

The Actuarial Update

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Commission Nears Final Report



Bob Myers (left), Executive Director of the National Commission on Social Security Reform, and Alan Greenspan, Chairman of the Commission, confer prior to the first session of a three-day public hearing held in Alexandria, Virginia November 11-13.

Politics Triumphs over Public Interest

by A. Haeworth Robertson

The National Commission on Social Security Reform held its long-awaited marathon meeting on November 11-13 to make its first public statements about proposals for "realistic, long-term reforms to put Social Security back on a sound financial footing." The commission is laboring to design recommendations for change in Social Security that will simultaneously

- resolve the system's financial problems, and
- restore the public's confidence in the long-range viability of the system.

Unfortunately, the commission seems to be moving in a direction that will make it

difficult, if not impossible, to achieve either of these two goals. This is because the commission has defined the size and scope of the problem reasonably well over the next seven years, 1983-1989, but has missed the mark completely over the longer term from 1990 onward.

The commission agreed that the "Social Security problem" during the next 75 years should be defined by comparing income and outgo for the Old-Age, Survivors, and Disability Insurance program according to the intermediate (II-B) demographic and economic assumptions used in the 1982 Trustees Reports. This produces average annual expenditures of 14.09% of taxable payroll and average annual tax income of

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Actuaries in the Social Security Administration

by Harry C. Ballantyne

Editor's Note: This is the tenth article in the series "Actuaries in Government."

The Social Security Administration's Office of the Actuary has two principal responsibilities: evaluating the actuarial status of the Old-Age, Survivors, and Disability Insurance (OASDI) program under present law, and preparing cost estimates for proposed changes in the OASDI program.

Technical Role of the Office

The Office makes both short-range projections (over the next 10 years) and long-range projections (for 75 years). Because the short-range and long-range projections differ in their uses and methods, so they traditionally have been done in two separate divisions of the Office. A third smaller part of the Office is concerned with various technical program issues, including individual equity (money's worth), optional vs. mandatory coverage, relationships with privately financed benefit programs, and informing the public about these issues and about Social Security financing in general.

The short-range projections, which are presented in terms of current dollars, are used to analyze both Social Security financing and the impact on the federal budget. These estimates are done on the basis of several alternative sets of economic assumptions including the Administration's official budget assumptions that are updated twice a year. The basic projections for the OASDI program under present law are updated when the government's annual price and wage index figures are released, and when significant changes are made in the Social Security law.

The long-range cost estimates are presented as percentages of covered taxable payroll, or cost rates. This allows the year-by-year scheduled tax rates to be compared directly with the anticipated cost rates for the program. The difference between the average tax rate and the average cost rate over the entire 75-year projection period is known as the long-range actuarial balance, an important measure for determining financing adequacy. Another frequently used measure is the fund ratio, which is the percentage of the following

year's outgo represented by the assets on hand. Current estimates show a substantial deficit for the long-range balance, and a fund ratio close to zero in the short-range future, so there is keen interest in analyzing program changes that would improve future financing.

Before any program change is enacted into law, the Office must analyze and evaluate numerous alternative proposals for the Congress, the Administration and quite often for advisory groups. And, as would be true for pension actuaries generally, some of these estimates must be made under conditions of short deadlines and other

**Current estimates show
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pressures. A pension actuary customarily computes results based on a complete census of the plan participants as of the latest plan anniversary. For Social Security such a census is impractical, and instead the actuarial model used resembles more closely a sophisticated model office often used by a life insurance company. That is, the mathematical model must be simple enough to permit rapid calculation and updating, but complex enough to reproduce faithfully the true financial characteristics of the existing program and any of the diverse changes that may be under consideration. Although the basic data are developed by other parts of SSA, the Office does its own programming and is constantly improving its modeling techniques. For example, currently refinements are being made in the techniques used to evaluate mandatory coverage of workers who are outside the Social Security program. Also, the short-range and long-range projection methods are being more closely coordinated by incorporating the best methods into both projections. This also facilitates the transition from the short-range to the long-range projections.

For administrative purposes the Office also estimates future Social Security workloads, as measured, for example, by numbers of new and ongoing beneficiaries receiving the different types of benefits under the program.

(continued on page 5)

Letters to the Editor

More on TEFRA

In his letter to *The Update*, November issue, John Pierce states that the omission of deductibility of casualty losses in the 1982 tax law affects the desirability of higher deductibles in automobile and homeowners insurance. Correct. I contend, though, that rather than the industry losing the advantage of the higher deductible, it will gain in coverage, i.e. it will sell insurance with lower deductibles.

Taking his logic one step further, there are people who used to self-insure (the ultimate deductible), making use of the tax deductibility of any uninsured losses. Especially in urban areas where the cost of this coverage could be several hundred dollars a year, the tax approach was more desirable than the insurance approach. With the deduction gone, these people may wish to seek insurance coverage.

So you see, rather than this provision creating a loss to the insurance industry, it seems it will create a gain.

Irene K. Bass
Boston, Massachusetts

Social Security Information Outreach Criticized

As a member of the Academy's Committee on Social Insurance, I want to take exception to an action of the Academy's Board of Directors which was reiterated by the Executive Committee.

The Academy office this past year has undertaken a number of Social Security information outreach activities under the mandate of the Board of Directors and completely bypassed the Committee on Social Insurance. Committee members did not get to see the material (syndicated columns) until I complained about the situ-

ation, and after material had already been published in about 600 small newspapers around the country.

The material contains some very unprofessional comparisons. One statement compares the number of workers per beneficiary in 1950 when the system was very immature to the number expected after the turn of the century. The figures are true but are misleading and increase public confusion.

Further, the syndicated columns suggest that IRA's and tax deferral of employee contributions to private pension plans (to increase the number of private pension plans) are alternatives to Social Security increases. This is not an actuarial matter and should not be pushed by the Academy. Further, I do not believe that they will meet the needs of the majority of the people.

The comments in the columns concerning the raising of the retirement age only tie the desirability of this to the increase in life expectancy. There is no consideration that Social Security is only one piece of our entire social and economic system. The statement ignores the fact that it would not be desirable if it increased unemployment in the age groups 20 to 40. Raising the retirement age will come, but not because of the longer life expectancy or Social Security financing, but because of demographics. When the baby boom generation retires it may be necessary to keep people in the labor force longer in order to provide the necessary goods and services.

James L. Cowen
Chicago, Illinois

I was dismayed to read in *The Actuarial Update* that the topic chosen to "build public trust in the profession" was Social Security. I wondered why our profession,

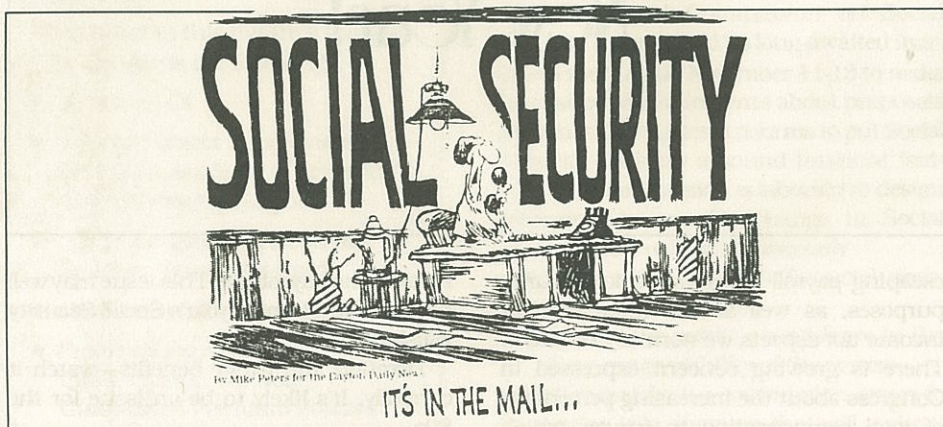
trained to encourage fiscal responsibility in the reserving and costing of insurance and pension programs, would feel so compelled to involve itself with a pay-as-you-go, non-actuarial, government retirement program as a means of building public trust. Instead, it seemed to me that public confidence could be increased by pointing out that, as a result of the work we do, most private pension plans do not face the serious problems now faced by Social Security.

In news features distributed nationwide, statements like the following were made. "Social Security seems to be in some financial difficulty, but according to experts at the American Academy of Actuaries there are solutions, and they need not be severe." And, "The financing of Social Security is actuarial in nature." I was, unfortunately, not surprised by the contents of these columns. Similar statements had been made in the past by representatives of the Academy.

I find the columns and similar statements misleading. If one assumes that experience will be in accordance with the Intermediate II-B assumptions, the level combined employee and employer OASDI tax rate to provide the current benefit structure in perpetuity is about 15.6%, or 44% higher than the current tax rate. If we exclude future tax increases, this means that benefit payouts will have to be decreased by 31%. I'm sure that most of today's Social Security beneficiaries would perceive a 31% decrease in their benefits as a "severe solution." If this is so, how can we assume that future reductions in benefits (presumably in excess of 31%) will not produce "dire consequences"?

In 1981, the Academy suggested to the Senate Finance Committee that the "Social Security Act be amended to enable the public to enjoy the same benefit of professional actuarial certification as required for private plans . . ." Actuarial certification should be restricted to those programs that involve actuarial financing. Unless the profession is willing to propose actuarial solutions to Social Security's problems, we should avoid actuarial certification of anything to do with Social Security and its pay-as-you-go financing approach.

Kenneth A. Steiner
Wellesley Hills, MA.



With special permission from Mike Peters

NCGA Issues Pension Accounting Exposure Draft

by Stephen G. Kellison

The National Council on Governmental Accounting (NCGA) has issued an Exposure Draft of a Statement on Pension Accounting and Reporting for Public Employee Retirement Systems (PERS) and State and Local Government Employer Entities dated November 1, 1982.

This Exposure Draft, if ultimately adopted, would apply a considerably different accounting treatment for PERS than does FASB Statement No. 35. In fact, an interesting sidelight to this whole issue has been the jurisdictional battle between the FASB and a number of governmental entities concerning who has the authority to promulgate generally accepted accounting principles in the area of governmental accounting.

Among the conclusions of the Exposure Draft are the following:

- Investments are valued at book value with parenthetical disclosure of market value.
- The actuarial accrued liability determined under the unit credit actuarial cost method with benefits based upon projected salary increases shall be used to report the pension obligation regardless of the actuarial cost method used for funding purposes.
- Employers who fail to make contributions to a PERS in accordance with an acceptable actuarial cost method will nevertheless report as an expenditure the amount required by APB Opinion No. 8.
- Extensive new disclosure requirements are imposed, including certain historical trend information.

Noteworthy in the Exposure Draft is the use throughout of the pension terminology contained in the Final Report of the Joint Committee on Pension Terminology dated July 31, 1981.

Single copies of the Exposure Draft are available at no charge by contacting: Reference 1982-01, National Council on Governmental Accounting, Suite 800, 180 North Michigan Avenue, Chicago, Illinois 60601.

The deadline for written comments is February 1, 1983. Public hearings on the Exposure Draft are scheduled in New York on February 3, 1983 and San Francisco on February 8, 1983. Δ

POLITICS TRIUMPHS

(continued from page 2)

12.27% of taxable payroll, for an average annual deficit of 1.82% of taxable payroll. Thus, the average annual deficit is considered by the commission to be an almost inconsequential 13% of projected expenditures.

This definition of the "Social Security problem" is deficient in several important respects.

First, Medicare's huge future deficits are completely ignored. If income and outgo are compared for the OASDI and HI programs combined during the next 75 years (using the same intermediate assumptions adopted by the commission for the OASDI program): average annual expenditures are 22.19% of taxable payroll, average annual tax income is 15.16% of taxable payroll, and the average annual deficit is 7.03% of taxable payroll. The average annual deficit is thus 32% of projected expenditures.

Stated in more dramatic but no less factual terms, if benefits are to be paid as promised, tax rates must be increased 46% above *scheduled* tax rates and 66% above *present* rates. This is a somewhat more serious financial problem than the commission would have us believe.

Unfortunately, the commission seems to be moving in a direction that will make it difficult, if not impossible, to achieve . . . [its] goals.

More importantly, in defining the size and scope of the Social Security problem, the commission gave practically no attention to the strong likelihood that the long-range problem is primarily a *design* problem and not just a *financial* problem. On the final day of its meeting, the commission acknowledged that it was committed to the basic structure of the existing Social Security and contemplated no recommendations for major change. Several members of the commission noted that the social/economic environment had changed more rapidly than Social Security had changed and that a reexamination of the basic structure of Social Security was therefore in order. They stated, however, that *the pressures imposed by the size of the financial problems had diverted their attention from such a comprehensive study*. This seems absurd in view of the fact that

- The commission was appointed in December 1981 when the financial

problems were well known and well documented, so the commission had more than adequate time for a thorough study.

- The inappropriate design of Social Security is a significant factor both in causing the long-range financial problems and in causing doubt about the fairness and thus the long-term viability of the system.

If the commission continues to postpone recognition of the large future problems, it may soon be too late to develop rational solutions.

It would seem that the minority of the commissioners representing those who favor the status quo were successful in delaying for almost one year any agreement that there is in fact a financial problem, and thus deliberately left too little time for the commission to achieve any basic reform. Partisan maneuvering for political gain appears to have triumphed once more over responsible action on behalf of the public.

If the commission continues to postpone recognition of the large future financial problems, it may soon be too late to develop rational solutions, since an atmosphere of crisis seldom yields satisfactory results. If the commission continues trying to solve the future *financial* problems without resolving the future *design* problems and thus gaining greater public support, its efforts will be in vain.

Much bolder action will be required by the commission if it is to guide Congress in truly resolving Social Security's problems. And nothing short of this will restore the public's steadily eroding confidence. Δ

Editor's Note: A more complete account and commentary on the Social Security Commission's November meeting is available from Mr. Robertson. He is the author of The Coming Revolution in Social Security.

Checklist of Academy Statements October 1982

Copies are available from the Washington office. TO: NAIC (D2) Risk Retention Task Force, October 20, 1982. RE: Product liability risk retention. BACKGROUND: Comments on proposed NAIC Model Product Liability Risk Retention Act. Δ

Committee on Health Insurance: A Status Report

by Robert H. Dobson

The chairmanship of the Committee on Health Insurance has changed. Bill Odell, after having done an outstanding job for two years, has stepped down to become more heavily involved in other Academy work. Paul Barnhart, Vice Chairman of the committee, will continue in that capacity.

As new chairman, one of my first duties is some reorganization that will require restaffing of the committee and other changes at the subcommittee level, all of which will have been accomplished by the end of the year.

Ongoing activities which deserve mention include two committee reports which will be circulated to the membership in the near future. Both involve actuarial principles and practices; the first on use of interest in loss ratios, the second on health and welfare employee benefit plans. On another front, Senator Durenburger, recently reelected in Minnesota, has written the Academy requesting information on adverse selection that exists in multiple option benefit plans, such as the Federal Employees Health Benefits Program. Several members of the Committee on Health Insurance are busy drafting a reply. This is an excellent opportunity to respond to the expressed need of a legislator.

Finally, the committee continues to maintain an active liaison with the NAIC. One important item currently pending is the statement of actuarial opinion on Blue Cross and Blue Shield Plans' and Health Maintenance Organizations' Annual Statements. Δ

ACTUARIES IN THE SOCIAL SECURITY ADMINISTRATION

(continued from page 2)

Public Relationships

In recent years the Office's cost estimates, and the methods used to arrive at these estimates, have come under much greater scrutiny from interested experts throughout the government as well as in private industry and academia. Explaining the work of the Office, and at times

defending it, can be a challenging task in itself, and a necessary one to help maintain public confidence in Social Security. Far from being an ivory tower, the Office has become increasingly involved in controversial public issues resulting from the nation's economic and demographic trends.

The Office produces a large amount of written material for the public—the annual Trustees Report for OASDI, a summary of the report, actuarial studies detailing the data and methods used in the report, and actuarial notes and papers on a variety of subjects of interest to actuaries around the world. With its acknowledged mastery of the technical side of Social Security benefits and financing, the Office is often called upon by other parts of the Social Security Administration and the federal government to provide informal advice and to develop formal statements and briefings.

Explaining the work of the office, and at times defending it, can be a challenging task in itself, and a necessary one to help maintain public confidence in Social Security.

The Human Side

The Office staff of 49 people includes 19 actuaries. All are housed at SSA headquarters in suburban Baltimore, within an hour's drive of Washington. The Office maintains an active recruiting effort for both experienced actuaries and entry-level college graduates. It is not uncommon for SSA actuaries to move to other parts of the government which handle such programs as Medicare and federal employee benefits, or to private insurance companies and consulting firms.

During Social Security's early decades Robert J. Myers put the post of Chief Actuary permanently onto the actuarial map. The former Chief Actuaries who succeeded Myers are without exception very prominent in the actuarial profession, and all maintain a strong interest in Social Security. On occasion, as the workload permits, the Office provides these former Chief Actuaries and other interested experts outside the government with projections using their own specifications as to plan design and assumptions, so that their figures can be compared directly with the official projections. Δ

AERF Notes

Grants Announcement

The Actuarial Education and Research Fund (AERF) is sponsoring a research grants competition designed to support research in actuarial science.

Grants of up to \$10,000 will be awarded. Members of one of the five actuarial organizations supporting AERF (AAA, CIA, CAS, CAPP, SOA) and full-time faculty members at colleges and universities in the United States and Canada are eligible to apply. Proposals must be submitted by February 1, 1983.

Additional information and application forms may be obtained from C. J. Nesbitt, Research Director, AERF, University of Michigan, Department of Mathematics, Ann Arbor, Michigan 48104.

Halmstad Winner Announced

Professor William S. Jewell of the University of California—Berkeley is the recipient of this year's Halmstad prize for his paper "Model in Insurance: Paradigms, Puzzles, Communications, and Revolutions" (published in the *Transactions*, the 21st International Congress of Actuaries, Vol. 4, 1980).

Professor Jewell was presented with an award of \$650 and a commemorative plaque by CAS President Steven Newman at the 1982 Casualty Actuarial Society's annual meeting.

The Halmstad award is presented annually to the author of the best published paper on actuarial research as determined by the AERF Awards Committee.

Deceased

Max Bloch '67
New York

Walter S. Dewar
Charter Member
Texas

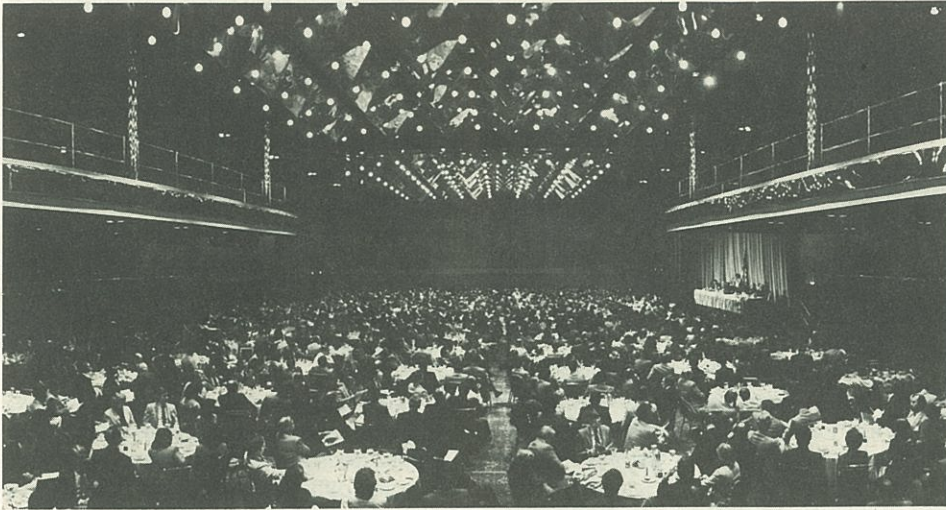
James H. Durkin '66
New York

Leslie R. Martin
Charter Member
Connecticut

Bennett D. Studley '67
New York

Stuart E. Tinker
Charter Member
Iowa

1983 Enrolled Actuaries Meeting



Attendees at the 1982 Enrolled Actuaries Meeting gather to hear William H. Wynn, International President of the United Food and Commercial Workers Union, at last year's luncheon.

The eighth annual Enrolled Actuaries Meeting will be held on January 27 and 28 at the Sheraton Washington Hotel in Washington, D.C. Cosponsored by the American Academy of Actuaries and the Conference of Actuaries in Public Practice, this educational forum for pension actuaries has grown to be the largest meeting of its kind in the United States.

The 1983 program offers a range of topics presented by over 100 speakers in sessions divided into Concurrent, Learning, and Advanced Learning categories. Two topics of general interest to pension practitioners will be covered in the General Sessions: Dialogue with the IRS and Debate on the Merits of TEFRA.

The luncheon addresses will be presented by Dr. William C. Freund, Senior Vice President and Chief Economist for the New York Stock Exchange, and Andrew Tobias, best-selling author of *The Invisible Bankers*. △

from the

Executive Director

Stephen G. Kellison

TEFRA— Beginning or End?

Many actuaries were stunned in 1982 by the rapidity with which the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) was enacted into law. In May it had barely surfaced as a proposal, yet by August it was on the President's desk. Most actuaries are accustomed to a much more deliberate pace that has characterized other legislation affecting actuaries such as Social Security, Medicare, and ERISA in which time spans are measured in years of development rather than weeks.

Although actuarial opinion on TEFRA is mixed, a substantial number of actuaries have expressed the view that TEFRA will have a deleterious effect on employee benefit programs (the stop-gap life insurance tax provisions being a different issue not discussed in this editorial). Is TEFRA the end of the line?

My personal guess is probably not and that TEFRA may well be the beginning, not the end. With enormous and increasingly unmanageable federal deficits looming indefinitely, the tax-sheltered status of fringe benefit programs will inevitably be subject to increasing scrutiny by Congress. Moreover, this continued examination may well encompass fringe benefits

A Joyous
Holiday Season
and
Every Good Wish
for the
New Year!

escaping payroll taxes for Social Security purposes, as well as the more familiar income tax aspects we normally consider. There is growing concern expressed in Congress about the increasing percentage of total compensation in fringes which

escapes the payroll tax. This issue may well be addressed in next year's Social Security legislation.

Taxation and fringe benefits—watch it carefully. It's likely to be an issue for the 80s. △

Special Subject Supplement to The Actuarial Update, December 1982

American Academy of Actuaries 1982 Committee Reports

Admissions Committee

The past year was the first complete year of operation for the new admissions system which was implemented in mid-1981. The new system has significantly improved admissions processing in three respects: (1) average processing time has been dramatically reduced from 6.9 months to 2.9 months; (2) improved communication with applicants in the pipeline has been instituted; (3) more of the administrative burden has been shifted from the volunteer committee members to staff.

The committee has also been considering strengthening requirements for demonstrating familiarity with U.S. practice and the need for membership for non-U.S. residents. First steps toward requiring demonstrated familiarity with U.S. practice are being implemented and further initiatives are being explored.

Dale F. Ethington, Chairman

Budget and Finance Committee

This committee is new this year. As its name indicates, it is responsible for the development and monitoring of the Academy budget. Also, it recommends the dues level and the selection of an auditor each year to the Board of Directors.

Investment policy for Academy funds was examined during the past year. As a result, changes were made to lengthen the average maturity of a portion of the invested funds.

Other items considered by the committee to date are word processing equipment for the Washington office, policy on providing convention management services for other organizations and for jointly sponsored meetings, and a review of the dues policy for retirees.

W. James MacGinnitie, Chairman

Committee on Guides to Professional Conduct

At the request of the Board of Directors, the committee considered how the Qualification Standards adopted by the Board in 1981 should be reflected. An exposure draft of a change to Opinion A-5 has been circulated for comment with an end of the year deadline.

A new Opinion A-7 was exposed during the year, changes were made as a result of the exposure, and a final draft was adopted by the Board in September. The new Opinion A-7 provides a common authorization for all Recommendations and Interpretations rather than the separate authorizations which heretofore existed.

As a result of the adoption of Opinion A-7, significant portions of Opinions A-4 and A-6 have been superseded. The committee has asked the Committee on Pension Actuarial Principles and Practices to incorporate the residual of these two Opinions that should not be lost into the Recommendations and Interpretations. Separate exposure drafts to achieve this goal have been distributed by these committees for comment. Once this process is complete, Opinions A-4 and A-6 will be eliminated.

David M. Reade, Chairman

Nominating Committee

The Nominating Committee, comprised of two subcommittees, one for directors and one for officers, successfully completed its assignments this year.

Each subcommittee met separately, the meeting of the Subcommittee for Officers preceding that of the Subcommittee for Directors so that the latter would have the benefit of decisions made by the former. The committees worked hard to maintain

a balance of specialties, type of employment and geographic area. The final report of the Nominating Committee was presented to the Board of Directors at its meeting in September.

Ronald L. Bornhuetter, Chairman

Committee on Accreditation

The Committee on Accreditation has been relatively inactive this year. False starts in several directions have been useful in that they have helped us to redefine our role.

At its September meeting, the Board of Directors approved both a new committee charge and a new name. The newly constituted Government Relations Committee will in the coming year oversee the government relations activities of the Academy, giving primary attention to relations with state legislators and regulators, as well as matters involving the accreditation of actuaries.

Frederick W. Kilbourne, Chairman

Committee on Health Qualifications

The Committee on Health Qualifications has this year devised and implemented a program for the recognition of health service corporation actuaries. The first written examination in the program was given in May and the results released in July. Of the eighty-one candidates who sat for the exam, thirty passed. Minimum standards were enforced for each of the five sections of the examination. The written examination will be administered for a second time in November. Interestingly, Blue Cross and Blue Shield Associations are sponsoring a seminar to help students prepare for the November exam. We are committed to

giving the exam at least once during 1983.

The committee provided comment on the proposed regulations for the administration of the Baucus Amendment, suggesting that the definition of qualified actuary be amended to say "a member in good standing of or person otherwise recognized by the American Academy of Actuaries."

The committee is also charged with developing a long-term examination track for health actuaries through either the Society of Actuaries or the Casualty Actuarial Society. This year we made preliminary contacts on this subject.

Next year, we plan to produce a booklet on qualifications for rendering opinions on financial statements.

Robert H. Dobson, Chairman

Committee on Life Qualifications

According to the charge of the committee in the *Yearbook*, the committee is "... to counsel with any individual actuary who requests it, concerning whether that individual is qualified to sign such statements of opinion." During the past year no actuaries have requested this voluntary counseling.

John K. Booth, Chairman

Committee on Property and Liability Qualifications

This year, the committee received one request for advice on signing a statement of opinion.

The committee will remain alert to any developments that might require changes in the "Standards for Signing Statements of Opinion as a 'Qualified Loss Reserve Specialist' on the NAIC Fire and Casualty Annual Statement Blank" and will respond promptly to any requests for voluntary counseling.

George D. Morison, Chairman

Public Relations Committee

The Joint Committee on Public Relations for the Actuarial Profession submitted a report in August 1981 to the Council of Presidents, identifying the Academy as the lead organization in the profession's pursuit of an ongoing public relations program. The Academy was given responsibility for planning and implementing activities in the United States as relates to the profession as a whole, not addressing

the value of membership in or promotion of the individual organizations.

In line with that charge, the Public Relations Committee this year established the policies that (1) the Academy's public relations posture is to promote the profession, and (2) when it is appropriate to offer a resource facility to the print and electronic media, legislative and regulatory bodies, and others; we promote the Academy as the profession's interface organization.

Activity during 1982 focused on developing news contacts and placing news items, feature stories, and interviews in all possible media outlets. Secondly, the Committee worked to provide platform opportunities for actuaries at local levels.

Walter S. Rugland, Chairman

Committee on Publications

Perhaps the most significant accomplishment of the past year was the formulation and implementation of a standard editorial policy to govern the publication of our newsletters, the *Enrolled Actuaries Report* and *The Actuarial Update*. Editorial policy covers such matters as appropriate copy, dealing with letters to the editor, both substantively and procedurally, as well as elements of style.

Our most obvious accomplishment this year surely has been the metamorphosis of the *Newsletter* into *The Actuarial Update*. The next issue of the *Enrolled Actuaries Report* will unveil its own new format.

In the coming year the committee will be addressing additional policy questions such as subscription fees and mailing lists, and will present its recommendations to the Board of Directors for action. Also, the committee plans to take a fresh look at organizational matters and may have committee members engaged in multi-assignments for our publications.

Mavis A. Walters, Chairman

General Committee on Financial Reporting Principles

The committee met once this year. Comments from the Committee on Life Insurance Financial Reporting Principles and the Committee on Property and Liability Insurance Financial Reporting Principles were combined for presentation to FASB regarding its exposure draft on insurance accounting. In addition, the committee established a liaison between the Financial Reporting Committees and the NAIC

Insurance Statutory Accounting Principles Board.

We continue monitoring such subjects as the accounting for post-retirement health and welfare benefits, auditing of reinsurance contracts, and discounting claim liabilities. Also, the committee monitored the activities of such organizations outside the Academy as the ACLI Financial Reporting Principles Committee to be certain that all topics of interest to the Academy were addressed.

Stephen D. Bickel, Chairman

Committee on Life Insurance Financial Reporting Principles

During the past year the committee has closely followed the work of the Society of Actuaries task force to study the C-3 risk. After sufficient research has been conducted and published, the committee intends to amend Recommendation 7 to provide guidance to the practicing actuary as to his responsibilities concerning the asset side of the balance sheet.

The committee, together with the Committee on Property and Liability Insurance Financial Reporting Principles and the General Committee on Financial Reporting Principles, which coordinates both of the other committees, submitted a statement on the exposure draft of the FASB statement earlier this year. Many of our suggestions were incorporated in the final statement issued by FASB in April. Also, the committee developed and submitted a statement to the NAIC Insurance Statutory Accounting Principles Board regarding their proposed study of accounting for deferred taxes in statutory statements. It is unknown at this juncture whether or not this study will be conducted.

A task force of the committee is working closely with a task force of the AICPA Insurance Companies Committee to develop rules for deferred annuities, universal life, and other similar products. The group is focusing initially on single premium deferred annuities, where a perception of some current abuse exists. Several drafts of a discussion memorandum have been developed; it is anticipated that something will be distributed to both actuaries and accountants soon. Once the principles for this product are agreed upon, work will shift to the other products, including universal life. Also, a final Interpretation 1-I on GAAP for indeterminate premium products has been prepared and will be promulgated after approval of the Academy Board.

Another committee task force has taken the significant points of A-6, which were not included in the new A-7, and have inserted them in the revisions of the recommendations and interpretations of the committee. The revised recommendations have been submitted to the Academy office for approval.

Burton D. Jay, Chairman

Committee on Property and Liability Insurance Financial Reporting Principles

In February, the committee met to discuss the FASB exposure draft, "Accounting by the Insurance Industry." Comments were developed and submitted to the General Committee on Financial Reporting Principles which subsequently issued its February statement to FASB.

The committee also discussed a proposed federal tax law regarding the deductibility of unpaid claims. A lobbying group has been formed to modify the Internal Revenue Code to permit deductions for estimated unpaid workers compensation, and liability claims among others. The committee believes that from an actuarial perspective, there is no substantive difference between the unpaid claims of an insurer and those of a self-insured entity. The committee recommends the issue be studied by a joint task force of this committee and the Committee on Property and Liability Insurance. The task force would address two questions: (1) Is there a substantive difference between insured and self-insured loss reserves? and (2) What impact would the passage of this legislation have on the professional work of the actuary? After addressing these questions, the task force should develop appropriate recommendations for the Academy membership.

The committee also discussed this year the question of the "good and sufficient" provision for the statutory loss and loss expense reserves, concluding that it is currently being studied by the Loss Reserve Committee of the Casualty Actuarial Society. In 1983, the committee will determine whether additional recommendations or interpretations are needed in this area.

Daniel J. Flaherty, Chairman

Committee on Dividend Principles and Practices

This year the committee has been relatively inactive, primarily because of the work that is currently being undertaken by the

counterpart committee of the Society of Actuaries. The Society committee intends to publish draft recommendations which cover deferred annuities and participating policies written by stock companies.

If we choose to adopt the SOA Recommendations, our committee recommendations for these products will require two small amendments to the Academy principles and practices. First, a requirement would be introduced that a separation of accounts be maintained for lines of business covered by the Recommendations and, within these lines, between participating and nonparticipating business. The second change deals with the amounts transferred from a participating account of a stock company to a nonparticipating account and/or the shareholders' account. There should be a reasonable limitation placed on these transfers and the proposed Recommendations should specify the relevant factors to be taken into account in judging the reasonableness of any amounts transferred.

The recommendation of the SOA committee will be that it will apply to all business, so that stock company actuaries would have to disclose all nonconforming practices on existing blocks of business. This Recommendation will be controversial and will need careful consideration by the Academy.

The Society committee has also drafted Recommendations with respect to non-guaranteed charges for benefits for "non-traditional products." By nontraditional it is meant, all policies in which charges or benefits may vary at the discretion of the company, other than through the use of dividends. The Society committee recognized that such products are at an early stage of their evolution and that the recommendations should leave considerable room for future developments. This consideration has had an important impact on the proposed Recommendations. The fundamental concept underlying the Recommendations is called the continuity principle. Essentially this principle states that whenever charges or benefits are changed, the changes must be based on a change in the underlying experience. It is not required, however, that charges or benefits be changed when the underlying experience changes. Substantial work will need to be done in response to comments by both the SOA and AAA Committees.

The other important issue still being pursued by the Academy committee is that of the implementation of the recommendations to the NAIC with respect to annual statement matters and disclosure. The

American Council of Life Insurance has endorsed our approach, but progress is not rapid. Several key NAIC staff members have indicated their agreement in principle with our recommendations for the annual statement; they believe though, that the form should be changed for better conformance with the overall annual statement format.

John H. Harding, Chairman

Committee on Pension Actuarial Principles and Practices

The committee met eight times this year. A new Recommendation C-Pension Actuarial Communications was exposed to the membership for comment in April. The final version will be prepared and distributed soon. The committee's General Characteristics of Acceptable Actuarial Cost Methods discussion memorandum will be completed and distributed by the end of the year.

Other activities completed by the committee included: (1) review of pension material submitted to the Committee on Discipline (discipline issue was not perceived); (2) consultation with a member about the acceptability of an actuarial cost method; and (3) preparation of a letter suggesting technical improvements in IRC section 6058 to the Senate Committee on Labor and Human Resources and the House Committee on Education and Labor.

Harry E. Allan, Chairman

Committee on Pension Accounting Matters

Most of the activities of this committee are closely linked to the activities of the Financial Accounting Standards Board and the Employee Benefits Committee of the Auditing Standards Division of the AICPA, currently preparing auditing standards for pension plans. Activities in connection with the audit guide on employee benefit plans have been relatively inconsequential this past year or so, since the committee had previously commented extensively on an early draft of the audit guide, and there has been no recent activity.

The last significant FASB statement for public comment, the discussion memorandum on "Employers' Accounting for Pension and Other Post-employment Benefits," was issued in early 1981. The committee prepared extensive written comments and appeared at the public hearings in July. The FASB over the past several months has been meeting and issuing

periodic notices of their "tentative conclusions" on the various pension issues. Because of the direction being taken by FASB, five members of the committee met in April with the FASB and several key staff members to discuss the basic issues involved and to present some of the underlying concepts of pension funding methods and selection of actuarial assumptions.

The upcoming year should be very active in pension issues because two or three very significant exposure drafts are scheduled to be released by FASB. The committee plans to participate actively in the discussions with FASB on these issues, prepare written commentary, and appear at public hearings.

Edwin F. Boynton, Chairman

Committee on Relations with Accountants

This committee met jointly with the AICPA Committee on Relations with Actuaries on three occasions during the year.

Our first committee meeting was held in October in Bermuda. In addition to our normal activities, a portion of the meeting was devoted to discussing specific Bermuda insurance problems with local chartered accountants and actuaries.

At our January meeting the reliance and independence issues were the major topics of discussion. This discourse led to the establishment of an Academy task force charged with developing a report on these issues for future consideration by this committee and the AICPA Committee on Relations with Actuaries.

A preliminary draft of this report was discussed at the May meeting. The final report will be considered at a subsequent meeting of the two committees.

Ronald L. Bornhuetter, Chairman

Committee on Health Insurance

Our subcommittees have had a very productive year. The following are highlights of their activities.

The Subcommittee on Liaison with NAIC Accident and Health (B) Committee attended the meetings of this NAIC Committee and the actuarial task force. Of special importance are the report of the Advisory Committee and the possible use of statements of actuarial opinion.

The Subcommittee on Health Maintenance Organizations has played a significant role as regards the matter of actuarial opinions mentioned above and matters

pertaining to the qualifications of health actuaries. The knowledge of the members of this subcommittee will also be brought to bear on certain current national health policy issues. The subcommittee also participated in fact-finding hearings of the federal government.

The Subcommittee on National Health Policy Issues in conjunction with the Committee on Health Insurance and other actuaries presented testimony on behalf of the Academy's Health Committee concerning pro-competition legislation. The Committee on Health Insurance has recently been asked by an interested member of Congress for comments on pro-competition legislation. This subcommittee together with other members of the Committee on Health Insurance and other actuaries will prepare an appropriate response.

The Subcommittee on Federal Report Impact on the Role of the Health Actuaries has been extremely active in working with HCFA concerning the Baucus Amendment and related matters. The subcommittee has provided valuable input to the deliberations of HCFA on certain actuarial aspects of this legislation. Some of the undertakings of this subcommittee in regard to some studies being made under the Baucus Amendment were of sufficient topical interest that a small task force was assigned to interrelate with HCFA regarding those particular studies.

The Subcommittee on Professional Practice of Health Actuaries has made considerable progress in preparing preliminary drafts on what may become a professional standard on the subject of loss ratios. The pertinent materials may be ready for distribution outside of the subcommittee soon.

The Subcommittee on Health and Welfare Plans has completed a detailed working draft of a discussion memorandum on the subject of the actuarial aspects of health and welfare plan financial statements and related matters. This has already been shared with a number of people in the actuarial and accounting professions. It should be ready for further distribution shortly.

W. H. Odell, Chairman

Committee on Life Insurance

The committee has worked on a number of issues over the past year, issues that will continue to have priority in 1983.

An NAIC advisory committee is studying various proposals for permitting issuance of permanent life insurance without guaranteed cash values. The actuarial aspects

of the issue are critical, and the committee believes its immediate goal is to make the Academy's membership aware of what is being proposed and why. A longer-term goal is to participate in the development of the arguments for and against the various proposals.

A number of issues relate to the calculation of minimum reserves (deficiency reserves). A fundamental issue is, whether minimum reserves are necessary at all, and if such standards are desirable, whether existing approaches to the matter are appropriate. The committee plans to identify the issues for the members, and promote discussion.

An emerging issue is the standards which should be applied to determine the appropriate level of a life insurance company's surplus and the extent this level of surplus should be regulated. This issue is directly related to the minimum reserve issue. In 1982, Wisconsin enacted regulations pertaining to surplus levels. The committee recommended that Wisconsin defer such regulation pending further study and coordination with the NAIC. It also identified a number of problems with the Wisconsin regulation.

The committee has and will continue to monitor issues related to universal life and other flexible premium products within its purview. Also, the committee continues to serve as a resource to those NAIC technical committees that work with life insurance.

Richard S. Robertson, Chairman

Committee on Property and Liability Insurance

Several pieces of legislation have been of interest this year to the committee. H.R. 6114 is a bill which would permit tax deductions for casualty loss reserves. The Academy submitted a proposed amendment that would require qualified loss reserve specialists to establish these reserves. Academy members would be so considered as would any person so recognized by the insurance department of any state. No other comments were offered on the legislation which is expected to be reintroduced in amended form in the new session of Congress.

At the state level, the committee reviewed New Jersey Assembly Bill 1696 pertaining to requirements for determining private passenger automobile insurance rates. The committee had no concerns or objections to voice. The staff proposed language for the District of Columbia compensation regulations which defined "qualified actuary" for loss reserve purposes consistent

with language proposed in other jurisdictions.

Currently, this committee is seeking an active role in the deliberations related to the NAIC plans and discussions regarding group workers compensation self-insurance and model risk retention regulations. After the dust settles from the elections, the committee plans to identify state and federal issues likely to require our attention in 1983.

Jerome A. Scheibl, Chairman

Committee on Risk Classification

With risk classification a hot issue throughout the year, the committee's major emphasis has been developing and responding to various legislative actions.

One of our goals has been to prepare model risk classification legislation and then devise a strategy for its enactment. To date, a final package has not been developed.

A major accomplishment this year was the filing of an amicus brief on behalf of the Academy in support of Arizona's request that the U.S. Supreme Court consider its appeal of the Ninth Circuit's decision in the *State of Arizona v. Norris* case. With the Supreme Court's recent decision to review *Norris*, the committee has begun redrafting some earlier work so that yet another brief might be filed in this case.

Preliminary overtures to the EEOC were made by committee members to establish a basis for discussion of insurance and employee benefit discrimination issues. Our efforts here were delayed by the Administration's slow progress in filing vacancies on the Commission. Depending on their future role, it may be appropriate to continue efforts in this direction.

This year the EEOC issued proposed interpretations of the Equal Pay Act which would have required equal periodic pension payments (without regard to the equality or inequality of present value) to similarly situated males and females. The committee submitted comments regarding the potential impact of the proposed rules. Many others also commented, and the proposed rules were subsequently withdrawn, pending further study.

In July, hearings were held on S. 2204 which, like H.R. 100, would proscribe differential treatment with respect to insurance availability rates and benefits on the basis of race, color, religion, national origin, or sex. The Academy testified at the hearings regarding the bill's probable economic impact. Our testimony was based

upon our study of the economic impact of H.R. 100.

Lastly, in its final push to seek ratification of the ERA, the National Organization for Women ran full-page ads in *The New York Times*, *The Wall Street Journal*, and *The Los Angeles Times* denouncing insurance companies for their use of sex-based rates. The ads were misleading, and the committee responded through letters to the editors of all three newspapers.

Jay C. Ripps, Chairman

Pension Committee

The Pension Committee held an organizational meeting in New York in November 1981. This meeting immediately followed a joint meeting with representatives of the Society of Actuaries and the Conference of Actuaries in Public Practice. It was decided that the Academy Pension Committee would be the primary vehicle for interacting with the public and governmental officials, while the pension committees of the other organizations would be involved primarily with research projects.

During the course of the year the committee, acting through its subcommittees, prepared written statements on proposed legislation in a number of areas including the ERISA revision bill (with a supplement on Title IV proposals), PERISA (both House and Senate versions), a scheduled hearing on the funding of private pension plans, and the Rangel bill. A statement on the proposed PBGC premium increase is being prepared. Committee members testified at hearings on the ERISA revisions and the Rangel bill.

In March 1982, the Pension Committee met in Washington to review the status of its work and to consider various issues which had been raised. The Chairman of the Committee on Pension Terminology attended this meeting by invitation. As a result, committee members marked up ERISA to conform to the new terminology. Proposed changes have been submitted to congressional staff.

Finally, a meeting was held in August, at which time some changes were made in the structure of the subcommittees.

Douglas C. Borton, Chairman

Committee on Services to Enrolled Actuaries

At the annual Enrolled Actuaries Meeting, committee members conducted a sur-

vey to determine the success and effectiveness of the meeting. Results of the evaluation were presented to the Joint Program Committee in the form of program content and general operations suggestions.

The *Enrolled Actuaries Report* announced a new Letters to the Editor feature. The committee assisted in formulating editorial policy for this newsletter.

Throughout the year the committee worked with other actuarial organizations to ensure high quality pension sessions in their program. Working with the Society of Actuaries, pension learning sessions were included in the Vancouver (1983) and Salt Lake City (1984) programs.

Also, the committee worked with the Joint Program Committee to produce a videotape of a mock trial for distribution to actuarial clubs. The committee conducted a survey of all enrolled actuaries in order to assess their current needs and to develop new services based upon our findings.

The committee prepared a description of an enrolled actuary to be included in literature describing actuarial careers. The description was approved by the Executive Committee.

For sale at the January 1983 Enrolled Actuaries Meeting, the committee is developing a computer listing of enrolled actuaries by geographic area. The computer program has been written, and the project is on schedule.

Finally, the committee met with the Society of Actuaries to determine the needs of enrolled actuaries in the area of mortality (and other) studies.

Robert G. Utter, Chairman

Committee on Pension Terminology

The committee's efforts during this year have focused on making inroads in inserting standard pension terminology into legislation, FASB pension projects, and a pension textbook.

In a major step forward, the Actuary and Minority Legislative Associate of the U.S. House of Representatives, Russ Mueller, accepted the preferred pension terminology in a marked-up version of PERISA, with the exception of the term "accumulated plan benefit," not approved because of the FASB conflict.

The committee worked on a mark-up of ERISA, changing the pension terms to the preferred terminology. The strategy, here, was to get the necessary amendments into the pending Senate and House pension

bills as a technical revision. Although the 1982 Tax Act did not include these "technical amendment proposals," it is hoped that future legislation regarding ERISA will include this package.

Follow-up discussions were held with FASB to pursue inclusion of the preferred terminology in the FASB discussion memorandum follow-up report, including the pension glossary. The committee believes that once the glossary is amended, future FASB declarations would include the recommended terminology. A mark-up of the glossary was developed by the committee and at the appropriate time will be presented to FASB for review and consideration.

Two meetings were held in order to pursue the changes desired in terminology in a pension textbook now under preparation. In order to assist in this project, 200 pages of the text were marked up with the

preferred terminology.

Several previously identified pension terminology implementation efforts have been on hold because of the view that changing ERISA to recognize the preferred terminology was the key to much of the implementation effort. The committee concluded that attempts to change the IRS regulations would probably not be successful. And, with regard to convincing the Department of Labor, Pension Benefit Guaranty Corporation, the Securities and Exchange Commission, and other relevant organizations to use the preferred terminology, the committee has not yet taken a "hard sell" approach.

Next year, the committee plans to continue its implementation efforts, with particular emphasis on ERISA implementation and the textbook coordination.

Michael J. Tierney, Chairman

Committee on Social Insurance

During the past year, Congress has postponed consideration of significant Social Security legislation, deferring to the bipartisan National Commission on Social Security Reform which will report its recommendations shortly after the 1982 November elections. The Academy has been well represented in the work being performed by the National Commission. Committee members have testified before the Commission and two of the Commission's technical advisors are from within the committee's ranks.

In addition, the committee has been in close contact with the General Accounting Office, whose study last year of actuarial cost projections involving Social Security is expected to be released soon.

James R. Swenson, Chairman

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