AUG 2009

Actuarial UPDATE
THE NEWSMONTHLY OF THE AMERICAN ACADEMY OF ACTUARIES

Academy in Front of Health Care Reform

Hill Briefings, Testimony, Letters Educate Legislators

OVER THE PAST SEVERAL MONTHS, national health care reform has crystallized from a collection of abstruse concepts into detailed proposed legislation. In the meantime, the Academy's Health Practice Council has persistently pushed itself to the forefront as an authority for policymakers and the national media, conducting an educational campaign on the principles and implications of various reform proposals.

From late May through the end of June, the council made several trips to Capitol Hill, including two public briefings, and submitted written testimony in response to Hill policy papers and reform proposals. The message has been consistent, stressing three critical criteria necessary to create a sustainable health care program that increases access to affordable health insurance: Health spending growth must be reduced, insurance markets must attract a broad cross section of risks, and market competition requires a level playing field. The most detailed Academy input so far has come in a response to a joint proposal from the House Ways and Means, Energy and Commerce,

Cori Uccello explains health care reform principles to reporters.

SEE **HEALTH REFORM**, PAGE 7

Capitol Hill Briefing Urges Policymakers to Envision a New Retirement

Financial Crisis Pushes Retirement Security

AS THE U.S. UNEMPLOYMENT RATE APPROACHES DOUBLE DIGITS, those unsuccessful job seekers are the most visible victims of a faltering economy. But the hardest-hitting long–term consequences, Academy and Society of Actuaries (SOA) presenters explained in a June 22 briefing on Capitol Hill, are likely to be felt after the job searches end and Americans decide to trade in the full-time workaday world for what used to be an anticipation of rest and relaxation.

Joining forces for the Academy-sponsored briefing, representatives from the two actuarial organizations spotlighted the already existing financial pitfalls—now exacerbated by the financial crisis—faced by American retirees, encouraged new ways of thinking about retirement, and urged the development of a coherent national retirement policy. The briefing brought together actuaries focused on long-term research on retirement issues with others focused on using that data to inform effective public policy.

Ethan Kra, vice chairperson of the Academy's Pension Practice Council, explained to congressional staff and media how the current market downturn and economic crisis have created new challenges for retirees and those nearing retirement. One major influence is a reliance on defined contribution (DC) plans, which push market-return and other risks onto employees. Private-sector employers today are six times more likely than they were two decades ago, Kra explained, to provide only a DC plan—while those employers providing only a defined benefit (DB) plan have disappeared at a comparable rate. As a result, reduced 401(k) balances, staggering declines in assets, job losses, and a slumping housing market have added new challenges to the retirement system that necessitate a new way of thinking about retirement.

"The move to defined contribution plans compounds the current challenges brought on by the fiscal crisis," Kra

SEE **RETIREMENT POLICY**, PAGE 9

AUGUST

5 Academy Executive Committee meeting, Minneapolis

SEPTEMBER

14-15 Casualty Loss Reserve Seminar (Academy, CAS, CCA), Chicago

21-22 ASB Meeting, Washington

21-24 NAIC fall meeting, Washington

23 Seminar on principle-based capital (Academy, SOA), Anaheim, Calif.

OCTOBER

7 Academy webcast on Precept 13 of the Code of Professional Conduct

15 Council of U.S. Presidents meeting, Colorado Springs, Colo.

16-17 NAAC meeting, Colorado Springs, Colo.

19 Joint orientation meeting, Denver

20 Academy Board of Directors meeting, Denver

25-28 SOA annual meeting, Boston

26 Academy annual meeting, Boston

NOVEMBER

1-4 ASPPA annual conference, National Harbor, Md.

1-4 CCA annual meeting, Tucson, Ariz.

9-12 Life and Health Qualifications Seminar (Academy, SOA), Arlington, Va.

12-15 IAA meeting, Hyderabad, India

15-18 CAS annual meeting, Boston

19-23 NCOIL annual meeting, New Orleans

DECEMBER

2 Academy P/C Loss Reserve Opinion Seminar, Baltimore

2-3 ASB meeting, Washington

5-8 NAIC winter meeting, San Francisco

8 Academy Executive Committee meeting, Washington

9 Qualification Standards audiocast (Academy, CCA)

JANUARY

25-26 Actuarial collaboration meeting, Washington

27 CUSP meeting, Washington

28 Academy Board of Directors meeting, Washington

APRIL

15 Academy Executive Committee meeting, Washington

Links to documents underlined in blue are included in the online version of this issue at **www.actuary.org/update/index.asp**

Academy NEWS *Briefs*

Academy Decides on Downs

THE ACADEMY EXECUTIVE COMMITTEE ANNOUNCED Mary Downs as the Academy's executive director on Aug. 11. Downs had been appointed interim executive director in April. She will continue to serve as general counsel for the Academy, a position she has held since 2006.

"I am pleased to announce that Ms. Downs will be leading our efforts in Washington," Academy President John Parks said. "She has outstanding leadership expertise and talents that will greatly benefit the actuarial profession. I am confident that she will keep us on course toward achieving our goals."

Before joining the Academy staff, Downs served in various legal and management positions in both the government and the private sector. She received her law degree from Boston College in 1974.

EXTENDING THE ACADEMY'S REACH

The Academy continues to establish itself as a valuable media source, as its volunteers represent the actuarial profession to reporters around the country. (See figures on page 3.) One way the Academy has been able to expand the reach of its media coverage is through its commitment to training new volunteers to be prepared to respond quickly and informatively on a growing number of topics. Three active Academy volunteers recently took part in the latest media training session July 8 in Washington. Participants included Nancy Bennett, Academy senior life fellow; Ethan Kra, vice chairperson of the Academy Pension Practice Council and chief actuary for retirement with Mercer in New York; and Jeff Kucera, chairperson of the Academy's Property and All Other Lines Subcommittee and a senior consultant with EMB America LLC in Chicago.

ADVANCED PBA SEMINAR

As in past years, the Academy and the Society of Actuaries are again sponsoring a seminar in conjunction with the Valuation Actuary Symposium. The seminar, Sept. 23 in Anaheim, Calif., will take an advanced look at principle-based capital. The curriculum will include a case study on the proposed C–3 Phase III project, an effort to apply the principle–based approach to calculating the C–3 component (interest rate and market risk) of life insurance product reserves. The latest draft of C–3 Phase III has been recently exposed by the NAIC. For more information or to register visit the SOA website.

ERM EXCELLENCE AWARD

In conjunction with the ERM Symposium, the Actuarial Foundation each year issues a call for papers from which it awards the ERM Research Excellence Award for the one paper that most demonstrates overall excellence and provides a significant contribution to the growing body of ERM knowledge and research. Congratulations to the 2009 winner, Academy member B. John Manistre, who took home the prize for the second year in a row. To view or download a copy of the paper, *A Risk Management Tool for Long Liabilities: The Static Control Model*, visit the Foundation's website.

CALLING IASB VOLUNTEERS

The Academy's International Financial Reporting Standards Task Force is seeking volunteers to comment on the International Accounting Standards Board's exposure draft on accounting for insurance contracts, which is expected to be released in December. Life, property and casualty, and health members are invited to help prepare the Academy's comment on this paper.

Interested? Contact Tina Getachew, the Academy's senior risk management and financial reporting policy analyst (getachew@actuary.org).

IN THE NEWS

The former chairperson of the Academy's Health Plan Valuation Task Force, Richard Ostuw, a consulting actuary from Stamford, Conn., was quoted in a June 3 Bureau of National Affairs article on limiting the tax exclusion for employer-sponsored health care coverage. Ostuw said that capping the tax exclusion could generate new tax revenue but would do little to reduce employer health care costs.

The Academy Consumer-Driven Health Plans Work Group's recently published monograph on emerging CDHP data was widely discussed and quoted

➔ CONTINUED FROM **PAGE 2**

throughout the health policy blogosphere in June, including entries on Kaiser Health News on June 19 and the *National Review Online* on June 23.

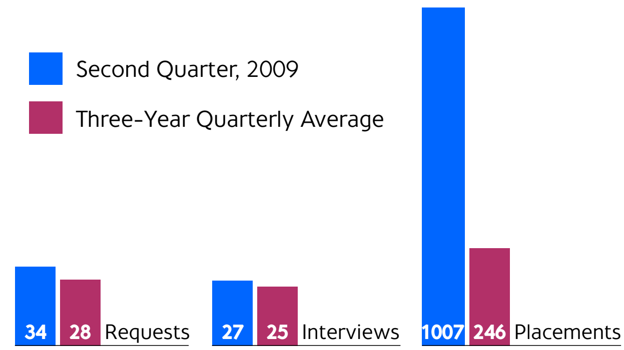
Donna Claire, the chairperson of the Academy's Life Financial Soundness/Risk Management Committee and president of Claire Thinking in Fort Salonga, N.Y., expressed her support for the National Association of Insurance Commissioners Life and Health Actuarial Task Force's decision to adopt a revised model standard valuation law for principle-based reserving in a June 11 Insurance Bellwether article. (See the July *Update* for a recap from the NAIC summer national meeting.)

A June 23 Bureau of National Affairs report discussing the Academy's June 22 Capitol Hill briefing, which presented retirement risk research from studies conducted by the Society of Actuaries and its implications for future retirement policy, included remarks from Academy Senior Pension Fellow Frank Todisco. Also presenting during the briefing were Ethan Kra, vice chairperson of the Academy's Pension Practice Council and chief retirement actuary for Mercer in New York; Andrew Peterson, Society of Actuaries staff fellow for retirement systems; and Anna Rappaport, president of Rappaport Consulting in Chicago. (For more information on the briefing, see page 1.)

Michael Toothman, former Academy vice president for casualty issues and a consulting actuary for Actuarial and Risk Consulting Services in Ardmore, Pa., was quoted in a June 28 *San Antonio Express-News* feature on risks at amusement parks. Toothman said that while the chance of an accident is small, the risk can increase as more people ride an attraction.

To find out about other actuaries in the news or for external links, visit the Academy's newsroom.

MEDIA RELATIONS ACTIVITY REPORT — SECOND QUARTER, 2009



Note: A request is a media inquiry for more information (e.g., statistics, comments, work products, etc.) or for media credentials to an Academy event. An interview occurs when the Academy is able to provide a spokesperson to meet a media request. When an interview is fulfilled, it is no longer tallied as a request. A placement is an article containing an Academy reference, quote, or attribution from an Academy spokesperson or the placement of an Academy-produced letter to the editor/op-ed. A three-year quarterly average is the statistical mean of the past 12 quarterly totals for each category (requests, interviews, and placements).

SPEAKERS BUREAU

Lisa Larsen, a consulting actuary in Milliman's Windsor, Conn., office, discussed pension funding strategies for 2009 under the Pension Protection Act during a June 3 meeting of the Actuaries Club of Hartford/Springfield.

University of Michigan Professor Curtis Huntington, member of the Academy's Council on Professionalism and chairperson of the Actuarial Board for Counseling and Discipline, discussed the Code of Professional Conduct on June 9 during the Society of Actuaries Health Spring Meeting in Toronto.

Academy President-elect Bruce Schobel addressed the Southeast Actuaries Conference during its spring meeting in St. Pete Beach, Fla., on June 18. Schobel discussed the creation of the Academy's Public Interest Committee and its first advocacy statement urging policymakers to increase Social Security's retirement age.

Darrell Knapp, member of the Academy's Life & Health Qualifications Seminar Task Force and the executive director of the Ernst & Young office in Kansas City, Mo., presented on the Code of Professional Conduct during the June 24 meeting of the Kansas City Actuaries Club.

CASUALTY BRIEFS

➥ **Kevin Bingham**, principal for Deloitte Consulting in Hartford, Conn., has joined the Academy's Task Force on Credit Crisis.

PENSION BRIEFS

➥ **Bruce Cadenhead**, worldwide partner for Mercer Human Resource Consulting in New York, has joined the Academy's Pension Committee.

PROFESSIONALISM BRIEFS

➥ Joining the Academy's Committee on Professional Responsibility are **Jay Bushey**, pricing actuary for Genworth Financial in Richmond, Va., and **Karen Terry**, assistant vice president and actuary for State Farm Automobile Insurance Co. in Bloomington, Ill.

Helping High School Students Prepare for Their Financial Futures

At a time of widespread economic turmoil and financial challenge, it is more important than ever to give children the knowledge and skills they need to manage their money wisely and to make smart decisions for the future. In response, the Actuarial Foundation has released Building Your Future, an engaging and relevant financial literacy curriculum to help teens master the foundational elements of personal finance and to prepare for life after high school. To find out more about this new curriculum visit: **http://www.actuarialfoundation.org/publications/BuildingYourFuturePR.shtml**.

Federal Appeals Court Orders SEC to Reconsider 151A

THE U.S. COURT OF APPEALS FOR THE D.C. CIRCUIT ordered the Securities and Exchange Commission (SEC) in July to reconsider its adoption of Rule 151A, an SEC regulation that classifies indexed annuities as securities, thereby placing them under the jurisdiction of the SEC.

The SEC regulation states that the definition of an annuity contract between an insurer and a consumer excludes annuities that link returns to the performance of a group of securities or a securities index. Under the SEC ruling, such indexed annuities would be treated as federally regulated securities if amounts payable by the insurer are likely to be greater than the minimum guaranteed amount stipulated in the contract. Ordinarily, annuity contracts would be treated as insurance products that are regulated at the state level.

While the three-judge panel ruled that the SEC had the authority to create Rule 151A because of a Supreme Court precedent that gives federal agencies the flexibility to interpret their own regulations, the court found "that the SEC failed to properly consider the effect of the rule upon efficiency, competition, and capital formation."

"The SEC purports to have analyzed the effect of the rule on competition but does not disclose a reasoned basis for its conclusion that Rule 151A would increase competition," the court wrote.

The ruling was issued in response to a suit brought against the SEC by American Equity Investment Life Insurance Co. For Academy members who have tried to stay on top of the various developments since the initial SEC ruling over a year ago, the *Update* has provided a recap of the major events that preceded the court's decision to instruct the SEC to reconsider certain effects of the rule.

Timeline of Events

June 2008: The SEC voted 3-0 to propose Rule 151A, which would define indexed annuities as securities.

September 2008: The Academy's Equity Indexed Annuities Work Group sent initial comments to the SEC on 151A. The work group said that rule 151A would define indexed annuities as securities on a basis that is inconsistent with prior determinations of securities status.

November 2008: The Academy's Equity Indexed Annuities Work Group sent additional comments to the SEC to expand on its initial remarks. The work group reinforced key differences between securities and insurance products.

January 2009: The SEC published the final rule after a December 2008 SEC vote confirmed the original proposed rule. A coalition, led by American Equity Investment Life Insurance Co., filed suit against the SEC in the U.S. Court of Appeals for the D.C. Circuit.

May 2009: Oral arguments began in the D.C. court hearing. News accounts reported that Judge David Sentelle, chief judge of the circuit court, had focused on the Academy work group's comments in determining whether the SEC had adequately complied with the Administrative Procedures Act, which required the SEC to consider commentators' views on the proposed rule.

June 2009: Legislation was introduced in the House of Representatives and referred to the House Financial Services Committee. H.R. 2733 would exempt indexed annuities and indexed insurance policies from regulation by the SEC.

June 2009: Legislation was introduced in the Senate and referred to the Senate Banking, Housing, and Urban Affairs Committee. S. 1389 would exempt indexed annuities and indexed insurance policies from regulation by the SEC.

July 2009: The federal D.C. appeals court issued its ruling, asking the SEC to reconsider all aspects of Rule 151A.

January 2011: Rule 151A is scheduled to take affect.

—ANDREW SIMONELLI

LIFE BRIEFS

- **Linda Lankowski**, assistant vice president and senior actuary for Lincoln Financial Group in Hartford, Conn., is the chairperson for the newly formed Academy Life Settlements Work Group. Other Academy members forming that group are **David Sandberg**, vice president and corporate actuary for Allianz Life Insurance Co. of North America in Golden Valley, Minn.; **Cande Olson**, consulting actuary for Actuarial Resources Corp. in Chatham, N.J.; **Dan Zollars**, senior vice president of financial engineering for Coventry First in Ft. Washington, Pa.; **David Weinsier**, principal for Towers Perrin in Atlanta; **Gabriel Schiminovich**, vice president of product development for M Financial Group in Portland, Ore.; **Mary Bahna-Nolan**, director for PricewaterhouseCoopers in Chicago; **Barbara Lautzenheiser**, principal for Lautzenheiser and Associates in East Hartford, Conn.; **Art Panighetti**, a vice president for Northwestern Mutual in Milwaukee; **Larry Rubin**, partner at PricewaterhouseCoopers in New York; and **Nicola Barrett**, an actuary with Ernst & Young in New York.
- **Linda Rodway**, an actuary in Roslyn Heights, N.Y., has been named the chairperson for the Academy's recently formed Annuity Illustrations Subgroup. Other Academy members forming that group are **Gabriel Schiminovich**, vice president of product development for M Financial Group in Portland, Ore.; **Andy Ferris**, senior manager for Deloitte Consulting in Chicago; **Cande Olsen**, consulting actuary for Actuarial Resources Corp. in Chatham, N.J.; **David Hippen**, life and health actuary for the Missouri Department of Insurance in Jefferson City; **Barbara Lautzenheiser**, principal for Lautzenheiser and Associates in East Hartford, Conn.; **Noel Abkemeier**, consulting actuary for Milliman in Williamsburg, Va.; **Steve Ostlund**, an actuary with the Alabama Department of Insurance in Montgomery; and **Martin Kline**, senior director for Allianz Life Insurance Co. of North America in Minneapolis.

New Academy Members

IN THE FIRST HALF OF 2009, 384 new members joined the Academy. By joining, they have demonstrated a commitment to ethical and responsible actuarial conduct and an interest in keeping up with the issues and events that shape their profession. And they are in good company. As of June 30, the Academy boasted 16,958 members on its rolls.

Alberto Abalo
Gerald Adamski
Amit Agarwal
Daniel Ahlgrim
Osman Ahmed
Emmanuel Akrasi
Alexander Alimi
Mohammad Amin
Erik Anderson
Ashley Andrews
Michael Ankrah
Kimberly Annon
Lynne Armstrong
Larry Atkins
Isaac Baah
Xu Bade
Scott Baker
Kyle Bauer
James Baughman
Daniel Becker
Amy Beert
Nadege Bernard-Ahrendts
Kenneth Birk
Logan Blake
Joshua Boehme
Daniel Boland
Christopher Borcik
Muhamed Borogovac
Colleen Bosko
Victoria Boyarsky
Kristen Bradanese
Matthew Brady
Courtney Brinks
Scott Brockman
Bartholomew Brown
Robert Brown
James Budai
Donald Burris
Stephen Cameron
Kenneth Camp
Jiansheng Cao
Ryan Capponi
Nicholas Carbo
Rodrigo Careaga
Emily Carlson
Michael Castellano
Marizze Cauyan
Ka Yan Chan
Manus Chan
Sally Chan
Soo Chang
Christopher Chappelear
Ryan Charland
Frank Chen
Huijuan Chen
Sen Chen
Sophia Chen
King-Chong Cheung
Rohit Chhiba
Ing Ching
Wasim Chowdhury
Stephen Chykirda
Elizabeth Clark
Heather Clemens
Andrew Clements
Chandra Coleman
James Collingwood
Christine Connors
Brandon Considine
Mark Coslett
Helen Crofts
Thomas Crowder
Jason Damme
An Danh
David Davala
John Davenport
Crystel Davis
Christina De Rolf
Janine Deane
Joshua DenHartog
Noelle Destrampe
Matthew Deveney
Deepti Dhulipala
Steven Dicus
Nilesh Dihora
Mustafa Dinani
Lan Ding
Milos Dobic
Michael Dresnack
Julie Durham
Karen Earley
Camilo Echanique
Katherine Eenigenburg
Ken Ehresmann
Erica Eliashevsky
Amanda Ellis
Laura Erdman
Ashley Eshaghi
Carlos Fajardo
Trevor Fast
Michael Ferzola
Sean Fisher
Veronica Fontama
Nolan Frank
Carrie Freeburg
Mark Freeman
Rebecca Freitag
Jay Fundling
Brad Gabel
Yang Gao
Peter Garcia
Eric Gilham
Jonathan Glowacki
Josh Goldstein
Daniel Good
Craig Graby
Katherine Graves
Brian Grossmiller
Aaron Grzasko
Laura Gulrajani
Matthew Haladay
Winston Hall
Paul Hance
Joseph Hasday
Scott Haugh
Jeremy Heater
Peter Hedgecock
Robert Heitman
Ronald Helmeci
Patricio Henriquez
William Henry
Tara Heydenreich
Melissa Hidalgo
Indira Holder
Hyunpyo Hong
Stephanie Hood
Jessica Howie
Xiaoge Hu
Shouchien Huang
Mindy Hubbard
Naomi Hudetz
John Hyde
Antonino Ippolito
Yehuda Isenberg
Chinedum Iwuoha
Ann Marie Janusek
Leslie Jarvi
Chris Jeffrey
Janet Jennings
Jonathan Jennings
Frederick Jensen
Weidong Jiang
Elizabeth Jobe
Benjamin Johnson
Thomas Jones
Robert Jordan
Helen Jung
Michael Junker
Carrie Kelley
Karen Kelly
Shawn Kelly
Amy Kennedy
Daisy Kersemakers
Jake Kimball
Darin King
Grant Korczak
John Kovach
Amy Krajci
Piotr Krekora
Joshua Kuai
Robert Kuftiak
Matthew Kumpf
Michael Kundin
Edward Kuo
Murshid Kuttihassan
Chyna Kwok
Brigitte Labrèche
Thomas Lamanna
Brian Landrigan
Amy Langenbrunner
Brian Lanning
Christopher Larson
Eddie Lau
Michelle Laub
Ian Laverty
Ying-Ying Lee
Andrew Leon
Patrick Lesage
Matthew Li
Claire Li
Emei Li
Li Li
Lily Liang
Wendy Liang
John Lin
Sung-Po Lin
Michael Lindstrom
Simeon Ling
Daniel Liss
Juan Liu
Judy Liu
Ying Liu
Yuetong Liu
Todd Livergood
Lauren Looi
Amber Lorance
Scott Ludlam
Ronnie Lum Tong
Nathan Lux
Anna Maciejewska
Marcus Madias
Tonya Malone
John Maly
Jeanette Manning
Daniel Markus
Paul Marrs
Robert Martin
Julie Mathieu
Stephan Mathys
William Matthews
Jeannine McAllister
Brian McBride
Kevin McGettrick
Anna McLachlan
Syed Mehmud
Kaushik Mehta
Kurt Meisinger
Tricia Meysenburg
Adam Michalek
Elizabeth Miller
Jan Misak
Jonathan Mocko
Alejandro Morales
Michael Morgan
Ryan Morgan
Quentin Mostoller
Andrew Mueller
Carly Muise
Sean Mullen
Dean Murray
Stanislav Musheyev
Ronni Neeman
Justin Newton
Frederick Ngan
Jamie Nickerson
James Nolan
Brandt Nolen
Rachel Oaks
Daniel Obert
Richard Olness
Karl Oman
Lissette Ortiz
Kirstin Orwig
Gary Osterhout
Bell Ouelega
Christopher Oursler
Adam Pagenkopf
Shaio-Tien Pan
Brent Panning
Vaibhavi Patel
Steven Paxman
Chih-Hung Peng
Victoria Peter
Jason Petroske
Alice Phelan
Anthony Piscione
Nathan Pohle
Michael Polakowski
Timothy Porter
Clinton Prater
Yi Qian
Alberto Ramirez De Jurado Frias
Sudath Ranasinghe
Philip Rant
Jeffrey Raven
Benjamin Readdy
Robert Reed
Joshua Reinstein
Daniel Remboldt
Carrie Rice
Todd Rio
Andrew Rohrer
Philip Rohrer
Krista Rokicki
Kyle Rooker
Christopher Rosado
Christopher Rose
Emily Rowlands
Benjamin Rupert
Julie Sachs
Paul Sailor
David Sayler
Suzanna-Grace Sayre
Carol Schultz

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Estellene Schweickert
Sulsa Shah
Klaudia Shapsis
Rachel Shevland
Jeffrey Shugars
Nicole Shumer
Christopher Sill
Brad Simonelli
Alycia Slyck
Mark Smrecek
Brandy Sneed
Keisha Sobers
Vanessa Soskind
Michal Spetko
Matthew Stahl
Jeffrey Stelnik
Stephen Sten
Kelsey Stevens
Michael Stienstra
Emily Stoner
Ryan Stowe
Kelly Sturm
Maheswaran Sudagar
Xiaomeng Sun
Pierre Suter
Jeffrey Teague
Evi Tedjasukmana
Christmas Thibault
Daria Thomas
Michael Thomas
Stephen Thomas
William Thompson
Peter Tomopoulos
Andrew Trainor
Shane Vadbunker
Patricia Valley
Kristin VanBeek
Michael Vech
Kalluru Venkateswar
Amit Verma
Michael Villano
Ryan Voge
Nicholas Voit
Joann Voltaggio Braun
John Wade
Weston Waller
Fang Wang
Huayang Wang
Tingting Wang
Xiaohui Wang
Yong Wang
Joseph Weatherly
David Weaver
Becky Wegleitner
Daniel Weiner
Rebecca Weinshenker
Jingxia Wen
Kristin Whiting
Christopher Wild
Christine Wilson
Gary Wilson
Laiping Wong-Stewart
Aaron Wright
Aaron Wright
Xiaohui Wu
Yabo Wu
Justin Wyant
Joshua Wykle
Songfeng Xie
Lina Xu
Meimei Xu
Xin Xu
Yayu Xu
Denghang Xue
Nan Ya
Jin Yan
Chun Yau
Fan Ye
Eecher Yee
Shanpi Yu
Tommy Yu
Jody Zanders
Baowen Zhang
Jin Zhang
Lei Zhang
Yuan Zheng
Hua Zhong
Deyu Zhou
Zegang Zhu
Cyril Zormelo

RISK MANAGEMENT & FINANCIAL REPORTING NEWS

FASB Project Invites Academy Insight

AS PART OF THE INFORMATION GATHERING EFFORTS of the ongoing project conducted by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) to examine accounting for insurance contracts, FASB invited the Academy's Financial Reporting Committee for an education session on June 24 to provide perspective on risk margins.

The joint project was created to develop a common, high-quality standard that will address recognition, measurement, presentation, and disclosure requirements for insurance contracts. During a May meeting, FASB discussed aspects of accounting for risk margins, a dollar amount that reflects an assessment of uncertainty associated with insurance risk. After failing to reach consensus, the board invited the International Actuarial Association's Insurance Accounting Committee Chairperson and Academy member Sam Gutterman, who requested that the Academy's Financial Reporting Committee accompany him for an educational session to further examine the issue.

Representing the Financial Reporting Committee were Chairperson Rowen Bell and Vice Chairperson Chris Nyce. Together, the trio gave a presentation that defined the objectives of risk margins (which include accounting for the market-based price and fulfillment-based cost of bearing risk, as well as maintaining regulatory and policyholder confidence and absorbing extreme shock) and residual margins. They also explained measurements of various risk margin approaches and the practicality and expected consistency of results between individual preparers.

The presenters were asked various questions by FASB members, such as whether the risk margin concept was just a cushion and whether a risk margin is relevant to a measurement objective that isn't expressed in terms of market prices or exit value. The board also probed different methods of incorporating risk aversion in given levels of uncertainty.

In a discussion of practicality and consistency of risk margin measurement during the implementation of an explicit current estimate method, FASB Chairperson Robert Herz asked if it was practical to compare the accuracy of the estimates of risk margins. Gutterman indicated that although various benchmark comparisons, such as those included in Schedule P of the annual statement and in actual-to-expected analysis, can provide insight to expected cash flows and the uncertainty associated with those expectations, there is no specific actual-to-expected risk margin analysis that is available. Herz also asked if there is a danger for a potential race to the bottom for low risk margins. Nyce stressed the importance of considering appropriate risk-related disclosure to facilitate the achievement of a relative degree of consistency.

The presenters concluded the discussion with a summary of related topics to the interest of FASB and the IASB.

In its continued deliberations regarding accounting for insurance contracts, FASB in late July tentatively said it would not vote to include risk margins in the accounting treatment for measurement of an insurance liability. According to FASB, the objective of liability management is to report a value based on the insurer's fulfillment of its contractual obligations to its policyholders and, therefore, the fulfillment value should include only a composite margin with no explicit risk margin.

—TINA GETACHEW

Darrell Knapp, David Shea, Karl Madrecki, and Cori Uccello visit the Treasury Department during the Health Practice Council's spring Hill visits to discuss reform issues.

and Education and Labor committees to provide quality, affordable health care, while controlling future cost growth. The Tri-Committee proposal, which became the basis for a health care reform bill introduced in the House in early July, would create a health insurance exchange for the individual and small-employer markets (which would eventually open up to large employers as well), establish a public plan option, and prevent private insurers from denying coverage and restricting certain rating rules. The proposal would also implement a mandate for individuals to purchase health insurance and require employers to provide their employees with coverage—or else pay a financial penalty to the exchange.

Days after a June 22 Hill briefing in the House Cannon Office Building that explained the Health Practice Council's reform criteria to congressional staff, the council assessed the House proposal's ability to meet those benchmarks in written testimony submitted to the Ways and Means Committee. The council acknowledged the importance of the House proposal's attempts to reduce adverse selection by including an individual mandate that carried a financial penalty for not purchasing coverage, as well as offering premium subsidies for low-income participants and tax credits for small businesses.

However, the council identified possible measures in the proposal that could lead to adverse selection, including allowing large employers, which would normally self-insure, access to eventually join the health insurance exchange. Additionally, as explained in the Hill briefing by Academy presenters Cori Uccello, David Shea, Catherine Murphy-Baron, and Dale Yamamoto, requiring guaranteed issue and renewal for all health coverage and limiting rating factors to only age, geographic area, and family size without greater incentives to increase participation among lower-risk individuals would likely raise average premiums relative to current rates. In its testimony, the council reiterated this point and cautioned that due to expected increased average premiums for low-risk individuals, a reform plan will need a financial penalty high enough to prompt widespread participation.

In order to maintain a level playing field across insurance markets, the council also stressed that public and private plans must operate

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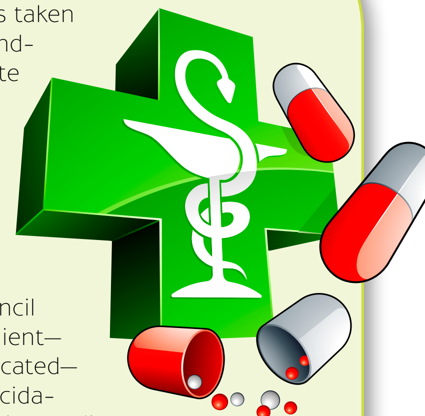
Critical Issues in Health Reform



WHILE THE ACADEMY'S HEALTH PRACTICE COUNCIL has taken an active role in responding to House and Senate health care proposals, it didn't wait for Congress's questions before putting its expertise out in front of national reform efforts. Throughout May and June, the council examined the most salient—and sometimes complicated—subjects in need of elucidation for policymakers, the media, and the general public. The result was the development of Critical Issues in Health Reform, a series of educational papers that explains the intricacies of each issue, as well as how the issues relate to one another in the larger comprehensive reform efforts.

The council's policy statements addressed a wide range of issues, including a basic layout of market reform principles, information on proposed initiatives such as a public plan option and an individual mandate, emerging questions of gender consideration in a voluntary market, and quintessential actuarial issues such as risk pooling and actuarial equivalence. In addition, several more statements are currently being developed that would cover other reform-related topics such as transition issues, minimum loss ratios, coverage for high-risk individuals, administrative costs, and merging the individual and small-group markets.

"As policymakers grapple with developing comprehensive reform proposals to slow the increase in health care costs, provide affordable and accessible coverage for the uninsured, and promote quality care, it's important to understand the implications of the various proposals being considered and their potential impact on the current health insurance market," said Academy Senior Health Fellow Cori Uccello.

With health care reform at the forefront of the domestic policy agenda, the Critical Issues in Health Reform series is featured on a special Health Reform NOW webpage on the Academy's website. The page also features information from Hill briefings, testimony, comment letters, and issue briefs—as well as a webcast on risk adjustment—that the Health Practice Council has produced on health care reform over the past year.

under the same rules, contain the same benefit package requirements, include comparable provider payments, apply state requirements equally to all plans, and have actuarially sound premium rates adequate to cover claims incurred, operating expenses, cost of capital charges, and a risk charge.

During the June briefing to congressional staff, Dale Yamamoto, chairperson of the Academy's Joint Committee on Retiree Health, emphasized this point from the employer perspective. Employers' "knee-jerk reaction" to a public plan, he explained, may be its potential to segment their risk pools by offering basic, lower-cost coverage in the public plan that would draw low-risk participants.

"Employers are concerned younger employees will move to the individual public plan for a better deal and the older employees will stay on the plan longer," said Yamamoto, which could create a premium spiral in the employer-sponsored market.

The council's testimony also praised attempts by the House committees to shift the health care payment and delivery system "from rewarding quantity of care to rewarding quality of care," in an effort to restrain spending growth.

However, the council also warned that using Medicare provider payment rates as the basis for public plan payments could shift costs to private plans and/or reduce access for public plan participants if providers refuse to see patients at reduced Medicare rates. It also expressed concern that the public plan may not include a large enough capital charge to free the plan from reliance on general tax revenue.

"A public plan shouldn't receive an infusion of outside government revenues," reinforced Academy Senior Health Policy Fellow Cori Uccello during a July 11 press briefing on Capitol Hill that also explained the council's criteria for successful reform legislation.

The council's House testimony elaborated upon the council's May comments to the Senate Finance Committee in response to a proposal issued earlier that month. Unlike the House proposal, the Senate included a risk adjustment system, which could mitigate certain adverse selection risks. "Nevertheless, risk adjusters do not and cannot account for all risk inherent in the system, and any risk adjustment system, no matter how sophisticated, will present opportunities for gaming," cautioned Al Bingham, vice president for Academy health issues, in the letter to Senate Finance Committee Chairman Max Baucus.

The letter also pointed out that the proposed benefit levels outlined by the Senate were "more generous than those typically purchased in the current small group and individual markets"—which would require significant premium increases for many current participants.

The council continues to follow up on its work so far, including monitoring Congressional Budget Office projections—one of which prompted the Academy to issue a press release in July emphasizing the need for reform to curb long-term cost growth—and answering questions posed by congressional committees. While legislative action lulls during Congress's August recess, the council also remains proactive in further analyzing existing proposals.

"The council is on call to make sure we can respond quickly," Bingham said. "We're continuing to respond to inquiries to people reaching out for our help."

Medicare Reform Still Looms

WHILE MOST LEGISLATIVE ATTENTION is fixated on the new concepts incorporated in comprehensive health care reform proposals, the Academy's Health Practice Council continued to press legislators on measures in those proposals that address a familiar political hot button: Medicare reform.

Tom Wildsmith, chairperson of the Academy's Medicare Steering Committee, responded to a Senate Finance Committee policy paper on transforming the health care delivery system. In a comment letter to the Senate at the end of May, the Academy committee praised some options to reduce system costs and enhance quality, specifically encouraging a proposal to bundle provider payments for services initiated within a 30-day span.

However, the seriousness of Medicare's current financial challenges would dictate, asserted Wildsmith, that "even stronger action will likely be needed." The letter questioned the use of the sustainable growth rate index, which currently calls for an unrealistic 21 percent reduction in provider payments for 2010 that would cause significant disruption to the system. The Medicare Steering Committee instead recommended replacing the index in the Medicare law with a "more appropriate method for setting physician fees," that would be formula-based and provide more realistic projected Medicare costs.

The letter also addressed proposed changes to the Medicare Advantage program, fearing that they could result in decreased insurer participation similar to that faced by the Medicare+Choice plan, which was popular at its 1997 inception before a series of changes led to insurers refusing to carry the plan.

The Academy committee offered its resources to further study possible changes, including the potential impact of a competitive bidding process to lower costs similar to the one initiated in Medicare Part D.

Additionally, in response to a measure in a Senate policy paper that proposed extending Medicare coverage to persons 55-64 years old as part of overall health care reform efforts, the Academy's Health Practice Council recommended in a separate letter that Congress conduct greater research on cost impacts. It also acknowledged the incentives for employers to encourage early retirement for older workers. "Such an expansion of Medicare would further exacerbate the core financial condition of the program," said Al Bingham, Academy vice president for health issues.

The comment letters followed up on a public statement released by the Health Practice Council earlier in May that called for Congress to take immediate action on reforming Medicare. The statement charged policymakers with instilling reforms that bring the program into near-term and long-term solvency and set it on a sustainable spending course.

Counterclockwise from left, Frank Todisco, Andrew Peterson, and Anna Rappaport speak to attendees at the Academy briefing.

said, as retirees are forced to rely increasingly on personal savings for retirement income at the same time that the market yields low interest rates.

The foundation of the briefing was research from the SOA's new study "What a Difference a Year Makes," a follow-up on data from the SOA's bi-annual survey on post-retirement needs and risk, which reflected how the current economic crisis has affected retirees' feelings about retirement. Not surprisingly, the research shows, there has been a sharp decrease in retirees who feel financially secure, as well as a decrease in those who are confident they have saved enough money to live throughout their retirement years at the level originally expected.

Anna Rappaport, chairperson of the SOA's Committee on Post-Retirement Needs and Risks, and Andrew Peterson, SOA staff fellow for retirement needs, presented the survey findings, which showed a 30 percent increase since 2008 of retirees who at the time of the survey felt less financially secure than when they first retired. In addition, in the aftermath of depleted assets across the country, those who were surveyed in 2009 generally expect to retire at a later age than did current retirees. However, as Rappaport pointed out, though average retirement ages continue to climb, about four in 10 retirees are found to retire earlier than they had planned, sometimes due to circumstances outside their control, such as a loss of a job, poor health, or family members needing care. Rappaport encouraged attendees to consider a "new life cycle phase" in which retirement was a gradual transition between full-time work and total retirement.

Peterson also pointed out data that show non-financial assets—of which housing constitutes the biggest-ticket item—on average make up 70 percent of the total personal assets (excluding Social Security and the income from defined benefit plans) for middle-class persons nearing retirement. That knowledge is particularly important from a public policy perspective in light of the domino effect that falsely assumed appreciations in real estate values had in triggering the financial crisis. He also focused on the lack of awareness among retirees on the potential financial benefits of delaying Social Security claims, the topic of a weeklong front-page *USA Today* series in January 2008 to which the Academy contributed.

To put all those figures into perspective, Frank Todisco, Academy senior pension fellow, discussed the importance of national retirement policy. In light of waning retirement security faced by many Americans, Todisco asserted the obsolescence of the traditional three-legged stool model of retirement income: Social Security, employer-sponsored DB plans, and personal savings/DC earnings. Real retirement security may require thinking in terms of a combination of seven legs, in which the traditional sources are buttressed by the addition of continued (if part-time) employment, housing, health and long-term care financing, and family and community support. Each leg of this new "seven-legged stool" of retirement security, Todisco explained, has a varying breadth of coverage and accompanying risk to retirees.

Todisco also emphasized that the future of comprehensive national retirement policy might include new programs that do not exist today. "We aren't limited to today's DB/DC menu," he said. "Other combinations of risk allocation, risk sharing, and financing are possible."

Accordingly, the panel highlighted the Society of Actuaries' Retirement 20/20 initiative, which issued its call for papers shortly thereafter, aiming to bring together experts interested in and affected by retirement issues in order to design a new retirement system from the ground up. Retirement 20/20 seeks to find solutions that meet the economic and demographic needs for the 21st century in North America.

—Jessica Thomas

Academy Members: **Did You Know About Your Discount Hotel Benefits?**

That's right, all members of the Academy are eligible for special hotel rates and services in the some of the world's most expensive cities through the Club Quarters program. Club Quarters are private, full-service hotels for member organizations, designed for the business traveler and subsidized family and friends' use on weekends and holiday periods.

Before your next trip, go to the Member Page on www.actuary.org, and check out the list of exclusive hotel locations and deep discounts available to you through Club Quarters.

Calling on Actuaries to Return to the Classroom!

The Actuarial Foundation is finding that schools that implement Advancing Student Achievement programs with actuaries as mentors are seeing improved attitudes toward math, increasing math scores, increasing interest in the actuarial field as a career and many more powerful results!

If you are interested in getting involved in your community, the Actuarial Foundation's longest-running program, Advancing Student Achievement, places actuaries in classrooms working directly with kids, making math fun instead of threatening. To see if there is a math mentoring program in your area, check out the Foundation's website at http://www.actuarialfoundation.org/programs/youth/mentors_needed.shtml.

Or to find out how to get one started in your area, contact the Foundation at asa@actfnd.org.

Qualification Standards

Does the Committee on Qualifications have any further suggestions to assist actuaries to determine what constitutes "relevant continuing education" (CE) under Section 2.2.7 of the Qualification Standards, particularly in the context of presenters at sessions or seminars?

As noted in Section 2.2.7 of the U.S. Qualification Standards, it is ultimately up to the individual actuary to determine on a good-faith basis what CE opportunities meet the definition of relevant CE. However, the Committee on Qualifications has provided the following informal guidance at various webcasts and seminars: activities (whether organized or other) may constitute relevant CE if you learned something, if you had the intent to learn something, or if you were confirming your existing understanding of materials related to your current or future actuarial work. This guidance should also be considered in the context of teaching actuarial courses or presenting at seminars. Teaching or presenting may not necessarily result in an opportunity by the presenter to earn relevant CE unless the nature of the presentation allows the presenter to learn from others in attendance. Note that time spent preparing for the presentation might also qualify as relevant CE. However, if you are teaching the same subject matter again and again, at some point, you, as the teacher, would not likely be gaining or confirming anything. This is a determination you must make.

Actuarial Update

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