Subcommittee, replacing **Mark Rowley**. **Mike Smith**, vice president and appointed actuary with Lincoln National Life in Fort Wayne, Ind., has also joined the subcommittee.

► New members of the Life Products Committee include **Noel Abkemeier**, consulting actuary with Milliman USA in Williamsburg, Va.; **Doug Bennett**, actuary with Milliman USA in Windsor, Conn.; **Paul Carmody**, senior vice president and chief actuary with Pacific Guardian Life Insurance Co. in Honolulu; **Bill Cummings**, associate actuary with Allianz Life Insurance Co. in Minneapolis; **Arnold Dicke**, senior vice president and chief actuary with ING Re in Denver; **David Hippen**, actuary with the Florida Department of Insurance in Tallahassee, Fla.; **Barbara Lautzenheiser**, former Academy vice president for life issues and principal for Lautzenheiser & Associates in Hartford, Conn.; **Jean Liebmann**, actuary for Safeco Life Insurance Co. in Redmond, Wash.; **Tom Phillips**, senior actuary with Principal Financial Group in Des Moines, Iowa; **Tracey Polsgrove**, actuary with The Hartford Life Insurance Co. in Simsbury, Conn.; **Mike Pressley**, actuary with Tillinghast-Towers Perrin in Dallas; **Linda Rodway**, vice president and individual insurance actuary with Mony Life Insurance Co. in New York; **Larry Rubin**; and **David Simbro**, vice president and actuary with Northwestern Mutual in Milwaukee.

► Joining the Life Valuation Subcommittee are **Stephen Batza**, an actuary with Liberty Life Assurance Co. in Dover, N.H.; **Donna Claire**, a member of the Academy's Board of Directors and president of Claire Thinking Inc. in Fort Salonga, N.Y.; **Jack Gies**, senior manager at Ernst & Young in Hartford, Conn.; **David Hippen**; **Burt Jay**, a consultant with the Mutual/United of Omaha Insurance Co. in Omaha, Neb.; **Barbara Lautzenheiser**; **Dave Neve**; **Kory Olsen**, an actuary with Allstate Financial in Northbrook, Ill.; and **Paul Skalecki**, an actuary with Northwestern Mutual in Milwaukee.

PENSION NEWS

Amy Timmons, vice president and actuary for The Segal Co. in Englewood, Colo., is the chairperson of the newly formed Academy Public Plans Task Force.

► **Joan Weiss**, chief valuation actuary for the Pension Benefit Guaranty Corporation (PBGC) in Washington, has joined the Committee on Social Insurance, replacing **Dave Gustafson**.

New members of the Committee on Pension Accounting are **Arthur Conat**, a principal at Ernst & Young in Chicago; **Bill Sohn**, an actuary with Buck Consultants in New York; and **John Bartz**, an actuary with Watson Wyatt in New York. Leaving the committee are **Dave Dilcher**, a principal at Pricewaterhouse-Coopers in Chicago; **Ben Gottlieb**; **Marvin Paull**, owner of Actuarial and Financial Consulting in Rancho Mirage, Calif.; and **Henry Winslow**.

► **Mark Beilke**, director of employee benefits research for Milliman USA in Vienna, Va., has joined the Pension Committee. He replaces **Adrien LaBombarde**.

PROFESSIONALISM NEWS

New members of the General Committee of the ASB are **Ethan Kra**, chief actuary, retirement, for William M. Mercer, Inc. in New York; **Donna Novak**, former Academy vice president for financial reporting issues and president and CEO of Novarest Consulting in Fox Lake, Ill.; and **William Odell**, president of Odell & Associates in Winston-Salem, N.C.

SOME QUESTIONS (LIKE WHAT DOES YOUR DAUGHTER SEE IN THIS GUY, ANYWAY?) ARE BETTER PUT TO DEAR ABBY THAN THE ABCD. But the idea is still a good one: Go to an expert when you have a problem. If you are seeking clarity on a professionalism question, one of your best resources is the ABCD. All other questions go to Abby.

Professional Guidance

EDITOR'S NOTE:

Following is an exchange of letters involving a request for guidance from the Actuarial Board for Counseling and Discipline. The exchange is published here with the permission of the ABCD and the actuary who submitted the request. The request describes three hypothetical situations in which an actuary plays two roles: one in a practitioner-client relationship, the other in a seller-buyer relationship. "This dual role almost always involves difficult conflict of interest issues," the ABCD said in its response, noting that the issues raised "may be of concern to others in the profession."

The actuary's name, title, and address have been deleted from these letters.

November 26, 2001

Robert W. Sturgis
Chairperson
Actuarial Board for Counseling and Discipline
1100 Seventeenth Street, NW, 7th Floor
Washington, DC 20036

RE: Request for Guidance

Dear Mr. Sturgis:

I work as a consulting actuary in the defined benefit area. I am writing you with reference to three hypothetical practices that a firm such as mine could adopt. Actuarial firms sometimes assist their pension clients in purchasing non-participating annuities from insurance companies for their qualified, defined benefit pension plans. There are three practices that could potentially cause problems for such a consulting firm. The following are the three practices for which I am seeking clarification:

1. A consulting firm sometimes engages the help of an independent broker to complete the purchase of annuities from an insurance company. The broker discloses to the client that he will be paid a commission. The consulting firm sometimes has an agreement with the broker that the broker will receive a percentage of the commission, or some fixed dollar amount if larger, and the consulting firm will receive the remainder of the commission. For example, the total premium for an annuity purchase would be $2,000,000 with a 3% commission. The broker would receive the larger of 1% of the commission, or $10,000, and the consulting firm would receive the remainder of the commission. In this case, the consulting firm would receive $40,000 from the broker as a result of the annuity sale. The consultant firm does not disclose to his client that he will receive any compensation as a result of this transaction. I believe this violates Precept 6 of the Code of Professional Conduct.
2. In some instances, a consulting firm may act as the broker for an annuity purchase. In these cases the consulting firm is paid a commission and discloses the amount of the commission to the client. Sometimes, however, the consulting firm also receives additional compensation from the insurance company in the form of an "Expense Reimbursement Allowance," known as an ERA. Using the example noted above, the consulting firm would receive a commission of 3%, or $60,000, due to the sale. It would also receive an ERA of 1/2% to 1%, or an additional $10,000 to $20,000. The consulting firm does not disclose the ERA to the client. Although this example is not as clear-cut as the first example, I also believe this practice violates Precept 6 of the Code of Professional Conduct because the amount of the compensation is material and it is not disclosed.
3. Some insurance companies offer ERAs and some do not. When the consulting firm assists a client in purchasing annuities for a pension plan, and one of the insurance companies involved in the bidding process offers an ERA, the consulting firm may attempt to steer the client to choose this insurance company as the insurer. This fact is not disclosed to the client. I believe this violates Precept 7 of the Code of Professional Conduct, because the firm is performing services where there is a conflict of interest and this conflict has not been disclosed to the client. The conflict is that the consulting firm has a vested interest in choosing one of the insurance companies over the others.

My interest in this matter is to avoid violating the Code of Professional Conduct. Will you please present these examples to the ABCD and ask them to provide me with a written response as to whether they would violate the Code of Professional Conduct. If it is their belief that they would violate the code, will you ask them to provide me with guidance on how to avoid these violations?

Sincerely,

Actuary X

January 25, 2002

Dear Actuary X:

This responds to your letter of November 26, 2001, seeking guidance relative to three hypothetical situations. We attach your letter as an exhibit to this response. Additionally, we include a request of you at the end of this letter.

Our references to precepts are to the Code of Professional Conduct effective as of January 1, 2001. Our statements that conduct in hypothetical situations would apparently violate the Code should not be taken as assertion that any specific practitioner violated the Code. Determinations regarding individual actuaries can be made only within the context of ABCD proceedings and after careful consideration of all relevant information presented in such proceedings.

You state your belief that in situations 1 and 2 there has been a violation of Precept 6. We agree.

You state your belief in situation 3 there has been a violation of Precept 7 "because the firm is performing services where there is a conflict of interest and this conflict has not been disclosed to the client." We agree that this appears to violate Precept 7. However, it would be incorrect to imply that disclosure is, by itself, adequate to avoid a violation of Precept 7. This precept states three requirements for avoidance of a violation. One is that there be no impairment of the actuary's ability to act fairly.

In all three situations, possible factors not mentioned in your letter could be additional sources of violations. Without attempting to offer a complete list, we offer just two examples:

1) With many insurance and investment products, the broker has discretion over the amount of commissions or fees to be paid. The broker's decision is reflected in the charges borne by the buyer — either through the product's price or through operation of an experience rating mechanism. If this factor were present in either of situations 1 and 2, a simple violation of Precept 6 could expand into issues related to conflicts of interest.

2) In a retirement plan, decisions on selection of an insurance or investment product can affect the welfare of participants.

   a) An overpriced annuity contract benefiting one participant can mean too large a charge against plan assets, weakening the security of expectations of remaining participants.

   b) An investment or variable annuity contract with too heavy an expense loading can mean unreasonably low ongoing benefits for the participant.

   c) An investment or variable annuity contract selected with an eye towards commissions rather than an eye towards expected investment performance can mean unreasonably low ongoing benefits for the participant.

   d) An annuity contract obtained from an insurer that ultimately becomes insolvent can jeopardize remaining benefits of a participant/annuitant.

Ordinarily, the principal will be a fiduciary with a duty to avoid decisions on selection of an insurance or investment product that adversely affect the welfare of participants. Presumably, the principal is depending on the actuary for guidance on avoiding any such breach of fiduciary responsibility. For these reasons, all three of the situations in your letter could involve conflicts of interest in which it could be difficult to avoid violating Precept 7, regardless of the amount of disclosure.

Your letter requests guidance on how to avoid violations in the situations you describe. Clearly, disclosure is a major element. Beyond this, all three situations force the actuary to play two roles simultaneously. In one, the actuary is functioning in a practitioner-client relationship where the client expects the practitioner to behave in the client's interest. The relationship may develop in a manner that causes the principal to reasonably repose trust and confidence in the actuary and reasonably expect the actuary to exercise scrupulous good faith and candor. At this point, the law may deem the actuary a fiduciary.

In the other role, the actuary is functioning in a seller-buyer relationship where it is reasonable to expect that the seller might place the seller's interest above that of the buyer. This dual role almost always involves difficult conflict of interest issues. In some fact situations, the only way to avoid violating Precept 7 will be to avoid the dual role. In others, the role may be manageable provided there is no question about the actuary's ability to act fairly.

The issues that you raised may be of concern to others in the profession. Accordingly, we request your permission for us to publish a version of your letter along with our guidance, wherein your name, title, and address would be deleted from both. If you have questions regarding this request, please contact staff member Tom Griffin or ABCD member Ed Burrows.

FOR THE ACTUARIAL BOARD FOR COUNSELING AND DISCIPLINE

Robert W. Sturgis, Chairperson

Pension Professionalism

Academy President Dan McCarthy at EA meeting

FOR BETTER OR WORSE, PENSIONS ARE BACK IN THE NEWS. With Enron serving as everybody's worst-case scenario, much of the discussion at the 2002 Enrolled Actuaries meeting in Washington March 11-13 revolved around ethics and professionalism.

"I think if Enron has shown us anything, it's that employees all over the country are starting to look at their pension plans," said Karen Friedman, director of policy strategies for the Pension Rights Center. Friedman was part of a panel at the meeting's first general session on whether employees have a right to retirement benefits.

"From the perspective of government, employers, and employees, will there be more design restructuring coming out of Enron? Probably," agreed panel moderator Larry Sher, a member of the Academy's Pension Practice Council.

The issue is larger than Enron, however, said fellow panelist James Delaplane, vice president of retirement policy for the American Benefits Council. Referring to the growing displacement of traditional DB plans by DC and hybrid plans, Delaplane said, "I think we are in the process of changing our work and benefit models in this country. And that's going to cause friction as we make the shift."

About 1,100 pension actuaries attended the March meeting, which was sponsored by the Conference of Consulting Actuaries and the Academy. In his welcoming remarks, Academy President Dan McCarthy reminded attendees that their commitment to professionalism is key to maintaining the high regard in which the profession is held.

By taking their initial and continuing education seriously, McCarthy said, actuaries acknowledge the importance the Joint Board for the Enrollment of Actuaries places on mastering the complex web of law, regulation, and practice in which an enrolled actuary works.

In fact, McCarthy said, "The Joint Board has a very high regard for the professionalism of actuaries. There is an extremely low rate of (ethical) complaints compared to other professional groups that practice before the IRS."

Still, panelists in the first session warned that actuaries and other pension professionals should expect their actions to be closely scrutinized in light of heightened public awareness of pension issues. "The [Pension Rights] Center has seen a virtual employee revolution in this country against unfair pension and retiree health cutbacks," said Friedman. "Tens of thousands of workers, white- and blue-collar, many in management, are together asking, 'Is my retirement money safe?' "

Everyone on the panel agreed that good communication is key to preventing misperceptions and misinformation. Yet, said David Certner, acting director of federal affairs for AARP, "Most of you know that information to employees is not read." Randall Johnson, director of U.S. human resources and legislative affairs for Motorola, agreed: "Our experience is that people don't read summary plan descriptions or other materials until they have a reason to need them."

Part of the problem, Certner said, is the highly technical language used in summary plan descriptions. "It's a tough line employers have to walk to have a document that is technical and legal but also communicates the terms of a plan on a much more understandable basis."

Delaplane suggested that both employer and employee groups "need to work with policy-makers to ensure that the form of disclosure they feel is necessary is understandable to plan participants."

However, Delaplane warned, "We are in a new era now, and the trend to DC plans is part of that. Employees take more responsibility on themselves. We need multiple channels of communication: employer, government, and rights groups."

Actuaries are an important part of that mix, said Friedman. "I encourage the actuaries to join (pension rights advocates)," Friedman said. "I think it would be a great thing to have a conversation between employees and actuaries about these issues."

Pension Rate Relief, *continued from Page1*

calculations, including current liability valuations for funding purposes and liability valuations for determining Pension Benefit Guaranty Corporation (PBGC) variable premiums. With the decline in 30-year Treasury rates over the past few years, contribution requirements for the adequate funding of pension plans became distorted and employers were faced with unexpected liabilities.

The pension provision in the new legislation increases the permissible interest rate used in some pension plan calculations. Specifically, the new law raises the upper end of the permissible interest rate corridor used in pension plan current liability valuations for funding purposes from 105 percent of the four-year weighted average of 30-year Treasury bond rates to 120 percent of the four-year weighted average. The new law is applicable to valuations performed in plan years beginning in 2002 and 2003. The legislation also states that plan sponsors are permitted to use this higher corridor for 2001 liability valuations that determine whether quarterly contributions are due in 2002.

In addition, the new law increases the interest rate plan sponsors must use in liability valuations for the purposes of calculating PBGC variable premiums from 85 percent of the annual yield of 30-year Treasury bonds to 100 percent of the annual yield.

—BRIDGET FLYNN

Keeping a Global Perspective

THE U.S. ACTUARIAL PROFESSION and the Academy were well represented at the 27th International Congress of Actuaries (ICA) meeting March 17-22 in Cancun, Mexico. Nearly 1,200 actuaries from 62 countries attended the scientific congress, which is held every four years. This year's congress was held in conjunction with the meeting of the International Actuarial Association.

Ron Gebhardtsbauer, the Academy's senior pension fellow, participated in the session on pension systems around the world, which focused on Chile, Mexico, Kazakhstan, China, Brazil, the United Kingdom, Sweden, Australia, and the United States.

As part of his presentation, Gebhardtsbauer discussed current proposals to fix the U.S. system, including the creation of individual accounts. Remarking on the degree to which Social Security's actuaries are involved in changes to the program (costing out proposals before Congress passes them, for instance), Gebhardtsbauer compared this with his experience working with Vietnam's social insurance agency where actuaries sometimes don't find out about particular legislation, such as a bill to lower the retirement age, until after it passes.

The Academy's Council on Professionalism also presented a mock ABCD hearing at two ICA sessions. The hearing was designed to acquaint participants with the U.S. process for investigating complaints against actuaries and to highlight issues that practitioners may encounter when working in a foreign jurisdiction.

"I think it was an eye-opener," said session participant Curtis Huntington, chairperson of the Academy's Committee on International Issues. "For many in the audience, this was the first time they were aware of disciplinary hearings. A lot of other countries don't have as formal a counseling and discipline process as we have in the United States."

Also participating in the sessions were Godfrey Perrott, a member of the Academy's Council on Professionalism, and Lauren Bloom, the Academy's general counsel and director of professionalism.

continued from Page 1

quickly on terrorism insurance legislation.

"The insurance industry, I could argue in good conscience, doesn't need the protection — consumers need it," said Anker, adding that another catastrophic event on the order of the Sept. 11 terrorist attacks could force some insurers into bankruptcy. "If the insurance industry goes on its knees or goes out of business, then we will have destroyed homeowner's insurance, auto insurance, and other protections in this country."

Speaking afterwards, Anker expanded on the need for a backup to terrorism insurance: "After all, it's better to avoid a crisis than have to deal with it after the fact — that's why consumers buy insurance in the first place."

More than 40 legislative staffers and policy-makers attended the educational briefing, which was organized by the Academy's Financial Reporting Council as a follow-up to a 2001 Academy briefing on insurance risk.

Patricia Teufel, the Academy's vice president for financial reporting issues, moderated. Anker, retired chairman and CEO of American States Financial Corp. in Indianapolis, gave an overview of the role insurance regulation plays in the insurance industry. Julia Philips, an insurance regulator with Minnesota's Department of Commerce, spoke about state regulation of insurance.

As part of her presentation, Philips discussed current proposed federal legislation that would liberalize the rules for small employers who band together to offer self-insured health insurance to their employees through "association health plans."

"The concept is to solve the problems of health insurance in this country," Philips said, adding that the three biggest problems in health insurance in this country are "cost, cost, and cost."

Unfortunately, Philips said, if association health plans attract employers with healthier-than-average employees, small employers who stay in the regular insured market will face higher costs. Also, employees covered by association health plans are at greater risk for plan insolvency than those covered by insured plans, and they may not have coverage for state-mandated benefits.

Philips also discussed the implications of the Financial Services Modernization Act and the Health Insurance Portability and Accountability Act on state regulation of insurance.

The Actuarial Update

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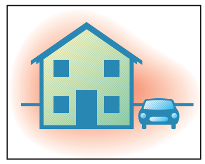
Federal Charters: Mapping the Future

BY JIM RECH AND MAVIS WALTERS

WITH THE PASSAGE of the 1999 Financial Services Modernization Act, the future for insurers, banks, and securities firms has shifted.

A second round of legislative proposals, now surfacing, concerns the federal chartering of insurance companies. Federal charters have the potential to dramatically change the competitive landscape of the insurance industry in this country.



From the perspective of lawmakers, the prime impetus for federal charters is to reduce a myriad of state rules and regulations. An obvious impact of federal chartering would be a change in the insurance industry's barriers to entry. It will be easier for banks and international insurers to enter the U.S. insurance market. Federal regulations could also affect an insurer's market strategy. Quick, comprehensive access to simultaneous markets may encourage innovative product development.

For actuaries, federal regulation and national charters will have a substantial impact on the actuary's role in pricing, regulatory filings and financial statements, and actuarial opinions. Will actuaries be as necessary in the pricing process? Will workload decrease if regulatory requirements are removed? Will there be national rating structures instead of state structures? Casualty actuaries might also have to deal with new solvency requirements and statements of opinion on solvency, such as dynamic financial analysis, cash flow requirements such as asset-liability management, or reinsurance requirements, such as risk securitization in the financial markets.

Current debate on federal charters is focused on four proposals. These proposals originate from the American Bankers Insurance Association, the American Insurance Association (emphasizing property/casualty insurance), the American Council of Life Insurers (emphasizing life, health, and disability insurance), and Sen. Charles Schumer (D-N.Y.) Any of these proposals could affect the role and responsibilities of the casualty actuary.

Since two insurance industry trade associations have advanced proposals, it is clear that these federal charter bills do not arise exclusively from outside interests. Not surprisingly, however, drafts from differing stakeholders suggest different forms of regulation. What is the role of the actuary under these proposals? What should be the role of actuaries under any federal charter legislation?

To have an impact on these important issues, the Academy has set up the Property/Casualty Federal Charters Task Force. The task force has three objectives:

- Coordinating with other Academy task forces and committees on appropriate responses to the proposals
- Communicating the major features of the proposals to casualty actuaries and soliciting their viewpoints on these issues
- Preparing responses that communicate to policymakers the role casualty actuaries should play in the drafting of any federal chartering proposal.

What does the debate mean to you? The Academy plans a proactive role, but to fully represent you, we need your views. The task force will be providing an overview of all the proposals during a May 20 afternoon session at the CAS spring meeting in San Diego. You will have an opportunity there to voice your opinion, so bring your ideas and comments.

For additional information on federal charters or the work of the task force, contact either Greg Vass, the Academy's casualty policy analyst, or Meredith Detweiler, the Academy's financial reporting policy analyst, at 202-223-8196.

Jim Rech and Mavis Walters are both members of the Academy's Property/Casualty Federal Charters Task Force. Rech is also vice chairperson of the Academy's Banking and Financial Services Task Force and a member of its Federal Charters Work Group. Walters is a former Academy president.