



Academy Congressional Testimony

The Cost of Malpractice Litigation

COSTLY LITIGATION HAS DRIVEN UP the rates for medical malpractice insurance, the chairperson of the Academy's Medical Malpractice Subcommittee testified at a recent congressional hearing.

"Rate increases have been precipitated in part by the growing size of claims, more frequent claims in some areas, and higher defense costs," James Hurley told the House Energy and Commerce Health Subcommittee during its July 17 hearing.

As an example of the problem, the Tillinghast-Towers Perrin consulting actuary cited an Insurance Information Institute report that found the size of a median jury award in medical malpractice cases climbed from about \$475,000 in 1996 to \$1 million in 2000.

During the hearing, a variety of witnesses—ranging from physicians to consumer advocates—gave their views on the causes and effects of the high costs of medical liability insurance and the shrinking number of insurers.

"Without intervention by Congress, we will soon be unable to address the basic health care needs of our communities," said Stuart Fine, a Pennsylvania hospital CEO who represented the American Hospital Asso-



James Hurley, chairperson of the Academy's Medical Malpractice Subcommittee, testifies before Congress.

ciation. Fine said he supported a bill by Rep. Jim Greenwood (R-Pa.) that would put a \$250,000 limit on noneconomic jury awards and would limit punitive damages to twice the economic damages. The bill, H.R. 4600, is similar to California's Medical Injury Compensation Reform Act of 1975.

But other witnesses attacked H.R. 4600, saying that liability awards aren't to blame for insurance rate increases. "The real answer to skyrocketing insurance premiums, which are striking across all lines of insurance, is to regulate the insurers' pricing and accounting prac-

See [LITIGATION COST](#), Page 4

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Academy Annual Meeting

Register now for the Oct. 29 meeting [PAGE 8](#)

Academy Advises State Legislators

A PROPOSED MODEL ACT ON genetic discrimination could shift costs from those with genetic risks to those without genetic risks, the Academy advised the National Conference of Insurance Legislators (NCOIL) at its Boston meeting July 11-14.

In written testimony, Dave Christianson, a member of the Academy's Life Products Committee, cited several problems with the proposed model legislation, including the following:

- ▶ Allowing policies to be sold without regard for information known by the ap-



From left, Rep. Brian Kennedy (D-R.I.), Joanna Ossinger, and Tom Wildsmith

plicant will have a negative impact on insurers and, consequently, others seeking insurance from those companies.

- ▶ Protections will be given to those who don't need them.

See [ACADEMY ADVICE](#), Page 5

Actuarial UPDATE

SEPTEMBER

- 4 Basic GAAP seminar, New York (Academy, SOA, CCA)
- 5-6 Advanced GAAP seminar, New York (Academy, SOA, CCA)
- 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
- 13 Academy Capitol Hill briefing on defined contribution health plans, Washington
- 18 SOA financial reporting for reinsurance seminar, Lake Buena Vista, Fla.
- 18 Academy Life Practice Council meeting, Orlando
- 19 Academy Social Insurance Committee meeting, Washington
- 19-20 SOA valuation actuary symposium, Orlando
- 19-20 CIA appointed actuary seminar, Toronto
- 23-24 Casualty loss reserve seminar, Arlington, Va. (Academy, CAS, CCA)
- 23-24 SOA 7702/7702A tax issues seminar, Washington
- 24-25 CAS seminar on asset liability management and finance principles, Arlington, Va.
- 24 Academy Health Practice Council meeting, New York
- 24 Academy Life Financial Reporting Committee meeting, Chicago
- 24 Public employee plans seminar, Washington (Academy, CCA, SOA)
- 25 Academy Committee on Actuarial Public Service meeting, Washington
- 26-27 ASB meeting, Washington

OCTOBER

- 7-8 CAS catastrophe risk management seminar, Atlanta
- 19-21 IAA Council and committee meetings, Barcelona, Spain
- 27-30 ASPA annual conference, Washington
- 27-30 SOA annual meeting, Boston
- 29 Academy annual meeting, Washington
- 30 Academy Life Valuation Subcommittee meeting, Boston
- 31 Academy Life Capital Adequacy Subcommittee meeting, Boston

NOVEMBER

- 3-6 CCA annual meeting, Amelia Island, Fla.
- 6-7 Expert witness seminar, Amelia Island, Fla. (Academy, CCA)
- 6-7 FAS 106 seminar, Amelia Island, Fla. (Academy, CCA)
- 6-8 Annual Investment Actuary Symposium, Chicago (Academy/CCA/SOA)
- 10-13 CAS annual meeting, Boston
- 11 Academy Pension Practice Council meeting, San Francisco
- 12 Academy Pension Committee meeting, San Francisco
- 12 Academy Casualty Practice Council meeting, Boston
- 12-15 Academy Life And Health Qualifications Seminar, Washington
- 14-15 SOA/CCA seminar on health disability income, Chicago
- 20 Academy Committee on Professional Responsibility meeting, Washington
- 27 CIA professionalism workshop, Toronto
- 27 CIA investment seminar, Toronto
- 28-29 CIA general meeting, Toronto

PLANNING AHEAD?

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

Academy NEWS Briefs

Expanding Educational Options

The Academy will be joining forces with the Conference of Consulting Actuaries (CCA) to offer two seminars following the CCA's annual meeting Nov. 3-6 in Amelia Island, Fla.

The seminars—one on being an expert witness and the other on retiree welfare valuations under FAS 106—both will be held Nov. 6-7. They reflect the Academy's recent efforts to expand its educational offerings, whether as a sole sponsor or in conjunction with other actuarial organizations.

In 2000, for example, the Academy began offering the annual Life and Health Qualifications Seminar. And in 2001, the Academy instituted the annual Washington Forum, which focuses on major public policy issues. This month, the Academy and the Casualty Actuarial Society are co-sponsoring a seminar with the Society of Actuaries on public employee plans. The Academy is also a joint sponsor of the annual Enrolled Actuaries Meeting and the annual Casualty Loss Reserve Seminar.

"Providing continuing education is a vital responsibility of the U.S. actuarial organizations," said Academy President Dan McCarthy. "Whether the Academy is taking a lead role or a supporting role, the emphasis is on helping members get the kinds of education they need for professional development."

The Nov. 6-7 expert witness seminar will be led by three attorneys and two actuaries (experienced in health, life, pension, and casualty practice areas), who will talk about preparation, depositions, and testimony. The seminar will also



Amelia Island Plantation

feature a mock session of direct testimony and cross-examination. Attendance is limited to 50 to encourage audience participation.

The Nov. 6-7 retiree welfare valuation seminar offers an intense introduction to actuarial valuations of retiree welfare plans under FAS 106, including the basics of retiree welfare benefit design and accounting rules. Throughout the session, presenters will reference applicable qualification standards and actuarial standards of practice.

Participants at both seminars will earn CCA/Academy continuing education (CE) credit and SOA professional development credit. Subject to final approval by the Joint Board for the Enrollment of Actuaries, attendees will also be eligible to earn EA noncore CE credit.

For more information and to register online for the November seminars, go to www.ccactuaries.com/meetings/am2002/seminarinfo.html. Those attending the CCA annual meeting are eligible to register for a seminar at a reduced fee.

Define Your Terms In a July 19 letter, Academy President Dan McCarthy asked House-Senate conferees to clarify the definitions of "actuarial services" and "appraisal

or valuation and fairness opinions" as they are used in the sweeping accounting reform bill that was signed into law by President Bush on July 30.

In his letter, McCarthy urged Congress to define those terms in a manner consistent with existing Securities and Exchange Commission regulations. However, in the rush to enact H.R. 3763, the Public Company Accounting Reform and Investor Protection Act of 2002, no clarifying report language was issued to define those terms.

In the absence of specific legislative provisions, it is expected that the terms describing nonaudit services will be defined through regulations issued to implement the new law, said Todd Tuten, the Academy's director of public policy. The

Save the Date for the Washington Forum

May 9, 2003
AMERICAN ACADEMY OF ACTUARIES

Academy will continue to offer input as the regulations are drafted.

To read the letter online, go to www.actuary.org/pdf/finreport/hr3763_19july02.pdf.

CASUALTY NEWS



In a follow-up to his testimony on medical malpractice insurance at a

July 17 House hearing (see story on Page 1), **James Hurley**, chairperson of the Medical Malpractice Subcommittee, sent a letter to Rep. Michael Bilirakis (R-Fla.), chairman of the House Subcommittee on Health, clarifying several issues raised in the hearing. To read the letter online, go to www.actuary.org/pdf/casualty/medmalpractice_31july02.pdf.

► The Automobile Insurance Subcommittee sent a letter to the Environmental Protection Agency commenting on actuarial issues in the voluntary pay-as-you-drive initiative. To read the letter online, go to www.actuary.org/pdf/casualty/drive_19july02.pdf.

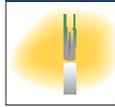
► A *Washington Post* article on State Farm's decision to raise home insurance rates in Virginia, Maryland, and the District of Columbia quoted **J. Robert Hunter**, a consulting actuary and director of insurance for the Consumer Federation of America.

► The terrorism monograph by the Extreme Events Committee was mentioned in an article in the *Atlanta Journal-Constitution* about skyrocketing property insurance premiums for Atlanta buildings.

► A critical issue report on asbestos in *Rough Notes* magazine quoted extensively from the

Mass Tort Work Group's 2001 monograph, *Overview of Asbestos Issues and Trends*.

FINANCIAL REPORTING NEWS



Keith Dall, a consulting actuary with the Indianapolis office of Milliman USA, was the author of a recent article in the *ABA Banking Journal* on looming changes in the consumer credit insurance industry.

HEALTH NEWS



Bill Bluhm, chairperson of the Task Force on Health Insurance Rate Filing, spoke at the National Conference of State Legislatures meeting in July on experience rating and the Academy's work for the NAIC.

► **Jean Moore**, a principal with Towers Perrin in Denver; **Jeffrey Nohi**, senior vice president for strategic planning and marketing services at Wisconsin Physicians Service in Madison, Wis.; and **Harry Sutton**, a senior adviser with Reden & Anders Ltd., in Minneapolis; have joined the Defined Contribution Health Plan Work Group.

► Joining the Terrorism/Extreme Events Work Group are **Scott Guillemette**, a principal at Tillinghast-Towers Perrin in Minneapolis, and **Laurence Williams**, director and health actuary for Blue Cross Blue Shield of Texas in Richardson, Texas.

► **Paula Wickland**, a principal at Towers Perrin in Stamford, Conn., was quoted in an article in *USA Today* on long-term-care insurance.

PENSION NEWS



The Public Plans Task Force recently sent a letter to the IRS commenting on proposed minimum distribution regulations for defined benefit plans that appear to limit a plan's annual cost-of-living adjustment to the increase in the consumer price index. To read the letter online, go to www.actuary.org/pdf/pension/irs_16july02.pdf.

► **Ron Gebhardt**, the Academy's senior pension fellow, was quoted in a *Wall Street Journal* article about renewed employee interest in traditional pension plans. Gebhardt and **Lynda Abend**, managing actuary for New York Life Investment Management Retirement Plan Services in Norwood,

Mass., were quoted in an article in the August issue of *Kiplinger's* on pension lump-sum payouts. Gebhardt was also quoted in a *Hartford Courant* article on corporate pension losses due to plummeting stock investments.

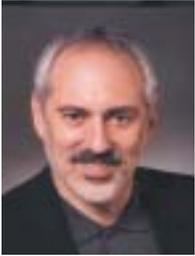
► **Bill Daniels**, a consultant with Towers Perrin in Pittsburgh, was quoted in an article in *USA Today* on pension lump-sum payouts.

► **James Turpin**, former Academy vice president for pension issues and president and consulting actuary for Turpin & Associates in Albuquerque; **Jim Davis**, a principal and consulting actuary in the Dallas office of Milliman USA; and **Ron Gebhardt** were quoted in a Fort Worth, Texas, *Star-Telegram* article on pension fund contributions cutting into company earnings.

WAS THE HOMEOWNER AT FAULT HERE, OR THE GARDENERS? Were the directions clear enough? Did the gardeners understand the assignment? What would the implications be if this were an actuary giving an assignment to other actuaries? Let us know your thoughts and we'll publish them on the website or in a future issue of the *Update*. Comments may be sent to editor@actuary.org.

A Changing Health Care Landscape

BY GEOFFREY SANDLER



ANY THOUGHTS I HAVE ABOUT the past two years are overshadowed by the tragic events of Sept. 11. Putting aside the effect on my company (Empire BlueCross BlueShield had its headquarters in the World Trade Center) and on me personally, I think our nation is indelibly changed. Certainly, the Health Practice Council was given a new set of issues to address—the effects of terrorism and other extreme events on the nation's health care system—and responded quickly by creating the Terrorism/Extreme Events Work Group.

That response and the earlier creation of the Health Practice Financial Reporting Committee are good examples of the council's growing ability to identify and act on emerging issues in a timely fashion. In the past two years, the council has both refined its planning process (building on information gained from annual Capitol Hill visits and ongoing contacts with regulators and federal and state legislators) and revised and clarified its peer review process. The net effect has been a streamlined operation and more effective use of both volunteers and staff.

Still, as the health care landscape (and, indeed, the world) continues to change, the council's workload has increased. In addition to our work on Medicare issues, patients' rights, risk-based capital, and a host of continuing projects in support of the NAIC, the council in the past couple of years has expanded its involvement

in emerging areas such as health coverage for the uninsured and consumerism in health care.

To meet these challenges, the Academy last year created an additional policy analyst position in the health area. Joanna Ossinger, in the new position of policy analyst for state health issues, works closely with Holly Kwiatkowski, policy analyst for federal health issues, in coordinating council activities. Both receive considerable assistance from Cori Uccello, the Academy's senior health fellow, whose outreach to other public policy and research organizations has added immeasurably to the council's influence. I believe these contacts are beneficial to all parties, and I look forward to seeing expanded joint ventures with other organizations in the future.

Of course, none of these activities are possible without the tireless efforts of members who volunteer to work on council projects. We will continue to need their support as technological advances, research breakthroughs, improved medical management techniques, new innovations in provider payment mechanisms, and increasingly sophisticated consumer involvement in health care guarantee continuing change in the nation's health care system.

It is a testimony to our members' expertise, and to the council's success in utilizing that expertise, that the Academy's assessment is not only heard but is actively solicited on an increasing number of health care issues.

Geoffrey Sandler completes his term as the Academy's vice president for health issues in October.

Litigation Cost, *continued from Page 1*

tices so that investment losses cannot be passed on to policyholders," said Jamie Court, executive director of the Foundation for Taxpayer and Consumer Rights.

In his testimony, however, Hurley noted that "insurers, just for the record, have not suffered investment losses. They have experienced lower rates of return on those investments. In establishing rates, insurers do not recoup investment losses."

Since complete industry data was not yet available, Hurley explained financial results through 2001, based on his study of 30 medical malpractice insurers. For example, he noted that the insurers' strong operating returns of the 1990s were followed by a slight profit in 2000, then a 10 percent loss in 2001. Similarly, he told the subcommittee that the insurers' surplus rose through 1999 before falling slightly in 2000, then falling more sharply in 2001.

The bottom line, said Hurley: "Rates for both insurers and reinsurers need to increase to properly align with current loss and investment income levels. Companies failing to do this jeopard-

ize their surplus base and financial health."

In his written statement, Hurley discussed some contributing factors to, and common misconceptions about, the financial results. Among the misconceptions: Insurers are increasing rates because of investment losses, companies operated irresponsibly and caused the current problem, and companies are reporting losses to justify increasing rates.

The hearing reflected Capitol Hill's increased focus on medical liability issues this summer. In the House, Rep. John Dingell (D-Mich.) and several other Democrats asked the General Accounting Office to report in September on insurance industry practices and medical malpractice insurance rates. And with a 57-42 vote during consideration of generic drug legislation, the Senate in late July blocked a proposal to cap punitive damages in medical malpractice suits.

To read Hurley's testimony online, go to www.actuary.org/pdf/casualty/testimony_17july02.pdf.

—ANNE RICHARDSON

Events Shape Casualty Council Action

BY STEVEN LEHMANN

TRADITIONALLY, MOST LEGISLATIVE and regulatory action on property/casualty issues takes place at the state level. In the past two years, that has changed dramatically.

After Sept. 11, the cost and availability of terrorism insurance became a top concern for federal lawmakers. Late last year, members of the council's newly formed Extreme Events Committee and Greg Vass, the Academy's casualty policy analyst, were quickly involved in meetings with Capitol Hill staffers as proposed terrorism legislation moved forward.

An Academy monograph analyzing the impact of the Sept. 11 terrorist attacks on the property and casualty industry's current surplus, released earlier this year, has received a lot of interest from federal and state legislators. It recently was singled out for favorable mention at the summer meeting of the National Conference of Insurance Legislators (see story on Page 1). The interest is well-deserved. The Extreme Events Committee did an excellent job of compiling a vast amount of information into understandable form in a single document. (To read the monograph online, go to www.actuary.org/pdf/casualty/terrorism_may02.pdf.)

The council's rapid response on terrorism and on other issues, such as federal charters, is one of the fruits of last year's council reorganization. Taking a good long look at existing task forces, the council moved some of them into permanent committees and decided that others were no longer necessary. We now have a structure

in place that allows us to respond quickly to emerging issues and to better serve our members.

Serving our members in a different way, the council organized its first Capitol Hill briefing on natural disasters and catastrophe insurance in November 2000. Over 200 P/C actuaries, many attending the annual CAS meeting, joined Senate and House staffers, officials from the Federal Emergency Management Agency and the NAIC, officials from coastal states, and other policy-makers and lobbyists at the informational briefing. The response was overwhelmingly positive. Similarly, the council last year sponsored a debate on tort reform at the Academy's annual meeting, held in conjunction with the CAS annual meeting.

Which is not to say the council has been neglecting the tasks it traditionally performs. At the request of the NAIC, the council developed a white paper on securitization and continues to address ongoing developments in this area. The council commented to the Actuarial Standards Board on Actuarial Standard of Practice No. 7, *Analysis of Life, Health, or Property/Casualty Insurer Cash Flows*, addressing concerns that an exception needed to be made in applying cash flow testing to the P/C area. The council is also providing updates to members on the status of federal charter legislation on Capitol Hill.

Despite a burgeoning agenda, the council continues to move forward. Whether it is working with congressional staff on federal legislation or assisting regulators on the state level, we stand ready to provide assistance.

Steven Lehmann completes his term as the Academy's vice president for property/casualty issues in October.



Academy Advice, *continued from Page 1*

- ▶ The proposed model legislation doesn't employ appropriate risk classification methodologies.
- ▶ The proposal ignores the possibility that a disproportionate number of affected policies might be written by a small number of companies.

One of several Academy publications distributed to legislators in their meeting packets, the recent terrorism monograph by the Academy's Extreme Events Committee was singled out as particularly worth reading.

Steve English, the Academy's life policy analyst, presented Christianson's testimony to NCOIL's Life Committee and directed committee members to other Academy publications on the topic, including the *Genetic Information and Medical Expense Insurance* monograph.

Also at the NCOIL meeting, Tom Wildsmith, a member of the Academy's Health Practice Council, briefed members of NCOIL's Health Insurance Committee on who lacks health insurance in this country and why. Wildsmith's presentation was the committee's first look at the issue of the uninsured, and the legislators paid close attention in order to understand the issue better. A number of them followed up with questions afterward.

Attention was also paid to the recent terrorism monograph by the Academy's Extreme Events Committee. One of several Academy publications distributed to legislators in their meeting packets, the monograph was singled out by Illinois Rep. Terry Parke, the chairman of NCOIL's Terrorism Committee, as particularly worth reading.

To read Christianson's testimony, go to www.actuary.org/pdf/life/genetic_13july02.pdf. To view the slides from Wildsmith's presentation, go to www.actuary.org/pdf/health/uninsured_12july02.pdf. To read the terrorism monograph, go to www.actuary.org/pdf/casualty/terrorism_may02.pdf.

—JOANNA OSSINGER

Resolved . . . or Not?

BY BILL FALK

IMAGINE THIS SCENARIO: Jill replaces Jack as the enrolled actuary for a well water-drilling company's pension plan. Unable to closely reproduce Jack's valuation results for the previous year and after reviewing his information, Jill becomes convinced there was a significant error in calculations, resulting in the overstatement of the minimum required and maximum deductible contribution limits. Jill and Jack talk. He reviews his calculations and finds the error that caused the problem. After correction, the company's already completed contribution still satisfies the minimum and is still deductible. But the company could have contributed less than it did. Jack reports the error to the company, sends a revised actuarial report, and uses the corrected results in preparing the Schedule B for that year. One question remains. Should Jill report Jack's error to the ABCD?

Or imagine this: Dick is attending an actuarial meeting. At one of the sessions, he is seated at the back of the room and happens to notice Jane, whom he knows, slip into the room 15 minutes before the session ends. Dick catches up to Jane as she is leaving the room and sees her drop a continuing education attendance slip into the box. Dick asks Jane whether she thinks she should receive CE credit for a session she attended only briefly. Jane retrieves her attendance slip and leaves the room. Dick is left to ponder whether he should tell anyone about Jane's attempt to get undeserved credit.

Precept 13 of the Code of Professional Conduct states that "An Actuary with knowledge of an apparent, unresolved, material violation of the Code by another Actuary should consider discussing the situation with the other Actuary and attempt to resolve the apparent violation. If such discussion is not attempted or is unsuccessful, the Actuary shall disclose the violation to the appropriate counseling and discipline body of the professions . . ."

The two situations outlined earlier raise several questions. Were these apparent violations of the Code material, and were they resolved? Who decides? And how does an individual judge whether or not a material violation is resolved?

The obvious answer to the second question is that any actuary subject to Precept 13's reporting requirement who becomes aware of an apparent violation needs to decide whether it is material and whether it has been resolved.

The answer to the third question is more subjective. If an apparent violation doesn't feel resolved, it probably isn't.

Some types of apparent violations may be easier to resolve than others. Most violations that involve an error in an actuarial calculation or assumption are likely resolved if the error is corrected. Alternatively, the actuary who is seen to have made an error may be able to argue convincingly that the situation involves a difference in judgment or interpretation. But a violation can also be the symptom of a larger failure to use due skill and care. In that case, merely correcting one instance of error may not be sufficient.

Apparent violations involving the integrity or honesty of an actuary are likely to be more difficult to resolve. If the act was the

result of carelessness or ignorance, discussion with the individual may resolve the issue. If not, it is unlikely that the violation can really be resolved. It should be referred to the ABCD if it appears to be material.

Let's return to the first example. Jill discovers an error in her predecessor's work, an apparent violation of Annotation 1-1. Jack acknowledges the error immediately and corrects it. Is this apparent violation resolved? Probably. If Jill is satisfied with the correction, then she should consider the violation resolved unless she believes it to be a product of collusion or that it represents a pattern of carelessness that can be applied to all of Jack's actuarial services.

What about the second example? Certainly, Jane retrieved her CE slip and will no longer receive undeserved CE credit. However, the act of attempting to get the credit appears to be a violation of Precept 1's requirement to "act honestly, with integrity, and in a manner to . . . uphold the reputation of the actuarial profession." Her action would be considered by most to be dishonest. Dishonesty by an actuary, regardless of venue, can certainly have a deleterious effect on the reputation of the profession. Should Dick consider the issue resolved once Jane retrieves her atten-

How does an individual judge whether or not a material violation is resolved? The answer is subjective. If an apparent violation doesn't feel resolved, it probably isn't.

dance slip? The fact that Jane rescinded her action doesn't eliminate its dishonest nature. Is the apparent violation material?

Realistically, without evidence to the contrary, most would consider Jane's action to be an isolated incident that was not material once it was corrected. However, if Dick believes that Jane's action represents a pattern of such behavior (making it more likely to be a material breach of the Code), he probably should not consider the matter resolved without further discussion with Jane. He might also want to report the pattern as an apparent violation to the ABCD.

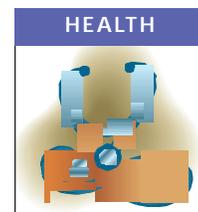
What if a third actuary disagrees with Jill or Dick's judgment that the violation was resolved or not material? That actuary should probably report the violation to the ABCD. Should the actuary also report Jill or Dick? My view is no, unless it is clear that Jill or Dick is collaborating to cover up the violation. If an actuary who observes a violation decides in good faith that the violation has been resolved, I would be disappointed if others tried to turn that decision into a violation. In fact, it may not be possible to know for sure whether either Jill or Dick contacted the ABCD, since complaints can be made on a confidential basis.

Remember, when in doubt about reporting an apparent violation, you can always ask the ABCD for guidance before making your decision. The phone lines (202-223-8196) are open.

Bill Falk is chairperson of the Academy's Joint Committee on the Code of Professional Conduct and a member of the Council on Professionalism.



A DC Approach to Medicare Funding



WHAT IF THE MEDICARE program were reformed to follow a defined contribution (DC) approach, similar to that used by 401(k) retirement plans?

A new issue brief by the Academy's Medicare Steering Committee, *Applying the Defined Contribution Concept to Medicare: A Primer*, considers the implications and offers some context.

In applying the DC concept to Medicare coverage, the issue brief states, the essential change from current procedure would be that Congress would define the level of Medicare funding rather than the level of benefits provided to beneficiaries.

Such a change would raise a number of issues specific to Medicare beneficiaries, the federal government (and the financial condition of the Medicare program), and participating health plans. Possible implications of applying a DC approach to Medicare include these:

- ▶ A DC approach could make future federal outlays for Medicare more predictable and controllable.
- ▶ A DC approach would offer no guarantees that government contributions would keep up with increases in the cost of coverage. To ensure that a bene-

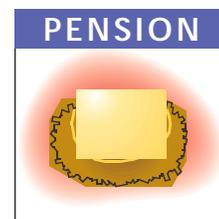
fiary had meaningful coverage options, competitive bidding by carriers might be necessary and the federal government might need to offer multiple benefit options in areas where no—or few—private plans chose to operate.

- ▶ A DC approach would allow the federal government to tailor Medicare contributions depending on the age of the beneficiary, facilitating the expansion of the eligible population to lower ages.
- ▶ Individual selection of coverage might be difficult and potentially confusing for many seniors.
- ▶ Offering individual enrollees a choice of many coverage options would create the potential for adverse selection against one or more of the options.

Tom Wildsmith is chairperson of the Medicare Steering Committee. Other members involved in drafting the issue brief are Geoff Sandler, the Academy's vice president for health issues, Mike Abroe, David Axene, Thomas Edwalds, Alan Ford, Dennis Hulet, Kent Levihn, Jim Murphy, John Schubert, Judy Strachan, Michael Thompson, George Wagoner, and Dale Yamamoto.

To read the issue brief online, go to www.actuary.org/pdf/medicare/medicare_dc_july02.pdf.

In Search of Treasury Rate Relief



AT THE REQUEST OF CONGRESS, the Academy's Pension Practice Council has suggested several long-term alternatives to using the 30-year Treasury rate in determining pension plan funding.

More than a year ago, the council first warned that sagging 30-year Treasury rates were adversely affecting the maintenance of current defined benefit pension plans and discouraging the formation of new plans. Congress provided a temporary solution to the problem when it passed the Job Creation and Worker Assistance Act of 2002 in March. The legislation includes a provision that increases the permissible interest rate range used to calculate contributions and Pension and Benefit Guaranty Corp. premiums for underfunded plans.

In a public statement, *Alternatives to the 30-Year Treasury Rate*, released in August, the council outlines three more permanent alternatives to the 30-year Treasury rate and details the advantages and disadvantages of each.

The alternatives are

- ▶ A rate based on expected rate of return on stocks
- ▶ A high-quality corporate bond rate
- ▶ A rate based on annuity prices.

The statement focuses on the latter two alternatives because any rate reflecting an expected rate of return on stocks would like-

ly be too high to ensure adequate funding of pension plans. Typically, the lower the interest rate, the more money required to fund any given plan.

If Congress were to decide to use a corporate bond rate, the council suggests the use of corporate bond indices, including Moody's Composite, Moody's Aa, or Bloomberg's A3, as possible guides to determining an alternate rate. Any type of government index would likely provide the same instability as the 30-year Treasury, and thus would not be a suitable replacement rate. For a rate based on annuity prices, a precise index would not be available given the variability of prices among different insurers.

The statement further encourages Congress to examine the interest rates used in determining lump sums, projection of employee contributions, and waived/missed minimum contributions. While the council doesn't advocate one alternative over another, it considers the use of a corporate bond rate or annuity price in place of the 30-year Treasury rate to be a more feasible approach to the funding of pension plans for purposes of simplicity, public policy, and plan funding and improvements.

To read the statement online, go to www.actuary.org/pdf/pension/rate_17july02.pdf.

—HEATHER JERBI

Academy Annual Meeting

October 29, 2002
Washington



The Academy's 2002 Annual Meeting will be held Oct. 29 at the Hilton and Towers Hotel in Washington, in conjunction with the 2002 ASPA Annual Conference. Nearly 500 Academy members are expected to attend.

AGENDA

American Academy of Actuaries Annual Meeting Luncheon 12:00pm - 2:00pm

The luncheon will feature the presentation of the 2002 Jarvis Farley Service Award and the installation of Robert A. Anker as the Academy's new president, as well as the election of new members to the Board of Directors.

Attorney Ian D. Volner, a partner with the law firm of Venable Baetjer Howard & Civiletti, will give the keynote address on "Professionalism and Public Policy in the post-Enron Era."

Professionalism Seminar: "Cases of Not Quite Right" 2:00pm - 3:15pm

The topic of the professionalism session will be performing actuarial work with data that are not quite reliable.

REGISTRATION

The fee for the Academy Annual Meeting is included in the 2002 ASPA Annual Conference fee. Academy members who are not registered for the ASPA conference may register using the form below, or online at www.actuary.org. The registration fee is \$50 per person, which includes admission to the luncheon and the professionalism session.

For information about ASPA's Annual Conference, including registration fees, lodging information, and online registration, go to www.aspa.org, or call the ASPA meetings department at 703-516-9300.

For further information about the Academy Annual Meeting, contact the Academy's meeting planner, Denise Winston, at 202-223-8196 or Winston@actuary.org.

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