APR 2012

Actuarial UPDATE
THE NEWSMONTHLY OF THE AMERICAN ACADEMY OF ACTUARIES

2012 Enrolled Actuaries Meeting

As the Pension World Changes

THE OLD SAYING "CHANGE IS THE ONLY CONSTANT" has never been more appropriate for pension actuaries than it is today. For the more than 700 registered attendees at the 37th annual Enrolled Actuaries (EA) Meeting, the three-day conference was an opportunity to hear a variety of experts consider some of the trends forcing that change.

"To ensure the fiscal reliability of our nation's retirement plans, today's enrolled actuaries will need to be professionals who can manage—and I hope thrive on—change," said Academy President Dave Sandberg in his welcoming remarks at the March 25–28 meeting, which was jointly sponsored by the Academy and the Conference of Consulting Actuaries. He encouraged attendees to "examine our most pressing retirement issues through an ERM [enterprise risk management] prism" by asking questions about the present and then charting a course for the future.

Tonya Manning opens the third general session at the EA Meeting on March 28.

Brave New World

Panelists for the opening session kicked off the conference by looking at how traditional actuarial models for pensions could be revamped to provide greater levels of transparency and risk awareness.

"Being an actuary today is like being a mortician during a plague. All the bodies are falling. So many large pension funds are in serious trouble," said Gene Kalwarski, president and chief executive officer of Cheiron Inc. in McLean, Va.

The 2008 economic downturn was unique, he said. Assets reached historically high levels, he continued, allocations to risky assets were at their highest levels, actuaries employed the most aggressive assumptions in history, benefit levels peaked, and competition for pension contributions increased.

The lesson that actuaries can learn from the recent recession is that "the traditional investment and actuarial models are broken," Kalwarski said. "We need to figure out a way to be sure that this type of crisis doesn't happen again."

Focusing on better risk measures would improve actuarial models, he said. He also suggested revamping the

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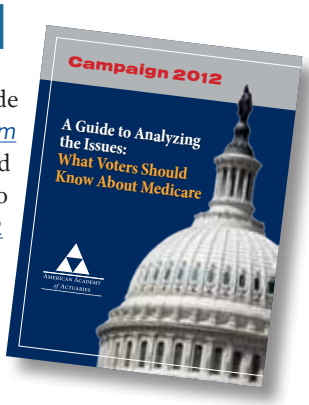
Medicare Voters' Guide Released

THE ACADEMY RELEASED A NEW CAMPAIGN 2012 VOTERS' GUIDE—*A Guide to Analyzing the Issues: What Voters Should Know About Medicare*—April 23. The guide, developed by the Health Practice Council's Communications Task Force, provides essential information on Medicare, how it is funded, the financial challenges it faces, and some of the options that have been proposed to improve the program's financial condition.

"There is no simple solution to shoring up Medicare," said Tom Wildsmith, vice president of the Academy's Health Practice Council, "but the sooner corrective measures are enacted into law, the more flexible and gradual the approach can be. The guide offers valuable information that voters can use to encourage candidates to advance concrete proposals to improve the program's fiscal sustainability for current and future generations of Americans."



The Medicare voters' guide and the *Social Security Reform* voters' guide that was released last month have been added to the Academy's Campaign 2012 Toolkits. Academy members across all practice areas who have the opportunity to speak to professional or community groups during the election season can use the toolkits to deliver objective information about key public policy issues. Along with the voters' guides, the toolkits also include sample slide decks, notes to assist with crafting public presentations, issue briefs, and other policy statements that can be handed out or used to enhance an actuary's presentation.

CALENDAR

APRIL

4 Executive Committee meeting, Washington

18–20 CAS Enterprise Risk Management Symposium, Washington

18–20 The ASPPA 401(k) Summit, New Orleans

MAY

8 CUSP meeting, Niagara-on-the-Lake, Ontario

9–10 NAAC meeting, Niagara-on-the-Lake, Ontario

17 Academy Board of Directors meeting, Washington

20–23 CAS spring meeting, Phoenix

23–26 IAA meeting, Los Angeles

30–June 1 NAIC Financial Summit, Washington

JUNE

21–22 CIA annual meeting, Toronto

JULY

12–15 NCOIL summer meeting, Burlington, Vt.

16 Summer Summit, Washington (Academy)

AUGUST

11–14 NAIC summer meeting, Atlanta

15 Executive Committee meeting, Washington

SEPTEMBER

6–7 Casualty Loss Reserve Seminar (Academy, CAS, CCA)

13 Professionalism webinar: *Precept 13 of the Code*

OCTOBER

5–6 NAAC meeting, Mexico City

10 CUSP meeting, Washington

11 Board of Directors meeting, Washington

14–17 SOA meeting, Washington

15 Academy Annual Meeting, Washington

21–24 CCA annual meeting, Baton Raton, Fla.

NOVEMBER

11–14 CAS annual meeting, Lake Buena Vista, Fla.

To continue receiving the *Update* and other Academy publications on time, remember to make sure the Academy has your correct contact information. Academy members can update their member profile at the member log-in page on the Academy website.

Academy NEWS Briefs

Boxscore Published

THE APRIL 2012 EDITION of the Actuarial Standards Board's (ASB) *Boxscore* is now available. This issue contains information about several exposure drafts recently approved by the ASB:

- An exposure draft on risk evaluation that would provide guidance to actuaries performing professional services with respect to risk evaluation systems, including designing, implementing, using, and reviewing those systems. Comments are due June 30, 2012.
- Revisions to Actuarial Standard of Practice (ASOP) No. 28, *Statements of Actuarial Opinion Regarding Health Insurance Liabilities and Assets*, which provides an explicit exclusion for actuaries preparing statements of actuarial opinion for life insurance companies; and revisions to ASOP No. 22, *Statements of Opinion Based on Asset Adequacy Analysis by Actuaries for Life and Health Insurers*, which changes the definition of Health Benefit Plan to be consistent with that in ASOP No. 28. Comments on the revisions are due by May 15, 2012.
- Revisions to ASOP No. 6, *Measuring Retiree Group Benefits Obligations and Determining Retiree Group Benefits Plan Costs or Contributions*, which was updated to be consistent with ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*. Comments for ASOP No. 6 are due by July 15, 2012.

Visit the ASB website for more information about all the board's activities and a link to the ASB's 2011 annual report.

May 1 Deadline for Dues

IF YOU HAVEN'T YET renewed your Academy membership, May 1 is the deadline to pay your 2012 dues to avoid a late fee. You can use our fast, efficient online dues system 24/7. Just go to www.actuary.org/dues.asp and log in. If you have any questions about your membership status or about paying dues, contact Mary McCracken at membership@actuary.org or 202-223-8196.

IN THE NEWS

AMICUS BRIEF FILING

As the U.S. Supreme Court wrapped up its oral arguments on the severability issue in the challenge to the Affordable Care Act (ACA), the Academy appeared in several major stories centered on "what now" and "what if." The Academy's amicus brief was cited in Bloomberg's SCOTUS Blog. Asked how actuaries and insurance companies "war room" the court decision, Academy Vice President Tom Wildsmith told NPR's *All Things Considered* that the uncertainty the ACA case brings for insurers is that they don't know whom they'll be covering next year. "What if the mandate fails?" was a favorite point of speculation in the *Washington Post*'s Wonkblog, and Senior Health Fellow Cori Uccello delivered a straightforward answer: In order for ACA to be viable, the system will still need carrots and sticks to compel full participation.

TRUSTEES' REPORTS

Another focus inside the beltway this month has been speculating on the Social Security and Medicare trustees' reports. Academy Senior Fellows Uccello and Don Fuerst were called on by CNN to comment, and their remarks appeared in an online story that was picked up by several dozen print and broadcast outlets over the weekend preceding the reports' release.

AN ACTUARIAL "SUPERHERO"?

Self-described high school math geek cum philosophy professor Janet D. Stemwedel, blogging for *Scientific American*, made the case that a superhero is needed to make math cool and playfully proposed that the Academy take up the challenge. Her suggestion: "The Numerator (he always comes out on top)."

Court Considers the Actuarial Perspective

THE ACTUARIAL PERSPECTIVE on the individual mandate and severability was frequently referenced during oral arguments before the U.S. Supreme Court in March as it took up the challenge to the Affordable Care Act (ACA).

Associate Justice Stephen G. Breyer and Paul D. Clement, counsel for the respondents in the suit against the government, for example, engaged in the following exchange on March 27 during oral arguments on the individual mandate:

Justice Breyer: "But do you think you can, better than the actuaries or better than the members of Congress who worked on it, look at the 40 million people who are not insured and say which ones next year will or will not use, say, emergency care?"

Mr. Clement: "Of course not, Justice Breyer, but the point is that once Congress decides it's going to regulate extant commerce, it is going to get all sorts of latitude to make the right judgments about actuarial predictions, which actuarial [sic] to rely on, which one not to rely on."

The following day, during arguments on the severability of the individual mandate from other ACA provisions, Associate Justice Ruth Bader Ginsburg addressed the government:

Justice Ginsburg: "You are relying on Congress's quite explicitly tying these three things [the individual mandate, guaranteed issue, and community rating] together?

Deputy Solicitor General Edwin S. Kneedler: "That's the—that's the problem Congress was addressing. There was a—there was—a shifting of present actuarial risks in that market that Congress wanted to correct. And if you took the minimum coverage provision out and left the other two provisions in, there would be laid on top of the existing shifting of present actuarial risks an additional one because the uninsured would know that they would have guaranteed access to insurance whenever they became sick."

You can see all mentions of actuaries and actuarial work in the oral arguments in the indexes in the transcripts for the March 27 and March 28 hearings.

In addition to the repeated references to actuaries and actuarial principles during oral arguments, the government specifically cited the Academy's Jan. 27 amicus brief on severability in its brief reacting to the respondents' filing. The Academy's brief addressed a very narrow aspect of the cases before the court—the severability of the individual mandate from the other market reform provisions—but did not take a position on the constitutionality of the individual mandate or whether any other provisions in the ACA are severable from the individual mandate.

The Academy's brief informed the court, "However the Court rules on the constitutionality of the individual-mandate provision ... the guaranteed-issue and community-rating provisions should stand or fall together with it." This judgment stems from the fundamental actuarial perspective that "... in order for the community-rating and guaranteed-issue provisions in the Act to operate as intended, they must be paired with an effective mechanism to ensure broad participation in the health-insurance market, such as an individual mandate."

Read the Academy amicus brief and the press release announcing filing of the brief. The court is expected to announce its decision in June.

Brian Jackson (l) takes over as staff attorney for the ABCD when Tom Griffin retires at the end of April.

Griffin Retires

TOM GRIFFIN is retiring at the end of April after serving 18 years as staff attorney for the Actuarial Board for Counseling and Discipline (ABCD). He is expected to continue to assist on occasional ABCD matters.

This is actually Griffin's second retirement. His first was in 1993, when he retired from the Army as a lieutenant colonel. He joined the Army in 1969 after earning a bachelor's degree in political science from Oberlin College in Ohio. Two and half years later he left the service to attend the University of Tennessee College of Law under the GI Bill. He rejoined the Army after receiving his law degree—this time into the Army Judge Advocate General's Corps. Griffin took a few months off after retiring from the Army before coming to work at the ABCD in 1994.

The highlight of his career at the ABCD, Griffin said, has been working with ABCD members, all of whom have made significant contributions to the profession—often as former presidents of actuarial organizations or chairs of important committees—before serving on the ABCD.

"I've always been impressed by the knowledge, experience, and wisdom of the people on the board," said Griffin. "I'm really going to miss the give-and-take that occurs when the board members wrestle with issues in each case."

The board is in good hands with incoming Staff Attorney Brian Jackson, Griffin said. "I'm impressed with how quickly Brian's been able to grasp the issues and procedures. He's a real go-getter."

In preparation for his retirement, Griffin's wife, Colleen, has created a list of fun things for them to do and posted it on their kitchen blackboard. On the agenda is travel—including an upcoming trip to visit family and friends in his hometown of Oak Ridge, Tenn.—and spending time at local delis and coffee shops.

But the thing Griffin is looking forward to most is spending more time playing his guitar. Colleagues and friends are aware that he never goes anywhere without it, and he has been known to strum a few chords at lunchtime both in the office and at meetings on the road. Griffin's love for the instrument began in high school when his mother gave him an acoustic guitar. He played folk and classical guitar before developing a passion for blues and jazz. In recent years Griffin has taken up the electric guitar, and he plays with various ensembles in church and at church functions. You also can hear him play at the Alexandria Armenian Festival in Old Town Alexandria, Va., on June 2.

ABCD Names New Staff Attorney

Ensuring Due Process

WHAT DO THE MARINE CORPS Judge Advocate Division and the Actuarial Board for Counseling and Discipline (ABCD) have in common? Quite a lot, according to Brian Jackson, who was hired in mid-January to take over as staff attorney for the ABCD when Tom Griffin retires at the end of April.

Jackson comes to the ABCD after serving for 22 years as an attorney in the Marine Corps, rising to the rank of major. Much of his work involved participating in and running administrative proceedings for Marines accused of violations of the military code. In his new position, Jackson assists the ABCD in fielding complaints against actuaries and oversees the investigations that determine whether a hearing is necessary. He also makes sure that actuaries seeking help interpreting the Code of Professional Conduct and the actuarial standards of practice receive the guidance they need from a member of the ABCD.

"I wear a different uniform to work now," said Jackson, "but my job is to make sure due process is done and to ensure that actuaries accused of doing something wrong are treated fairly."

Another similarity between the actuarial world and the Marines that Jackson has observed is the high standards that each profession expects its members to maintain.

"I've found the same level of integrity and honor in the actuarial profession that I found in the Marines," he said. "This is important because it instills public confidence in the profession."

Jackson said his primary focus will be to gain a better understanding of the actuarial profession and a working knowledge of the principles and potential areas of conflict in each practice area so that he can assist the members of the ABCD. Over the past three months he's worked closely with Griffin to create a database of information that he can draw from.

"I've tried to capture the knowledge that Tom has from his 18 years at the ABCD," said Jackson.

As in the military, the actuarial profession has lots of acronyms, and Jackson admits to using a cheat sheet to keep track of them all. He said that learning the actuarial "language" has made him more aware of how his friends felt when he used military jargon and acronyms.

Jackson earned his bachelor's degree from the University of Maryland and his juris doctorate from Washington and Lee School of Law. Saying it would give him a broad range of experience, Jackson's mentor and first-year law professor inspired him to join the Marines. That is exactly what Jackson found. During his years in the Marine Corps, Jackson served as lead defense counsel for two Guantánamo detainees charged with war crimes, represented convicted service members in appeals courts, served as a legal adviser to commanding generals, developed IT strategies to improve the efficiency and quality of Marine Corps legal services, and trained government employees on how to assist victims and witnesses of crimes.

Jackson and his wife, Angie, live in King George, Va., and have a son, Nate, 17, and daughter, Chrissy, 15. He is a devoted Redskins fan and likes to officiate at high school football and lacrosse games "when his knee allows." Jackson is an avid reader of crime novels and particularly likes the works of Dennis Lehane. At the urging of his daughter, he recently read—and enjoyed—*The Hunger Games*, but he wants to finish reading the series before going to see the movie.

Recognizing Dedicated Volunteers

THE ACADEMY'S EXECUTIVE COMMITTEE is now accepting suggestions for recipients of the 2012 Award for Outstanding Volunteerism. The award, which was established last year, honors volunteers who have made a single, noteworthy contribution that is above and beyond what is reasonably expected of an Academy volunteer.

If you know a volunteer who deserves to be recognized for work done for the Academy in the past 12 months, you are encouraged to submit his or her name to the Executive Committee by July 6. The Executive Committee will consider all nominations from individual Academy members and from Academy committees, and the award(s) will be presented at the Academy's annual meeting in October.

Any Academy member is eligible for this award except current board members or officers. Past board members or officers are eligible to be recognized for service as long as such service did not occur during their respective tenures as board members or officers. Prior recipients of this award can be nominated and win multiple times if their contributions in successive years warrant it. In addition to Academy council or committee participation, service on behalf of the Academy may include participation on committees of other organizations, such as the National Association of Insurance Commissioners, that reflects positively on the Academy and benefits Academy members.

The inaugural Awards for Outstanding Volunteerism were presented to Steve Alpert, Arnold Dicke, and Stuart Mathewson at the Academy's 2011 Annual Meeting and Awards Luncheon last fall.

Click here to learn more about the award and past winners.

House Passes Medical Professional Liability Reform Bill

THE U.S. HOUSE OF REPRESENTATIVES on March 22 passed H.R. 5, the Help Efficient, Accessible, Low-cost, Timely Healthcare (HEALTH) Act, which would cap noneconomic damages and make other changes to medical professional liability insurance law. The bill, which was sponsored by Rep. Phil Gingrey (R–Ga.), was amended to include a repeal of the Independent Payment Advisory Board (IPAB) that was created by the Affordable Care Act. The HEALTH Act has now moved to the Senate, where it is unlikely to come to a vote.

In advance of the House vote, the Academy's Medical Professional Liability Committee addressed some of the actuarial implications of the proposed legislation in a March 21 letter to House leadership.

In a separate letter to House leadership, the Academy's Health Practice Council explained why the IPAB was created and discussed some current proposals to eliminate the IPAB and to expand it. The letter also highlighted the Academy's position that regardless of whether the IPAB is repealed or expanded, more must be done to improve the financial condition of the Medicare program.

Financial Smarts is for Everyone

The Actuarial Foundation's Spring 2012 Financial Smarts newsletter is now available. This issue looks at options to consider when deciding to file for Social Security benefits and examines claiming strategies for couples, tax considerations, and how monthly benefits increase with retirement age.

Financial Smarts is available at no cost to any library to distribute to patrons in its free resources area. Find out how you can bring Financial Smarts to your local library!

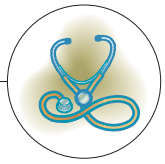
THE ACTUARIAL FOUNDATION®

LIFE AND HEALTH QUALIFICATIONS SEMINAR

Nov. 12–15, Arlington, Va.

The Life and Health Qualifications Seminar offers state- and country-specific basic education that may not have been provided as part of the Society of Actuaries examination process or acquired through subsequent testing or alternative education. It also can serve as a basic education refresher or as a source of continuing education for more experienced actuaries as required under the specific Qualification Standards.

For more information or to register, visit http://www.actuary.org/seminar/2012/index.asp.



Following Up on Hill Visit

IN AN APRIL 2 letter to the Center for Consumer Information and Insurance Oversight (CCIIO), the Health Practice Council responded to questions about the structure of the proposed actuarial value calculator that were raised during the March Hill visits with representatives of the CCIIO. The council's letter addressed cost-sharing inputs for the calculator, incorporation of induced demand, number of geographic pricing tiers, and incorporation of multiple network tiers.

Qualified Actuary Defined

SOME STATES may be failing to correctly define the term "qualified actuary" under the Affordable Care Act's (ACA) rate review provision, the Academy's Health Practice Council and Committee on Qualifications wrote in a letter that was sent to all state insurance commissioners and the chairs of each state house and senate insurance committee. The letter provided a definition of qualified actuary that the Academy believes is appropriate with regard to the Affordable Care Act's (ACA) rate review provision. The Academy decided the letter was necessary after seeing a number of instances in recent months in which states are not defining qualified actuary correctly in the context of ACA's rate review provision.

PENSION BRIEFS

- **Scott Hittner**, a partner at October Three in Denver, has joined the Academy's Pension Committee.

HEALTH BRIEFS

- Joining the Academy's Federal Long Term Care Task Force are **Michael Boot**, managing director-SPA for the Society of Actuaries; **David Plumb**, vice president for John Hancock Life Insurance Co. in Boston; and **Allen Schmitz**, consulting actuary for Milliman in Brookfield, Wis.
- **Monique Hacker**, associate actuary for New York Life in Tampa, Fla., has joined the Academy/SOA Cancer Claims Cost Tables Work Group.
- **Mark Birdsall**, an actuary for the Kansas Insurance Department in Topeka; **John Rink**, an actuary for the Department of Insurance in Lincoln, Neb.; and **Felix Schirripa**, president of Financial Designs in Colts Neck, N.J.; have joined the Academy/SOA Long-Term Disability Work Group.

LIFE BRIEFS

- **Debra Fickett-Wilbar**, an actuary for Liberty Life Assurance Co. in Dover, N.H., and **Craig Roberts**, principal and consulting actuary for Milliman in Seattle, have joined the Academy's Lifetime Income Risk Joint Task Force.
- **Kenneth Vande Vrede**, director, corporate actuarial for Genworth Financial in Richmond, Va., has joined the Academy's Life Reserves Work Group.
- **Stephen Krupa**, an actuary for TIAA-CREF in New York, has joined the Academy's Life Valuation Subcommittee.
- **June Lu**, second vice president of New York Life Investment Management in Parsippany, N.Y., has joined the Academy's Annuity Reserves Work Group.
- **Corinne Jacobson**, assistant vice president, annuity valuation for Midland National Life Insurance Co., has been appointed chairperson of the Academy's newly formed VM-22 Subgroup of the Annuity Reserves Work Group. Other Academy members joining that group are **Mark Birdsall**, an actuary for the Kansas Insurance Dept. in Topeka; **Michael Gower**, an actuary for Allianz Life Insurance Co. of North America in Minneapolis; **James Lamson**, president of Actuarial Resources Corp. in Overland Park, Kan.; **Kristina Kennedy**, vice president of Pacific Life Insurance Co. in Newport Beach, Calif.; **Jaime Mosquera**, director for New York Life Investment Management in Parsippany, N.J.; **Cande Olsen**, vice president of Actuarial Resources Corp. in Chatham, N.J.; **Jonathan Pollio**, vice president and chief actuary for Citizens in Austin, Texas; **James Reiskytl**, an actuary in Mequon, Wis.; **Lawrence Seller**, vice president, modeling-shared services for Aviva USA in West Des Moines, Iowa; **James Thompson**, actuary and consultant in Central Actuarial Associates in Crystal Lake, Ill.; **David Tovson**, a consulting actuary in Coppell, Texas; **Michael Ward**, vice president, actuarial for Life Insurance Co. of the Southwest in Fort Worth, Texas; **Marc Whinston**, an actuary for Teachers Insurance and Annuity Association in New York; and **Donghai (David) Yu**, a consultant for Towers Watson in Weatogue, Conn.
- **Jeffrey Pomerantz**, an actuary and consultant for Quantitative Risk Management in Chicago, has been appointed chairperson of the Academy's newly formed Analysis Subgroup of the Annuity Reserves Work Group. Other Academy members joining the group are **Harold Forbes**, an actuary for MassMutual Financial Group in Springfield, Mass.; **Daren Gravlin**, associate actuary II for Horace Mann Insurance Co. in Springfield, Ill.; **Brian Kavanagh**, chief actuary for Corporate Risk Compliance in Ormond Beach, Fla.; **Charles Souza**, senior consultant for Towers Watson in St. Louis; **Mark Birdsall**; **Michael Grower**; and **Donghai (David) Yu**.
- **Michael Ward**, vice president, actuarial for Life Insurance Co. of the Southwest in Dallas, has been appointed chairperson of the Academy's newly formed VM-33 Subgroup of the Annuity Reserves Work Group. Other Academy members joining the group are **Richard Payne**, principal actuary for Genesis Financial Development in Mississauga, Ontario; **Anthony Render**, a senior actuary for American Equity Investment Life Insurance in West Des Moines, Iowa; **Corinne Jacobson**; **James Lamson**; **Cande Olsen**; **James Reiskytl**; **Lawrence Seller**; and **David Tovson**.

traditional model by analyzing the risk of not meeting goals, avoiding the expectation of 100 percent funding, using technology to continuously monitor a plan's financial prospects, basing modeling on today's assets, and integrating investment policy with funding goals.

Paul Angelo, senior vice president at Segal Co. in San Francisco, said that he believes the traditional model "has been very poorly applied" but is not broken beyond repair. "Traditional funding measures and models still have much to offer, but only if we incorporate recent lessons learned."

More risk-sensitive plan designs should be employed, Angelo said, because "higher benefits have higher expected cost and higher volatility." Increasing fixed member contributions reduces employer cost, he explained, but it does not reduce employer cost volatility.

Options for Social Security

In the meeting's second general session, Stephen Goss, chief actuary at the Social Security Administration, discussed Social Security's role in retirement income and some of the options for improving the program's long-range outlook.

Social Security often is described as the third leg of the retirement income stool, along with defined benefit pension plans and individual savings. In fact, Goss said, Social Security is the only leg for one-third of retirees, and nearly two-thirds of American retirees rely on Social Security for more than half of their income.

The recession and the slow recovery from it continue to weaken the system's financial status, Goss reported. According to the 2011 Social Security Trustees Report, the Social Security trust fund will run out of money in 2036—five years sooner than was projected in the 2008 report, prior to the recession. [The 2012 trustees' report, released a month after Goss spoke at the EA Meeting, moved the year to 2033.]

Social Security is a "pay-as-you-go" system, Goss explained. "We can only pay out what's coming in. That's the law." That means that when the trust fund is exhausted in 2036, Social Security will be able to pay out only 77 cents for every dollar it owes. The trustees' report projects that number to drop to 74 cents for every dollar by 2085 if the system is not modified.

The declining birth rate and growing number of baby boomers reaching retirement age means fewer workers are paying into Social Security per beneficiary, Goss said. From 1975 to 2008, the Social Security system averaged 3.3 workers per beneficiary; that will drop to two workers per beneficiary by 2035.

Congress has taken steps in the past—including the 1983 amendments—to extend the trust fund's solvency. Yet additional changes are needed to ensure not just that the program is solvent for the next 75 years but also that the trust fund ratio is stable or on an upward trend at the end of that 75-year period, he said.

Goss outlined a number of options for improving the program's long-range solvency, including increasing the taxable wage base; taxing employer-sponsored group health insurance premiums, health savings accounts, and flexible spending account benefits; raising the normal retirement age; reducing benefits for some or all beneficiaries; and lowering the cost-of-living adjustments.

"Ultimately, it's those 535 members of Congress who will be making the decision," Goss said. While much work clearly is needed, he added, "it looks like Social Security is sustainable. It just needs some adjustments."

A Longer Look at Longevity

Actuaries focused on the possibilities and pitfalls of lifetime income as the key driver for longevity risk mitigation at the post-EA Meeting Pension Symposium on March 28 and 29. This year's session, "Lifetime Income—Living with Longevity," was an integral part of the Academy's ongoing initiative to examine the challenges of longevity risk, its causes, and potential ways to manage and address it.

"More than 45 of the best actuarial brains on retirement and lifetime income spent a day and a half debating new ways to think about how to craft innovative solutions to a problem that grows more challenging with every advance in medicine and every downturn in the economy," observed Tom Terry, one of the symposium facilitators and the chairperson of the Academy's Public Interest Committee. "We didn't solve the problem, but we developed a better road map to get there."

The discussion sessions addressed:

- How does longevity risk relate to the other risks borne by retirees and plan sponsors? How is it different from investment risk?
- How does a retiree decide about lifetime income? Why do retirees so often elect lump sums when given a choice?
- What's needed—policy changes or public education, or both?
- Can and should actuaries help to inform this dialogue, and if so, how?

Leading the conversations were Tonya Manning and Noel Abkemeier, co-chairpersons of the Academy's Lifetime Income Risk Joint Task Force; task force member Andrew Peterson; Academy President Dave Sandberg; Academy Senior Pension Fellow Don Fuerst; Laurence Pinzur, an actuary at Aon Hewitt; Christopher Bone, a principal at Edth Limited LLC; Frank Todisco, chief actuary at the Government Accountability Office; Thomas Finnegan, principal at the Savitz Organization; and Mark Warshawsky, director of retirement research at Towers Watson in Virginia. Ellen Kleinstuber, a member of the Lifetime Income Risk Joint Task Force, joined Terry as a meeting facilitator.

Laurence Pinzur (l) and Christopher Bone discuss longevity risk during the Pension Symposium immediately following the EA Meeting.

Measuring and Managing Longevity Risk

The general population's mortality rate has improved significantly over the past century, and this trend appears likely to continue, said Tonya Manning, an actuary at the Internal Revenue Service, as she opened the third general session. Longevity risk—the risk of living longer than expected—is a "Twitter-worthy topic" that has huge social implications not only for retirement plans but also for retiree health and many public policy issues, Manning said.

The Society of Actuaries' Retirement Plans Experience Committee (RPEC) has been looking into the mortality improvement trends in

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Actuarial Update

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the United States and expects to release an official replacement for Scale AA, which currently is used to project base mortality rates into the future, said Laurence Pinzur, chairperson of the RPEC.

Scale AA usually is shown as a table of reduction factors that are applied to the previous calendar year's mortality rate, Pinzur explained. The current Scale AA is based on Social Security and Civil Service Retirement System data from 1977–1993 and is the basis for many U.S. pension regulations.

"A lot has happened in the world of mortality improvement research in the last 30 years," Pinzur said. There is a growing acceptance of treating mortality improvements as a function not just of gender and age but also of calendar year. There also is a greater acceptance of methods that blend actual mortality improvements with anticipated mortality improvement trends. Using the new dimension of time and blending actual improvements with anticipated improvements, the RPEC is creating two-dimensional tables, or "heat maps," that make it easier to identify different types of mortality improvement trends.

Because the release date for the replacement scale could be as late as 2014—and because most pension software cannot easily accommodate 2-D mortality scales—the RPEC has released Scale BB, a one-dimensional scale that approximately matches annuity values determined using the full set of 2-D rates.

"Scale AA wasn't looking too good, so we wanted to give you something you can work with right now," Pinzur said. "Scale BB is the first step. It is a more relevant and up-to-date snapshot of what is going on in life expectancy in the United States.

"Consider this your 18-month warning," he added. "Two-dimensional mortality improvement rates will be coming to an actuarial valuation system near you, so start getting ready. Most of the rest of the world is already there, so I think it is inevitable."

Pinzur mentioned that actuaries in the United Kingdom hadn't been paying much attention to increasing life expectancies until about 10 years ago. When people in the U.K. finally started to realize that people were living longer than actuaries had been anticipating, many changes came rapidly, and it had a dramatic effect on plans and public policy.

In the United States, the pension mortality tables were last updated in 2000 and the most recent mortality improvement table was released in 1994.

"We've all been lulled to sleep about the longer life expectancies that we're all—thank goodness—going to appreciate," Pinzur said. "Once we start having discussions about Scale BB and the replacement for Scale AA, I'm hoping that will stimulate discussions with clients and other entities about hedging some of these longevity risks."

CASUALTY BRIEFS

- **Kevin Trapp**, vice president and actuary for Swiss Re Life and Health America in Armonk, N.Y., has joined the Academy's Terrorism Risk Insurance Subcommittee.
- **Steve Lin**, actuarial consultant for Towers Watson in San Francisco, has joined the Mass Torts Subcommittee.

RISK MANAGEMENT AND FINANCIAL REPORTING BRIEFS

- **Elizabeth Brill**, vice president and actuary at New York Life Insurance Co. in New York, has joined the Academy's Financial Regulatory Reform Task Force.
- **Kathleen Wong**, an actuary in Florham Park, N.J., has been appointed vice chairperson of the Academy's Solvency Committee and has joined the Risk Management Financial Reporting Committee as a member.

Jarvis Farley Service Award

Nominations Sought

The Jarvis Farley Service Award is presented annually to a member whose efforts on behalf of the Academy have made significant contributions to the advancement of the actuarial profession. Nominations for the 2012 Farley Award are now being accepted.

Eligible candidates are Academy members who have:

- Demonstrated their commitment to professionalism;
- Made extraordinary contributions to the actuarial profession through longtime service as Academy volunteers;
- Been an inspiration to practicing actuaries; and
- Commanded respect inside and outside the profession.

With the exception of previous Farley Award recipients, any Academy member may be nominated. Past Academy presidents may be nominated, but only their post-presidential service will be considered.

For more information, to view a list of past winners, or to nominate a candidate, go to http://www.actuary.org/awards/farley.asp. Or contact Kasha Shelton, manager of membership operations, at 202-223-8196 or membership@actuary.org.

Nominations are due by July 6.