



AMERICAN ACADEMY *of* ACTUARIES

March 3, 2005

The Honorable Bill Frist, M.D.
Office of the Senate Majority Leader
Capitol Building, S-230
Washington, DC 20510-7010

Dear Senate Majority Leader Frist:

We are writing to you on behalf of the American professional actuarial associations and societies regarding the qualifications of chief actuaries in the employ of the federal government. The American Academy of Actuaries proudly recognizes the valuable contribution that members of the actuarial profession make in their role as government actuaries, especially the chief actuaries at the Social Security Administration (SSA) and the Centers for Medicare and Medicaid Services (CMS). Their roles are significant not only within their respective agencies, but also government-wide, through their impact on the most far-reaching programs administered by the federal government.

To ensure the continued high standards for the chief actuaries of SSA and CMS beyond the SES GS-1510 Actuary Series, we recommend that individuals serving in these positions be members in good standing of the American Academy of Actuaries. Although the current chief actuaries of SSA and CMS are members in good standing of the American Academy of Actuaries, no such explicit actuarial qualification standard currently exists. Statutorily requiring membership in the American Academy of Actuaries would subject these actuaries to the profession's Actuarial Standards of Practice. The Standards in no way conflict with federal or state law since they require that actuaries uphold the law.

Most states now have regulations that recognize membership in the American Academy of Actuaries as a qualification for signing insurance company annual statements, and for good reason. Membership in the Academy is the hallmark of actuarial professionalism, and the Academy takes a leading role in setting professional standards for U.S. actuaries.

The Academy hosts the joint committee that is responsible for the Code of Professional Conduct, which imposes standards of conduct on all actuaries who are members of one or more of the professional actuarial associations and societies in the United States. The Code imposes, among other things, a fundamental obligation upon actuaries to perform professional services with integrity and competence, an obligation that we believe to be essential to successful performance of government service. The Code also requires actuaries to meet applicable standards of practice and qualification as described below.

Among the Code's provisions is a requirement that the actuary perform professional services only when qualified to do so and in compliance with applicable qualification requirements. In addition to this fundamental obligation, the Academy's Committee on Qualifications establishes qualification requirements for practitioners who issue "prescribed statements of actuarial opinion," as defined in the qualification standards. Its other duties include examining the minimum requirements necessary for members to perform certain actuarial functions.

The Code also requires actuaries to ensure that work performed by them or under their direction satisfies applicable actuarial standards of practice; in the U.S., those are the standards published by the Actuarial Standards Board (“ASB”). The ASB is housed within the Academy and supported by Academy editorial and legal staff. Actuarial standards of practice serve to assure the public that actuaries are professionally accountable. At the same time, standards provide practicing actuaries with a basis for assuring that their work will conform to generally accepted principles and practices. Standards protect the public by:

- Indicating for various areas of actuarial practice the generally accepted procedures techniques, and approaches, thereby enhancing the public's trust in the credibility and completeness of the actuarial work product.
- Providing a means by which the many separate elements that make up actuarial practice can be reviewed and updated on a regular basis, so that practice represents a compilation of current thinking and research.
- Furnishing criteria for evaluating actuarial work products and provide a basis for discipline in those instances in which standards are not satisfied.

Standards of practice also serve to further assure regulatory authorities that they can depend on the actuarial profession to act effectively in the public interest. Written standards of practice, coupled with written provisions for disciplining members, show that a profession governs itself and takes an active interest in protecting the public.

Of particular concern in the unique setting of Social Security and Medicare is Actuarial Standard of Practice No. 32, *Social Insurance*. The purpose of this standard is to provide “the actuary practicing in the field of social insurance with guidance concerning the nature of social insurance and a description of recommended practices.” The scope of the standard explicitly states that it includes actuarial analyses of the Social Security and Medicare programs. The standard goes on to describe issues that should be considered, recommended practices, actuarial methods and assumptions, and information that should be communicated to users of reports concerning social insurance. The requirements of this standard dictate that an actuarial analysis of the programs should include or consider:

- The ongoing nature of the program based on current law and regulation.
- All sources of income to the program, including, payroll taxes, premiums, investment income, and general tax revenues allocated to it.
- Whether a test of financial adequacy is warranted (both short-range and long-range), given the fact that the income and benefit levels are statutory and whether any test that is selected is sufficient.
- The sensitivity of the results of the analysis to alternative assumption scenarios that differ from the expected scenario.
- The impact of recent and/or pending changes to the program.

In addition to establishing Standards of Practice, the American Academy of Actuaries represents and unites U.S. actuaries from all practice areas. As the profession's voice on public policy and professionalism issues, the Academy serves its members—and the public—in the following ways: It establishes, maintains, and enforces high professional standards of actuarial qualification, practice, and conduct. It represents the profession at the state, national, and international levels. It assists in shaping public policy by providing legislators, regulators, and others with independent, objective information and analysis. In cooperation with other organizations, it works to represent and advance the actuarial profession and to increase public awareness of the actuary's vital role in the economy and government.

For these reasons, we recommend, that individuals serving as the chief actuaries of SSA and CMS be statutorily required to be members of the American Academy of Actuaries. We would further ask for the opportunity to discuss with you the merits of this request and to further require this of all government chief actuaries.

We appreciate your attention to our request and look forward to hearing from you. Should you wish to discuss these matters, feel free to contact us through the American Academy of Actuaries' Director of Public Policy, Craig Hanna at 202-223-8196 or Hanna@actuary.org.

Sincerely,

Robert Wilcox
President
American Academy of Actuaries

Stephen D'Arcy
President
Casualty Actuarial Society

Stephen Kellison
President
The Society of Actuaries

William Bluhm
President
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Stephen Rosen
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CC: Senate Minority Leader Harry Reid
Speaker of the House J. Dennis Hastert
House Majority Leader Tom Delay
House Minority Leader Nancy Pelosi