The Actuarial Update

VOLUME 19 NUMBER 9 AMERICAN ACADEMY OF ACTUARIES SEPTEMBER 1990

In this issue

Enclosures

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

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- Enrolled Actuaries Meeting Exhibitor Brochure
- 1990 Directory of Enrolled Actuaries Order Form
- Actuarial Standard of Practice Nos. 1, 13, 14, and 15
- Exposure Draft: Revisions to Qualifications Standards

Close-Up on Academy President Mavis Walters

Mavis A. Walters will begin her term as Academy president September 26, when the Academy holds its annual meeting in Washington, D.C. As executive vice president of Insurance Services Office, Inc., Walters is often in the public eye. On this occasion, she speaks candidly to other actuaries about her career experiences, her goals for the Academy and for the profession.

UPDATE: You will be the first woman to serve as Academy president. What does that mean to you?

WALTERS: In all honesty, I haven't thought about it that way. It has been a long, long time since I've thought of my own career in terms of being the first woman to do this or that. It just doesn't enter my mind anymore.

UPDATE: Was there ever a time in your career that being a woman was an issue?

WALTERS: Oh absolutely. And I'll share some of those experiences with you. But going back to your first question about my being the first woman president of the Academy, I guess the reason that I see it as sort of a non-issue is that women have been presidents of other actuarial societies. Ruth Salzmann might have been the first, when she was president of the Casualty Actuarial Society in the 1970s. Barbara Lautzenheiser has been president of the Society of Actuaries. Now Daphne Bartlett is president-elect. So it's not a big deal any more: There are so many really competent women throughout our profession. I don't imagine anyone thinks twice about women actuaries taking leadership roles.

And the reason I don't think it's an issue with actuaries is a very simple one. It's the nature of the exam process. The exams that ultimately give us our credentials are graded on the basis of a number not a name. And in our profession, it is not just one exam that qualifies you, but a series of ten rigorous examinations.

As students pass these exams they are afforded greater opportunity and responsibility. And I think that this provides a marvelous opportunity for women, for minorities, and for anyone who believes that, for some reason, something about their background may cause them to be discriminated against.

I first started taking the exams with others who had graduated from college when I did. Because I passed each of the exams promptly, I was rewarded with greater and greater responsibility at the places where I worked. What more could *anyone* ask for?

UPDATE: Do you remember how and when you decided to pursue an actuarial career? *(continued on page 4)*

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From the President

Mavis A. Walters

The Academy and the actuarial profession achieved an important goal this past June when the National Association of Insurance Commissioners (NAIC) adopted a requirement that the Fire and Casualty Annual Statement Blank be amended to include a statement of opinion on loss and loss-adjustment-expense reserves by a "qualified actuary." In fact, the standard procedures for amending the Annual Statement Blank were suspended in this case, so that the new requirement would be effective with the 1990 Annual Statements.

This unusually decisive action was prompted largely by the pressure that state insurance regulators were experiencing after the public release of "Failed Promises," the report on insurer insolvencies by U.S. Representative John Dingell's Oversight and Investigations Subcommittee. Although Representative Dingell has not yet offered any federal solutions to the problems identified in his report, such recommendations are expected sometime later this year. As a result, the NAIC, which has been developing its own proposals, has moved very quickly to address solvency concerns.

While we are pleased with the requirement for loss reserve opinions by a "qualified actuary," the NAIC did not adopt the definition proposed by the Academy, but instead adopted the following definition:

A qualified actuary is a person who is either: (a) a member in good standing of the Casualty Actuarial Society, or (b) a member in good standing of the American Academy of Actuaries who has been approved as qualified for signing casualty loss reserve opinions by the Casualty Practice Council of the American Academy of Actuaries, or (c) a person who has otherwise demonstrated competency in loss reserve evaluation to the satisfaction of the insurance regulatory official of the domiciliary state. In such case, at least 90 days prior to the filing of its annual statement, the insurer must request approval that the person be deemed qualified, and that request must be approved or denied.

As many Academy members know, a formal "Casualty Practice Council" within the Academy had not yet been formed when this action was taken in June, nor was there authority for such a group to approve members as "qualified" to sign loss reserve opinions. The NAIC was made aware of this fact but, nevertheless, adopted the language as proposed.

In fact, we argued rather strenuously against the definition that was enacted. Originally, we had proposed that the definition for the fire and casualty blank be the same as that used in the life insurance annual statement blank, which defines a qualified actuary as "a member in good standing of the American Academy of Actuaries or a person who has otherwise demonstrated his or her actuarial competence to the satisfaction of the insurance regulatory official of the domiciliary state."

Unfortunately, that approach was rejected by the NAIC's casualty actuarial task force (albeit by a close vote), even before the measure was considered by the NAIC Blanks Committee. The task force proposed the definition that was ultimately adopted, and now the Academy needs to put in place a mechanism to deal with the requirement that will be applicable in all states for annual statements filed early next year. I should emphasize that the Academy did not seek this role of approving actuaries for particular areas of actuarial practice.

The Academy Qualifications Committee has developed recommendations for clarification of the current General and Specific Qualification Standards, which will affect all Academy members. In addition, as president, Joe Brownlee appointed a task force to recommend steps that should be taken to assist Academy members who wish to seek the Academy's approval for signing the fire and casualty blank, as described in specification (b) of the NAIC's definition. The Academy Executive Committee and Board of Directors have reviewed all of these recommendations, and the final procedure was communicated to all Academy members via an August 9 memorandum. Very prompt action may be required of Academy members who want to avail themselves of the new procedure. I urge those

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Letters to the Editor

Radio Roundup Static

The following letters are representative of those that we received concerning the June Update's "*Radio Roundup.*"

I have just read the "Radio Roundup" at the end of the June 1990 issue of *The Actuarial Update*. It is ironic that the Actuarial Standards Board's revised proposed standard on providing for HIV-related claims was also included in this issue. In my opinion, the material presented [in the Roundup] is an unfortunate example of what can happen when one tries unsuccessfully to condense complex and controversial subject matter into a very short piece.

In the first place, this presentation is horribly one-sided. It presents one person's opinions based on his HIV model. It doesn't even mention that there *are* other models, other research, and other opinions about the HIV risk that are far different than that presented. While differing opinions and discussion of them makes for a vital and progressive profession, presenting only one viewpoint in a vacuum is at best misleading. Giving this one-sided viewpoint, the express or implied endorsement of the Academy as part of its "public information campaign" can only hurt the credibility of our profession.

Also, the piece uses portions of Mr. Plumley's article out of context or misquotes it. For insurance, what he really said was that only one tenth of one percent of the "...non-drug using heterosexual population...." would be hit by HIV, not of the entire population as the Radio Roundup script seems to say. As another example, the script states how small HIV-related deaths are compared to those from cancer and heart disease. However, it neglects to say that these latter causes of death are at older ages. In fact, HIV is a major, if not the leading, cause of death among people in their thirties and forties.

Far more importantly, the tone of the actual article is altered. A major point the article appears to make is that our society is not as effective in dealing with HIV as it might be if we had better understanding of the epidemic. On the other hand, the script conveys the impression that a person who is not in a "risk group" (whatever this really means) doesn't have to worry about HIV.

Worst of all, the Radio Roundup release is misleading to the point of irresponsibility. While the number of deaths from heart disease and cancer are indeed far greater than from HIV, the same can be said for accidents, and a number of other causes of death. We emphasize highway safety and have massive campaigns against drunk driving and drugs, yet I've not heard anyone indicate that we've "exaggerated" the risks from these causes of death.

Perhaps the most egregious part of the release is the statement that having multiple sex partners does not significantly increase HIV risk as long as you pick the right "type of sexual partners." This is naive and unrealistic. First, it assumes that you can somehow distinguish a high-risk partner from others. Secondly, it implies that promiscuous behavior doesn't make this much more difficult than it already is. To expect these assumptions to be valid in a social setting, especially among the very young, strains credulity past the breaking point.

While Mr. Plumley's point of view might be criticized in many regards, he has the right to express it. However, the Academy doesn't represent its membership very well by misquoting and misinterpreting his article and making the resulting one-sided news release part of our public position. As part of the Academy's public information campaign, this provides a dismal example of how not to conduct one.

Harvey S. Galloway, Jr.
Columbus, Ohio

I found your "Radio Roundup" message regarding AIDS, which was sent to 3000 radio stations, to be irresponsible at best.

I agree with Peter Plumley that for most of us, there is no need to be "phobic" about AIDS. While one can argue that we probably need to redirect some of the research monies to education, there is a very large and vocal gay community in the country that feels that not nearly enough is being done for AIDS research.

My objection to this radio announcement is that many in the public may get the idea that the actuarial profession thinks we don't need to worry about

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CLOSE-UP ON ACADEMY PRESIDENT MAVIS WALTERS
(continued from page 1)

WALTERS: I stumbled into it. Interestingly enough, over the years, in talking with colleagues who are roughly my age, it seems that most of us got into the actuarial profession the same way. We just fell into it. I was a math major in college, and I just assumed that I would teach because that's what women who went to college in the '60s did.

When I was at school at Fordham University, someone came and spoke to our math club about careers in math. The speaker told us that the organization he worked for in New York, the National Bureau of Casualty Underwriters, had a summer training program for math majors. He made it sound very interesting, and I remember thinking, "that sounds like something I might like to try."

I interviewed at the Bureau and afterwards I was encouraged to write a letter, telling them some more things about myself and asking for a summer job. For some reason at the very end of my letter I wrote, "I hope the fact that I am a woman will not result in discrimination against me." I later found out that the people there just laughed when they read that part and passed my letter all around the actuarial department.

Frankly, this was before the women's movement had gotten moving. Thinking about my letter now, I realize that, if those folks I had interviewed with hadn't each had a pretty good sense of humor, my note could have been a turnoff to them. But they did offer me a job, and I worked there for two summers.

UPDATE: What about your summer experience attracted you to actuarial work?

WALTERS: Frankly, it wasn't the work itself, which was mostly clerical at that time. What really impressed me were the people that I dealt with and what I observed going on in the organization. For example, I saw the level of responsibility that was given to relatively young people. I thought that was very attractive.

UPDATE: What did you do upon graduation from college? Did you start looking for a job right away?

WALTERS: Actually, the head of the math department at an all-girls school where I had done some student teaching did call me up right after graduation and offer me a job. I was very flattered, but by that time I had already accepted a full-time job with the National Bureau.

The National Bureau was a predecessor organization of the Insurance Services Office, the firm I work for now. It evolved into the Insurance Rating Board and then, in 1971, into the ISO. The ISO is really the result of several consolidations.

I think the Bureau started me off at about $6,000 a year. What was interesting and flattering too, was that they wanted me to know that I had been hired at "boys' rates"—this was supposed to demonstrate how much they wanted me to work for them. It seems unfortunate now, but in those days everyone expected that women would be treated differently to some extent.

UPDATE: What kinds of things did you do at the National Bureau of Casualty Underwriters and the Insurance Rating Board?

WALTERS: I prepared rate filings and that kinkd of technical work, particularly for auto insurance. When I got my Associateship in the Casualty Actuarial Society in November 1966, I began to take on additional outside responsibilities. I began to go to state hearings with Dan McNamara, who was the primary witness when the Insurance Rating Board (IRB) made rate filings. He had made quite a reputation for himself because he was very, very good at testifying. He was both an actuary and a lawyer. I learned a lot working with him. I was the young actuary accompanying him to hearings, the bag-carrier so to speak.

After about a year or two of going to hearings and observing Dan testify, he called me into his office and asked me to do an upcoming hearing in Frankfort, Kentucky on private passenger rates. And then, as now, private passenger auto rates were a hot political issue. Dan said that he'd like me to represent the IRB as lead witness for this filing—he thought that I could handle it.

I was very nervous about doing it. "Look," he said to me, "I think you're ready. I've worked with you, you know what you're doing, you do it very well." And he gave me one piece of advice that I'll never forget. It helps me, even today, when I go into some situations where I need a little self-confidence. He said, "Remember, you know more about that filing than anybody else in that entire room. You can probably answer any question they ask. And if you can't, just say 'I don't know.' I'll find out for you and submit it for the record."

I knew that the rate filing meant a lot of money to the insurance industry and that Dan would get criticized by our board members if I blundered. In those days, in the mid-1960s, I could imagine somebody saying to him, "What's the matter with you, Dan, sending a girl to do that?" I prepared very rigorously for that first hearing.

I remember getting down off the witness stand after about two and a half hours of cross examination and saying to myself, "This isn't any fun." The next morning, the front page of the Louisville morning paper carried a story: "Mini-Skirted Actuary Says Increase Justified: Facts and a Figure Back Car Insurers' Rate Case." I couldn't believe it! Part of me thought it was hysterical.

If that happened today, I would be insulted; anybody would be. But twenty years ago it seemed funny. My skirt wasn't even that short—it was only two or three inches above the knee. By New York standards, it was very modest.

When I got back to New York, I thought I had better show Dan McNamara copies of the newspaper stories myself, before he got them from someone else. I knew that the articles had all reported that I had known what I was talking about, but they also had focused on the fact that I was a woman, and I wasn't sure what Dan would think about them. Well, Dan thought they were funny too.

These are wonderful memories. The whole period was exciting and a lot of fun. I have been very fortunate because I have had a lot of different jobs and have never had one that I didn't find exciting and interesting. At the same time, I can't say that I am someone who has planned my future. I have just been very fortunate; I have been given good opportunities.

UPDATE: What other opportunities have come your way?

WALTERS: Well, when the Insurance Rating Board became the ISO in 1971, I was still involved giving testimony at public hearings around the country in conjunction with ISO's rate filings in various states.

Then in 1972 I was given the opportunity of a lifetime. President Nixon had announced wage and price controls in August of 1971 because inflation had been running at an astronomical rate of 4%–5% a year. Nixon initiated emergency legislation called the Economic Stabilization Act, a national program that superseded all other state and federal wage-price regulation.

The Economic Stabilization Act had an insurance piece to it, and the administration was looking for someone who could head-up the insurance operation. Bob Hunter, whom I had worked with at the National Bureau and studied for exams with, recommended me. He was already working in Washington, D.C. at the Federal Insurance Administration and advising the newly formed Price Commission.

I told myself, "I can't afford to say no to such an opportunity. I've got to get up the courage and just go, find myself a place to live, and make new friends. I've just got to do it." So I did. In January 1972, I left New York, my family, friends, and an apartment I loved to take a consulting position with the Price Commission in Washington, D.C.

UPDATE: What responsibilities did you have at the Price Commission?

WALTERS: I was responsible for reviewing rate increases for all lines of insurance in the United States except life insurance and aviation insurance. I was dealing with insurance rates, but the agency looked at prices in every sector of the American economy. And the commission had rules and regulations for how every single sector in the economy could raise their prices only in compliance with these regulations.

The consulting job lasted for about three years. I eventually became a division director at the Cost of Living Council, the agency that grew out of the Price Commission. In 1974 the Economic Stabilization Act finally expired.

UPDATE: What did you decide to do when the Economic Stabilization Act ended and the Price Commission became defunct?

WALTERS: When the commission dissolved, I had lots of opportunities to interview with other organizations. I knew that I didn't want to work in government, however. Working at the commission and Cost of Living Council had been fine because as emergency agencies they were not bureaucratic. However, by this time I really didn't want to leave Washington. I had gotten "Potomac fever." My feeling was "This is a great town. I'm staying in Washington." So, I looked around for opportunities and went to work for an investment house in Washington.

I hadn't been with the firm very long when I came home from work one night and there was a phone call for me from the White House. I thought a friend of mine was playing a joke. As it turned out, it was someone I had known at the Cost of Living Council who had become director of the presidential personnel office. He was calling to ask me to apply for the job of federal insurance administrator. "George Bernstein is leaving," he said, "would you be interested?" Of course I said "Yes, I'd be very interested." Because the job was ultimately a presidential appointment, I had to garner political support and interview with various officials.

Even though I got an awful lot of support from industry people and others, the interviewing and review process went on for a good seven months, and the appointment seemed to be at a stalemate. Finally, I had to take my name out of contention. I decided it just wasn't fair to the firm that I was working for—they were paying my salary and I hadn't been able to go out and do anything for them because I was waiting to see if I would get the appointment. I worked for the firm for about a year before ISO offered me the job of starting up a Washington office.

UPDATE: Does heading up the Washington office for ISO keep you involved with government to some extent?

WALTERS: Yes, it does. Since the ISO is not a trade association, we do not lobby. There are so many insurance issues that confront the Congress and the various federal agencies that they need a place to go for information—and the Washington office for ISO provides them statistics, data, and technical knowledge of insurance, as well as information about what companies do with the data.

Also, the Washington office keeps the home office in New York apprised of what's going on within government agencies and on Capitol Hill that may affect the ISO's products and services to its insurer clients.

Just last year, I was given greater corporate responsibilities at ISO, which means that now I split my time between Washington and New York.

UPDATE: Do you get frustrated sometimes in giving the same old tutorial on insurance principles such as risk classification and experience rating?

WALTERS: In dealing with people in government agencies with no insurance background, you do learn a lot about how to communicate without using insurance jargon.

I don't get frustrated at all with trying to explain to people how insurance rating principles work. I get frustrated at the lack of interest in the subject. In other words, so much of what goes on in this town is pure politics, and it's very hard for someone from any discipline—actuarial or otherwise—to observe the political process and to realize that people don't always care about doing what is most logical, what makes the most sense. Purposely slack thinking often seems to rule the day in forging policy.

On the other hand, I have spent many hours in many different forums with people who *are* interested in the answers. Then I'm willing to spend as much time with them as they'll give me.

UPDATE: What do you consider the critical legislative and regulatory issues at this point?

WALTERS: For the insurance industry and the organization I work for, I would say that the most critical issue is McCarran-Ferguson. The House Judiciary Committee recently passed a bill to repeal the McCarran-Ferguson Act. The bill may go to a floor vote this year. I think that's unfortunate because this bill will do nothing to help consumers at all.

UPDATE: What legislative and regulatory issues do you expect the Academy to focus on in the coming year?

WALTERS: I think that some of the major issues that the Academy will be looking at from its Washington, D.C. perspective include whatever recommendations flow from Representative John Dingell's report on insurer solvency. [See Walters's editorial in May's *Actuarial Update.*] We will want to watch what comes out of the report's findings, as it will afford a good oppor-

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tunity to push for federal recognition of "qualified actuaries," defined as members of the Academy.

We also need to be following closely and carefully the activity related to medical-care costs in the United States. Issues such as national health insurance and Medigap are being discussed following recent studies showing that many more Americans are without medical insurance than was previously thought. These public concerns are not going to go away. What's also of increasing public importance is the financial soundness of Social Security. One question is: What can the private sector do to provide secure retirement income?

One of the fortunate things about being involved with the Academy is that you get to look at the big picture.

UPDATE: You have expressed the belief that, in order for us to achieve wide recognition as a profession, "we all need to recognize and appreciate those things that we have in common with our actuarial colleagues . . . and not focus narrowly on whatever differences may exist." Do you see yourself as a builder of bridges among the actuarial organizations? How will you help build those bridges as Academy president?

WALTERS: I wish I could say that I had a concrete plan for how to build those bridges; I don't yet. But if I have goals in mind, they are very much in that direction.

If I could leave any little imprint on the Academy over the next year it would be what I call the ecumenical spirit. I would like to have actuaries of all persuasions come to a greater appreciation of the contributions made by fellow actuaries, regardless of what area they practice in. I would like to find ways to tear down walls and build bridges, so that we will no longer be suspicious of each other and concerned about territorial rights, but come to recognize that we all have contributions to make and that, if we spend our energies and efforts toward those positive goods, we won't have to worry about turf. But hand in glove with that, we must insist on a very, very strong sense of professionalism.

UPDATE: How would you define professionalism?

WALTERS: We should practice only in areas where we are fully qualified. We need to make certain that we all live by that guide. On top of that, there may be instances where some of us—and I throw myself into the same category—who either because we are pressed for time, feeling lazy, or whatever, may not always be putting our best effort into our work and doing the best job that we possibly can. But we can't afford to be careless or lazy—not if we are really going to insist that the rest of the world, the other professions, government, and our colleagues throughout the United States look upon us as a profession.

UPDATE: Other than a sense of professionalism, what practical measures might further the ecumenical spirit among the actuarial organizations and actuaries?

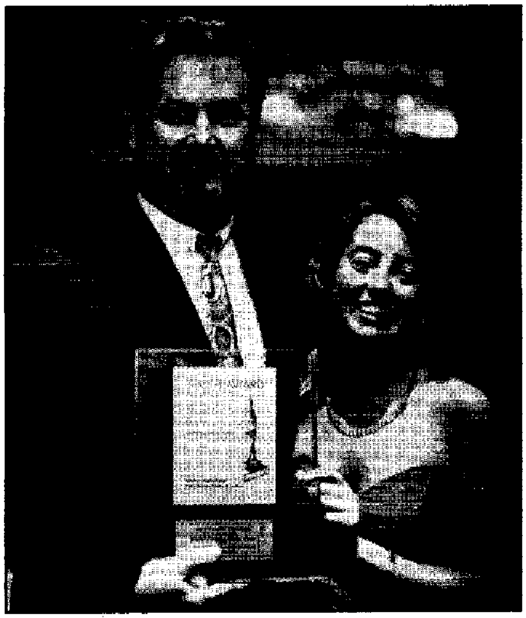
WALTERS: I hope that having the presidents and presidents-elect of the other U.S. actuarial organizations as part of the governing body of the Academy will foster the ecumenical spirit that I spoke of. If we can get everybody buying into the same goals, we will be able to go further toward achieving them. All of the organizations are part of the Academy; there is no diminution of importance, or value of the other actuarial organizations or societies, if the Academy is strong.

Historically the organizations have failed to fully understand one another's goals and responsibilities. Those of us who have been presidents elect for the various organizations over the past year have been part of a Joint Working Agreement Task Force that should help all of us to achieve a better understanding of one another's responsibilities as well as help to forge a better working relationship among all the organizations.

Also, I think that Jim Murphy, as executive vice president, has done a marvelous job, in terms of increasing the visibility of the Academy among all the organizations. I know, because we talked about it last year, that he has particularly worked on cementing relationships with the Casualty Actuarial Society. Since his background was with the Society of Actuaries, he didn't have to work at the latter so much. He's well known to them, they appreciate and respect him. I think that he has personally done a lot to help foster better working relationships with the other organizations.

Mike Fusco and Alan Affleck, presidents of the Casualty Actuarial Society and the Society of Actuaries, both deserve a lot of credit too, because they have instituted some meetings to foster better working relationships between their two organizations.

I think that it is all going to work out quite well. The profession seems to be moving in the right direction; I just want to help keep it going. Δ



Academy Director of Public Relations Erich Parker and Edelman Public Relations Account Supervisor Elizabeth Kelley received the Thoth Award at a dinner and reception in Washington, D.C., on June 13. The Washington chapter of the Public Relations Society of America presented the award in recognition of the actuarial profession's 1989 Forecast 2000 *campaign.* Forecast 2000 *was chosen as the best public relations effort in the category of institutional programs, which included the programs of government institutions, nonprofit organizations, and professional and trade associations.*

Actuaries Assess Environmental Risks

One of the objectives of the *Forecast 2000* program for 1990 is to draw attention to nontraditional areas of actuarial expertise—such as environmental risk assessment or investments and asset management—in which actuaries will play a key role as the profession enters the next century.

How actuaries can help companies assess environmental risks while protecting the bottom line was the focus of a media tour targeting New York, New Jersey, and Pittsburgh in late June. Jim Murphy, executive vice president of the Academy, served as spokesperson for the tour.

"Actuaries are focusing on environmental area," was the headline in the *Newark Sunday Star-Ledger* (July 8, 1990) following Murphy's interview with a business reporter at the newspaper. The article went on to describe actuaries' broad scope of work, including how the profession can help companies to save money. The article mentioned each of the six actuarial organizations in North America and described the *Forecast 2000* program.

Pittsburgh's CBS affiliate, KDKA-TV, featured Murphy on its "Financial Section" talk show, which aired twice. During the five-minute interview, Murphy explained the importance of bringing actuaries into all aspects of business decision-making, and told viewers how they could find an actuary in their markets.

The *Pittsburgh Press* conducted a one-hour interview with Murphy that resulted in a lengthy story in that paper the following day. The article discussed the financial impact that a major earthquake would have on the economy.

One of the primary goals of *Forecast 2000* is to develop relationships with reporters so that they seek out actuaries as sources. After one insurance writer for the *Journal of Commerce* discussed environmental risks with Murphy, she told him that he would be on her "short list of people to contact for commentary on related issues."

McGraw-Hill's *Waste Management* also met with Murphy and plans to call on him for quotes on issues related to environmental assessment. Another McGraw-Hill publication, *Plastics Today*, plans an upcoming story based on an interview with Murphy.

A one-hour call-in radio program on WTAE/WHTX-FM (Pittsburgh), featured Murphy as a guest. The host defined actuaries and provided listeners with a description of the *Forecast 2000* program. Murphy also participated in a live interview on KQV-AM (Pittsburgh). During the broadcast, Murphy outlined ways in which companies can save money while protecting the environment by retaining an actuary.

Environmental risk was the second of five issues the profession is focusing on during the *Forecast 2000* program for 1990. The "graying of the population" was the focus of a Canadian media tour on July 31 and August 1 in Montreal and Toronto. Canadian Institute of Actuaries President Robert Brown and Jacques Cloutier, a past president, served as spokespersons. A short report on the stories and broadcasts resulting from their media tour will appear in the next *Update*.

The goal for *Forecast 2000* at the outset of this year was to reach 100 million readers, viewers, and listeners by the end of 1990. To date, 92 million people have received information about actuaries and their work through the *Forecast 2000* program. Δ

Pension Committee Assists Member of Congress

In July of this year Representative Peter Visclosky (D-Ind.) asked the Academy's Committee on Pensions to assist his staff in developing a proposal for modifying the full-funding limitation enacted as part of the Omnibus Budget Reconciliation Act of 1987 (OBRA 87).

Before the 1987 law, the full-funding limit was defined as the excess of the accrued liability (including normal cost) over the fair market value of the assets. The 1987 law introduced a second limitation by prohibiting deductions for pension contributions if the contributions would cause the assets of the plan to exceed 150% of current liabilities. The current liability is the present value of the accrued benefits using an interest assumption that is within a permitted range defined by OBRA 87 and Internal Revenue Service regulations. There is no consideration of future salary increases or future service, nor does the current liability vary for different actuarial methods.

Visclosky was concerned that the 1987 limitation was too restrictive for salary-related defined benefit plans covering young work forces. He was concerned that as covered workers aged in these plans, the plans might become underfunded if some account could not be taken now of future salary growth. The pension committee agreed with Representative Visclosky's concerns.

As noted in a September 1989 study by Hay/Huggins:

- In the first year of the OBRA 87 limitation's operation (1988), 30% of defined benefit plans in the sample group were expected to experience a decrease in the maximum deductible contribution.

- The new limit was expected to have a much greater impact on pay-related plans than on flat dollar plans because future pay increases could not be taken into consideration.

- Contribution levels were estimated to be limited for 56% of the plans with younger participant populations, compared to 8% of plans with a large proportion of retirees.

(The Hay/Huggins study titled, "OBRA 1987: The Impact of Limiting Contributions to Defined Benefit Plans," was reported on in the December 1989 *Actuarial Update*.)

The pension committee, in conjunction with congressional staff and representatives from Hay/Huggins, considered a limited number of proposals that would not generate large revenue losses. Employee Benefit Research Institute staff provided the initial revenue loss estimates.

On August 3, Representative Visclosky introduced H.R. 5542. The bill would replace the OBRA 87 full-fund-

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PENSION COMMITTEE ASSISTS MEMBER OF CONGRESS
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ing limit with a new limit equal to the greater of 150% of current liability or 90% of projected current liability. Projected current liabilitiy is based on current liability with the liabilities for active employees increased to allow for salary growth. The salary growth assumption is further limited to be no more than the current liability interest rate less three percentage points.

In commenting on the Visclosky bill, Pension Committee Chairperson John Thompson said, "H.R. 5542 does not go as far as is needed to assure that all plans are systematically funded on a sound basis. However, the proposal will begin to correct one of the most disturbing findings of the 1989 Hay/Huggins study: By 1992 the limits on maximum contributions were estimated to be below the minimum contributions needed to meet ERISA funding objectives for at least one out of every four plans."

In addition to proposing a change in the full-funding limitation, the Visclosky bill would increase the excise tax on pension asset reversions from the current 15% to 30%, effective after the date of the bill's enactment. Visclosky has stressed that this feature of the bill is not meant to be confiscatory. Rather, it is designed to recapture the tax advantage accruing to the employer on the tax deferral on pension fund earnings. The General Accounting Office has proposed that the excise tax on asset reversions be increased to 39%.

H.R. 5542 has been referred to the House Committee on Education and Labor and the House Committee on Ways and Means. ∆

Standards Outlook

by Christine Nickerson

The Actuarial Standards Board (ASB) held its third-quarter meeting July 12–13 in St. Louis. The following report highlights the standards projects reviewed at the meeting.

Setting Assumptions for Measuring Pension Obligations

Richard Roeder, chair of the Pension Committee of the ASB, described progress to date on the assumptions project. The committee is not yet in agreement as to what direction to take with regard to establishing guidelines for setting assumptions. The key issue is whether to focus on traditional methods or to present alternative methods as guidance in the proposed standard.

Benefits Upon Involuntary Termination of an Employee Group

The comment deadline for this standard was June 1. The Pension Committee is reviewing comment letters. The concern most frequently expressed in comment letters is the proposed requirement for numeric demonstrations.

Long-Term Care Insurance

Bartley Munson, chair of the Task Force on Long-Term Care, presented a proposed standard on long-term care insurance. The ASB reviewed the document and determined that certain items needed further thought and clarification before it could be released as an exposure draft. The task force will rework the proposal and bring it to the October ASB meeting.

Actuarial Practice Concerning HMOs and Other Managed-Care Health Plans

Larry Gorski, chair of the Health Committee of the ASB, and David Ogden, committee member, presented the proposed final version of a standard on HMOs and managed-care health plans. The ASB suggested some changes to the proposal and voted to adopt it as a standard. The new standard will be distributed with the October *Actuarial Update*.

When To Do Cash Flow Testing for Life and Health Insurance Companies

Harold Ingraham, chair of the Life Committee, described the Life Committee's work on this proposed standard, which has generated some controversy among life actuaries. The committee made a number of changes to the proposal as a result of comments received on the exposure draft. The ASB reviewed the proposed final standard, suggested changes to clarify various provisions, and voted to adopt it as a standard of practice. The new standard is enclosed with this copy of *The Update*.

Reformatted and Revised Life Insurance Standards

Ingraham also presented three reformatted life standards to the ASB. The old *Financial Reporting Recommendation 2: Relations with the Auditor* was expanded to make it clear that it applies to audits of Blue Cross/Blue Shield organizations and HMOs by CPA firms and state insurance departments. The old recommendation was also reformatted to conform with the uniform format for standards of practice adopted by the ASB in 1989. Given the substantive nature of the revisions, the Life Committee recommended that it be exposed to members for comment. The committee also recommended that *Financial Reporting Recommendation 3: Actuarial Report and Statement of Actuarial Opinion for Stock Life Insurance Company Financial Statements Prepared in Accordance with GAAP* be eliminated. The board accepted both

Instructions for Updating Your Standards Handbook

As described in the Standards Outlook column, four standards of practice are enclosed with this copy of *The Actuarial Update*. Two of these standards supersede existing standards. The enclosed copy of *Actuarial Standard of Practice No. 1* replaces the copy contained in the standards handbook. The old version of the standard should be removed from the handbook and replaced with the new version. Also, *Actuarial Standard of Practice No. 15* replaces *Recommendations Concerning Actuarial Principles and Practices in Connection with Dividend Determination and Illustration for Participating Individual Life Insurance Policies and Annuity Contracts*, as currently contained in the appendix of the standards handbook. The old recommendation should be removed from the handbook and replaced with the *Actuarial Standard of Practice No. 15*.

these recommendations and suggested that Recommendation 2 also be expanded to include property/casualty insurance.

The committee presented a reformatted version of *Actuarial Standard of Practice No. 1: The Redetermination (or Determination) of Non-Guaranteed Charges and/or Benefits for Life Insurance and Annuity Contracts.* The reformatted version of the standard does not contain substantive changes, and the committee recommended that it be released in its reformatted version without exposure. The ASB voted to adopt the reformatted version of the standard of practice, which is enclosed with this copy of *The Update.*

Actuarial Principles and Practices in Connection with Dividend Determination and Illustration for Participating Individual Life Insurance Policies and Annuity Contracts has also been reformatted. The reformatted version is titled *Actuarial Standard of Practice No. 15: Dividend Determination and Illustration for Participating Individual Life Insurance Policies and Annuity Contracts.* The ASB voted to adopt the reformatted version; it is enclosed with this copy of *The Update.*

Trending Procedures in Property/Casualty Insurance Ratemaking

Michael Miller, chair of the Casualty Committee of the ASB, presented the proposed final version of a standard on property/casualty trending procedures. The board reviewed the proposal, suggested changes for purposes of clarification, and voted to adopt it as a standard of practice. The new standard is enclosed with this copy of *The Update.*

Cash Flow Testing for Insurers

This proposal was originally presented to the board as a standard dealing only with property/casualty insurance. The board asked that a special task force be formed to expand the proposal to include life and health insurance. The expanded proposed standard was reviewed by the board and changes were suggested to bring the document into conformity with existing life standards. The ASB voted to release the proposal as an exposure draft. It will be mailed to members with the October *Update.* If adopted, the proposed standard would replace *Actuarial Standard of Practice No. 7, Concerning Cash Flow Testing for Life and Health Insurance Companies.*∆

Where Does the Actuarial Standards Board Fit In?

by W. Keith Sloan

In the recent months, there have been communications to *The Update* and to the committees working with the Actuarial Standards Board (ASB) on the development of standards of practice, the writers of which oppose the implied restriction of fixed standards. The June 1990 edition of *Michigan Today* included as its lead article an interesting interview with Professor Andrzej S. Nowak, a leading expert on the subject of safety analysis of bridges and buildings. According to Nowak, four types of errors can lead to the collapse of structures of any kind, not just bridges. It takes only a little translation to apply Nowak's four types of errors to the world of the actuary.

The first is the error of concept. It occurs when the designer has the wrong model in mind.

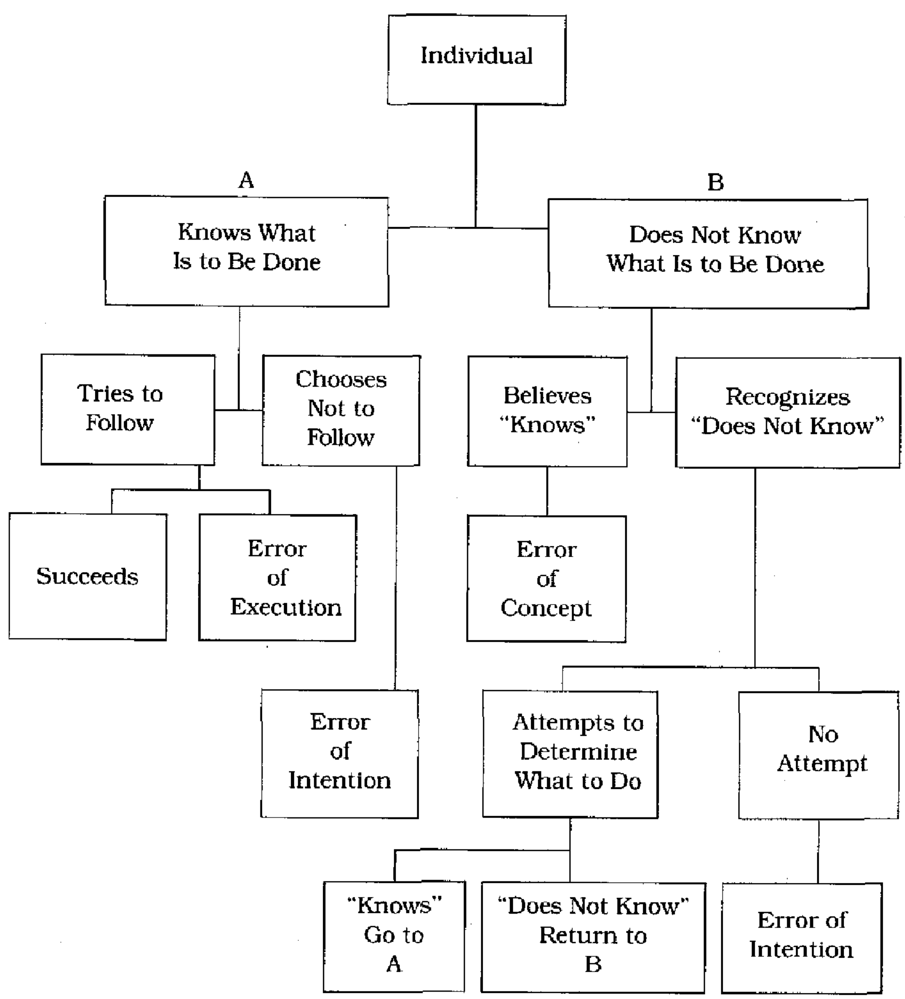
Next, the error of execution, in which the design is correct, but it is not executed correctly. His example suggests that so simple an error as copying a wrong number is included in this class.

Third is the error of intention. "The builder [client] knows something is wrong but does it anyway."

Fourth is the error of use. This happens when the final product is used in a way not designed for.

The interview with Nowak included a flow chart, which perhaps makes the relationship to the actuary's world clearer.

Alternative Paths with Regard to Acceptable Practice



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Revised General Qualification Standard In Effect Before Exposure

The Qualification Standards of the American Academy of Actuaries were revised in June 1989, with the adoption of a General Qualification Standard for Public Statements of Actuarial Opinion. Those changes required that for *all* public statements of actuarial opinion (those called for in law, regulation, or by standards of practice issued by the Actuarial Standards Board), a member of the Academy must satisfy basic education, experience, and continuing education requirements. In addition, the three previously existing Qualification Standards for signing annual statement opinions for the National Association of Insurance Commissioners (NAIC) blanks were retitled "Specific Qualification Standards."

Over the past year, the Qualifications Committee has considered comments received from members and other interested parties and determined that clarification in the "alternative education provision" is necessary.

Also, this past June, the NAIC adopted changes to its instructions related to the Fire and Casualty Annual Statement, calling for an *actuarial opinion* on loss reserves, for *all states* beginning with the 1990 statement. The NAIC instructions include a provision indicating that members of the Academy whose qualifications were approved by the Academy's Casualty Practice Council would be permitted to sign loss reserve opinions. All members should have received a memorandum from President Harold J. Brownlee communicating the options for qualifying under the new NAIC instructions. The Academy's Executive Committee, exercising its authority to act between meetings of the Academy Board of Directors, decided to adopt the changes that had been prepared by the Committee on Qualifications *on a temporary basis* before the issuance of the "Revisions to Qualifications Standards" exposure draft, in order to provide members with optimal guidance. A copy of the exposure draft is included in this mailing of *The Actuarial Update*.

LETTERS TO THE EDITOR
(continued from page 3)

AIDS. For a group usually regarded as pretty conservative, this is an incredible position!

The statement that "it is not true that having multiple sexual partners significantly increases the chance of getting AIDS" seems especially unbelievable. The more individuals one has sex with, the more likely one will accidentally hit a partner who is in one of the high-risk groups.

While most of us won't worry too much about getting AIDS personally, I would argue that we should worry about the spread of AIDS, particularly in the IV drug-using population. The reasons are simple:

- The IV drug user population is one that is easy to join. My children and grandchildren are exposed to this risk, and with it the risk of AIDS.

- AIDS is a very expensive disease to treat. We have a medical-care delivery system with skyrocketing costs, and AIDS is adding significantly to this problem. The cost of treating AIDS is putting a severe strain on public hospitals, which must bear much of this cost, and the local taxpayers in affected areas are bearing much of this cost. While AIDS may only result in 4% of the deaths, it is likely to result in a far higher percent of the nation's medical expenditures, which must ultimately be borne by all of us.

- AIDS babies (as well as those born to mothers who are IV drug users) present a nightmare to society. On the one hand, we want to do all we can to ensure that these children survive, but on the other hand costs are astronomical, the survival rate low, and survivors are sometimes left badly impaired.

Anyone who thinks we don't need to worry so much about AIDS should spend a few days in the pediatric intensive care unit of a large, metropolitan county hospital. The reality of the situation is hard to escape here.

Lastly, your radio news release was published in *The Actuarial Update* at the same time the Actuarial Standards Board released a revised exposure draft of the standard of practice related to providing for the cost of AIDS. These two publications give (or appear to give) greatly conflicting messages regarding the importance of AIDS.

My vote is with the ASB, but the Academy needs to "get its act together."

Henry K. Knowlton
Atlanta, Georgia

I am writing to express my disappointment and displeasure with the "Radio Roundup" featured on the back page of the June 1990 *Actuarial Update*. The title was, "AIDS Risk Exaggerated." At the bottom of the page it stated, "This radio news-script was released to over 3,000 radio stations nationwide in March, as part of the Academy's ongoing public information campaign."

Peter Plumley wrote the paper on which the radio news-script was based. In doing so, he furthered the efforts at attempting to model the AIDS epidemic, and is to be commended for this. However, his is one of many such efforts and in many ways does not reflect the "mainstream" of thought on these issues. The *Contingencies* article on the Plumley paper was informative to actuaries and presented findings to people who ought to be able to make reasoned judgments on the accuracy and validity of his claims. However, to present a radio spot on these same views to the general public is unfair to the actuarial profession, dangerous, and potentially harmful. I cite the following reasons:

1. Other actuarial studies have been written, including the July 1989 reports of the Committee on HIV Research and the Task Force on the Financial Implications of AIDS. These reports were developed through the combined efforts of many actuaries and received the review and scrutiny of several others, including the board of Governors of the Society of Actuaries. Despite these reports' broad-based support, the Plumley paper was given much more attention.

2. This same publication contains an article on the proposed standard for estimating and reserving for HIV-related claims, and also contains a second draft of that standard. I believe that the undue prominence given to the Plumley article undermines those efforts, downplaying the effects of the HIV epidemic.

3. The wording of the news-script implies that the Plumley report represents the views of the actuarial profession. This is not actually stated in the script, but implied by the opening sentences. (A radio broadcast is not conducive to careful attention, so the chance of conveying this impression is increased.)

4. I am particularly concerned about the potential harm that could be caused the public because of the views expressed by Mr. Plumley. A radio message can clearly be taken out of context and only "half heard." One sentence reads, "Plumley says that it is not true that having multiple sex partners significantly increases the risk of contracting AIDS." Plumley *may* be right regarding heterosexual contact, but only time will tell. If he is wrong, or if people interpreted these comments more broadly, many additional people could needlessly be infected.

5. Plumley is also quoted as saying that only 0.1% of the population will be struck by AIDS and that AIDS will account for only 4% of total deaths in the United States, while 46% of all deaths are heart disease related and 24% are cancer related. This misses the point that AIDS strikes people at relatively younger ages and that AIDS is expected to become the leading cause of death for males, aged 25 to 44 years by the year 1995, according to the aforementioned report of the Task Force on the Financial Implication of AIDS.

6. Plumley's paper is based on a micromodel. This type of model, though it gives much more ability to test different parameters, was rejected by the Committee on HIV Research because it is so "assumption bound." So many unverifiable assumptions have to be used that the results become questionable. Given the wide range of models currently in existence, it is dangerous to give overreliance to any model. Instead, one should be aware of the range of possibilities and act with due caution. To draw concrete conclusions that the heterosexual transmission is not a high risk could prove to be dangerous advice for people. Only time will tell what the actual course of the epidemic will be.

I believe the Academy needs to use much better care in its publicity of actuarial work and the expression of actuarial opinions or expressions that closely resemble actuarial opinions.

David J. Christianson
Minneapolis, Minnesota

The editor responds: The juxtaposition of the Radio Roundup, "AIDS Risk Exaggerated," and the article "Estimating and Reserving for HIV-Related Claims: Proposed Standard Revisited," in the June Update *was inadvertent. From time to time,* The Update *publishes select Radio Roundups to keep members informed of the Academy's ongoing public relations work. More recently, articles of broad public interest appearing in Contingencies have been the subjects of Radio Roundups.*

In an effort to tailor the thesis of Peter Plumley's article ("AIDS: Is the Prognosis for the Future Really So Dire?" Contingencies, *January/February 1990) to the specialized needs of radio, some of Plumley's ideas were oversimplified. Unfortunately, one important phrase was omitted, which resulted in an error of fact. Plumley wrote, ". . . even at its height it [AIDS] will strike only about one-tenth of one percent of the* ***non-drug-using heterosexual*** *population, most of whom will have acquired the disease from sexual activity with IV drug users or bisexual men." The Radio Roundup's omission (boldface above) is regrettable.*

The Radio Roundup was written to summarize, for radio broadcast, the research of one member of the actuarial profession. The Radio Roundup did not imply that Plumley's findings were representative of the profession. However, I agree that when reporting on a complicated and highly controversial issue such as AIDS, we should redouble our efforts to ensure that statements of opinion are characterized as such.

Who's in the Ring with Prop 103?

At a recent Los Angeles Actuarial Club meeting, a question was asked from the floor regarding actuarial presence (or the lack thereof) with respect to California's Proposition 103. From the speaker's response, it seemed that the Academy has not focused on this issue.

To give us an idea of the way the subject is being addressed publicly, I just heard someone representing a large auto insurer on the radio news. The speaker criticized Roxani Gillespie's latest attempt to impose Proposition 103 rollbacks on a few selected companies. He said that the plan she proposed was unworkable, and added that the only solution to the problem of high premiums is a no-fault law.

Since I am not a casualty actuary, I am not prepared to quantify the relative effect of no-fault. However, I do take strong exception to the assertion that no-fault is the *only* solution.

Why don't people ever talk about other reasons for high auto insurance rates? For example, I think that the high crime rate, the cost of auto repairs, highway congestion, and the use of seatbelts are some of the items that deserve a larger share of the debate over insurance premiums. How would a change in all these factors affect automobile insurance rates? Are all of them of less significance than litigation costs?

Where are the casualty actuaries? Who is going to speak up and educate the public about the forces that determine insurance premiums? I would like to see a lot more discussion on the subject. As a profession, we owe it to the public to let them know how our advice can be useful to them.

Carol A. Marler
Ontario, California

The editor responds: Casualty actuaries have been very involved in Prop 103, with thirteen casualty actuaries testifying on automobile-insurance ratemaking at the Prop 103 hearings in California.

For example, Irene Bass of William M. Mercer, Inc. gave testimony critiquing the state insurance department's proposed retrospective approach and stated why this approach was contrary to generally accepted actuarial principles.

Steven Weinstein, a partner in the law firm of Barger & Wolen, chronicled the proceedings with emphasis on actuarial contributions to the testimony. (See Actuarial Review, *May 1990). According to Weinstein, casualty actuaries have helped many looking at Prop 103 to "see in the dark."*

As to Academy involvement, the Academy submitted an amicus *brief covering risk classification and rating principles related to Prop 103. The Academy has chosen auto insurance pricing as one key issue facing North America in the next decade and will conduct a* Forecast 2000 *forum on the issue this year.*

Academy Quarter Century Old

The American Academy of Actuaries will mark its twenty-fifth anniversary at its annual meeting September 26, 1990, in Washington, D.C. at the Ramada Renaissance TechWorld. The meeting program and collateral social events all will commemorate this important milestone. In a quarter century the Academy has made very real progress in the type and quality of its services to members and its representation of the actuarial profession to its many publics. The annual meeting will be a time to take justifiable pride in those accomplishments and to look forward to the next twenty-five years of growth and achievement.

FROM THE PRESIDENT
(continued from page 2)

members who wish to sign casualty loss reserve opinions who are not members of the Casualty Actuarial Society, to review the memorandum carefully and respond accordingly. In addition, any changes to the Academy's General and Specific Qualification Standards should be reviewed by all Academy members to ensure continued compliance. (See the exposure draft, "Revisions to Qualifications Standards," included in this *Update* mailing.)

While the Academy is developing these procedures to assist members to comply with the new requirement, we are also working to amend the definition of a qualified actuary for subsequent years. We continue to believe that Academy membership should be a prerequisite for any public statement of opinion, because Academy members are bound by certain specific standards that offer a greater degree of public protection than does membership in any other actuarial organization alone. Specifically, Academy members are required to have not only the requisite basic education, but also to engage in continuing education; are bound by the standards of professional practice issued by the Actuarial Standards Board; and are subject to discipline action for failure to observe all of these requirements.

We are recommending to the NAIC Blanks Committee that the 1990 definition of a qualified actuary be amended as follows:

"Qualified Actuary" is a person who is either:

(a) a member in good standing of the American Academy of Actuaries who,

(i) is also a member in good standing of the Casualty Actuarial Society or,

(ii) has been identified by the Academy as meeting its Qualification Standards for signing casualty loss reserve opinions; or

(b) a person who has otherwise demonstrated competency in loss reserve evaluation to the satisfaction of the insurance regulatory official of the domiciliary state, [i.e., the language currently in specification (c) of the 1990 NAIC definition.]

We are hopeful that the Casualty Actuarial Society's Board of Directors will also be supportive of this proposal and will work with us to implement this change for 1991 and beyond.

I would welcome any comments or suggestions from Academy members on the direction that we are heading in and I would urge the support of all Academy members in making this change. Δ

WHERE DOES THE ASB FIT IN?
(continued from page 9)

The whole idea of the ASB is to help the actuary recognize his or her place in the flow chart. Standards call one's attention to the possibility of being in the "Does Not Know" category. If that is the case, it is better to recognize it than not, and certainly better to make the "attempt to determine what to do" whenever possible, rather than make an "error of intention."

Errors of use are not shown on the chart. Somebody else makes them. Standards of practice do, however, attempt to alert the actuary to the possibility that "somebody out there" is likely to have a chance to make errors of use. (The Recommendations and Interpretations that preceded the standards recognized this.)

A colleague in one of the insurance departments in which I have toiled in the past had a much greater vocabulary than the rest of us thought he had. He proved it by advising a correspondent that the proposed action would have "gravely litigious consequences." Back then one could still laugh at that concept. Now, that thought wouldn't seem funny or exaggerated. What we do, or what we do not do, can be in that category entirely too easily.

I'm for standards. Δ