

# IAA Releases Draft Model Standard

**WITH PUBLICATION EARLIER THIS MONTH** of the first exposure draft of a model International Standard of Actuarial Practice (ISAP), the Academy's work in advancing the U.S. profession's interests in the international actuarial arena has assumed even greater significance.

"Just as is true in the global economy in which we live and work, an increasing number of international issues can affect U.S. practitioners," wrote Academy President Mary Frances Miller in an Oct. 14 [letter](#) to Academy members.

The development of model standards of international actuarial practice by the International Actuarial Association (IAA) has received more attention in recent years, Miller explained. While the U.S.-based actuarial profession has a robust set of standards of practice to rely upon, that is not always the case for nearly 100 other member associations of the IAA. The model standards are intended for voluntary

adoption or adaptation by IAA member associations that may not have their own national standards of practice.

The models will have no mandatory effect in the United States, Miller added. The IAA cannot regulate the U.S. actuarial profession in any way, as the U.S. actuarial profession adopts standards only through the Actuarial Standards Board (ASB).

Specifically in response to the IAA's emerging work on international standards, the five U.S.-based actuarial organizations, through the Council of U.S. Presidents (CUSP), asked the ASB to establish a substantive and thorough process for reviewing ISAPs.

In reviewing ISAP 1—General Accounting Practice, the ASB [reported](#) that it found no material issues with the proposed ISAP, and it did not suggest any substantive changes to the ISAP or to existing U.S. standards of practice in light of its review.

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## First Online Election for Academy Directors

# Election Results Announced

**MARY BAHNA-NOLAN, KEN KENT, AND CATHERINE MURPHY-BARRON** were elected to fill open regular director positions on the board of directors in the Academy's first online election for regular directors, Academy President Mary Frances Miller announced in an Oct. 6 [letter](#) to members. The new directors will begin their three-year terms on Oct. 28.

Bahna-Nolan is a director in the life practice of actuarial and insurance management solutions in PricewaterhouseCoopers' Chicago office. Kent is a consulting actuary in Cheiron's McLean, Va., office. Murphy-Barron is a consulting actuary for Milliman in New York. She had been elected in 2010 to complete the remaining year of a regular director term that had been vacated by Stephen Rosen, who was elected secretary by the board of directors.

More than 17 percent of Academy members voted during the Aug. 3 to



Mary Bahna-Nolan



Ken Kent



Catherine Murphy-Barron

Sept. 2 election period. Also on the ballot were two bylaws amendments.

More than 93 percent voted in favor of removing the position of penultimate past president from the Academy board of directors. As a result, what was in effect a four-year term of the presidential office has been shortened by one year.

The amendment implementing professionwide changes to the discipline process also received wide-

spread support, with 92.2 percent of the voters in favor of the amendment.

### Online Voting a Success

Members had an opportunity to rate and comment on their online voting experience. Of those rating the process, 93.8 percent were "very satisfied" or "satisfied"; only 1.8 percent reported being "dissatisfied" or "very dissatisfied."

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### ASOPs Revised

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## OCTOBER

- 11 Capitol Hill briefing: Important New Research Findings Indicate a "Rising Tide" of Contributions Facing Defined Benefit Pensions (Academy, SOA), Washington
- 16-19 SOA annual meeting, Chicago
- 23-26 CCA annual meeting, Las Vegas
- 24 Academy annual meeting, Las Vegas
- 27 New Board Member Orientation meeting, Washington
- 28 Board of Directors meeting, Washington

## NOVEMBER

- 3-6 NAIC fall meeting, Washington
- 6-9 CAS annual meeting, Chicago
- 7-10 Life and Health Qualifications Seminar (Academy, SOA), Arlington, Va.
- 16-17 P/C Effective Loss Reserve Opinions Seminar (Academy), Baltimore
- 17-20 NCOIL annual meeting, Santa Fe, N.M.
- 22 Post-NAIC Update/PBA webinar

## DECEMBER

- 1 New Volunteer Orientation webinar
- 6 Academy Executive Committee meeting, Washington
- 15 Professionalism webinar: IAA Standards Development and Its Impact on U.S. Actuaries (Academy, ASPPA, CAS, CCA, SOA)
- 15-16 Actuarial Standards Board meeting, Washington

## JANUARY 2012

- 17 CUSP meeting, Washington
- 18 Board of Directors meeting, Washington
- 25-27 Actuarial Standards Board meeting, Sarasota, Fla.

## MARCH 2012

- 5-6 Actuarial Standards Board meeting, Washington
- 25-28 Enrolled Actuaries Meeting, Washington

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](http://www.actuary.org).

# Academy NEWS Briefs

## ASB Approves Revisions to Casualty ASOPs

**T**HE ACTUARIAL STANDARDS BOARD (ASB) has adopted a [revised version](#) of Actuarial Standard of Practice (ASOP) No. 20, *Discounting of Property/Casualty Unpaid Claim Estimates*, and approved an exposure draft of ASOP No. 38, *Using Models Outside the Actuary's Area of Expertise (Property and Casualty)*.

The ASB charged its Casualty Committee last year with updating ASOP No. 20, which was originally adopted in 1992. The revised ASOP reflects current terminology and practice, and is more consistent with the language in ASOP No. 43, *Property/Casualty Unpaid Claim Esti-*

*mates*. The revised ASOP No. 20 is effective Jan. 1, 2012.

ASOP No. 38 was first adopted by the ASB in June 2000. After its adoption, the ASB created a task force under its General Committee to consider expanding the scope of the ASOP to all practice areas. Two exposure drafts were produced. As a result of the comments received, the ASB referred the item back to its Casualty Committee to maintain ASOP No. 38 as a standard applicable to only the casualty practice area, and to update the ASOP to reflect current terminology and practice. The comment deadline for the ASOP No. 38 [exposure draft](#) is Jan. 16, 2012. ▲

### IN THE NEWS

#### Health Reform

Academy Senior Health Fellow **Cori Uccello** was quoted in a *CQ HealthBeat* article on Aug. 12. Uccello discussed an Academy [statement](#) warning policymakers that they will need to enact alternatives to help limit adverse selection—stemming from new issue and rating restrictions—if the individual mandate is stripped from the Affordable Care Act (ACA). The Academy issued the statement after the U.S. Government Accountability Office released a report examining possible alternatives to the mandate.

Uccello also discussed the importance of attracting low-risk individuals to ensure market viability considering the ACA's guaranteed issue provisions and limits on premium variations in a Sept. 6 Kaiser Health News article. Uccello listed various policy options that are available to policymakers to use as an alternative. She said these options also could be used

to strengthen the mandate's effectiveness.

Uccello also was a panelist during a Consumers Union briefing on Oct. 17 at the Kaiser Family Foundation that explored actuarial value under the ACA. Uccello's presentation, which explored potential approaches to calculating actuarial value, was included in the Bureau of National Affairs Oct. 18 coverage of the event. "Actuarial value is not an end-all, be-all measure for consumers to use when they are trying to make their health insurance purchase decisions," Uccello said. "Because actuarial values are done on an average basis for a given population, different plans are going to be more or less valuable to any particular individual, even among plans in the same benefit tier."

#### CLASS Act

An Aug. 16 Reuters article cited the Academy for its adverse selection and sustainability concerns regarding the Community Living Assis-

tance Services and Supports (CLASS) program.

A Sept. 15 *Politico* report on the CLASS program cited the [testimony](#) of Allen Schmitz, a consulting actuary for Milliman in Brookfield, Wis., who represented the Academy during a congressional hearing on the long-term care program.

**Steve Schoonveld**, the head of linked benefit product solutions for the Lincoln Financial Group in Hartford, Conn., and the co-chairperson of the Joint American Academy of Actuaries and Society of Actuaries CLASS Act Task Force, was quoted in an Oct. 5 FAQ on the CLASS program. Schoonveld provided a list of recommendations that could help alleviate some of the actuarial concerns with the program. Schoonveld also was quoted from an Academy [statement](#) in a LifeHealthPro.com article on Oct. 18. He said that our "analysis of the CLASS Act legislation and

→ CONTINUED ON PAGE 3

our assessment of the program after the law was enacted both raised serious actuarial concerns about the program's design and benefit structure."

An on-air guest during the Oct. 17 broadcast of FOX News Channel's "Special Report with Bret Baier" mentioned the Academy for its 2009 [letter](#) to Congress that included an actuarial analysis of the CLASS Act. The analysis was conducted by a joint Academy/Society of Actuaries work group. A video of the broadcast is available in the Academy's [video and audio gallery](#).

### Social Security

Academy Social Security Committee Chairperson **Janet Barr**, an associate actuary with Milliman in Chicago, commented on a new report, "Fast Facts and Figures on Social Security, 2011" in an Aug. 18 MarketWatch article. Among other observations, Barr said that because workers are living longer, they will need to depend on all three legs of the traditional retirement stool—Social Security, employer-provided pensions, and personal savings—to support that longer life expectancy. She said that this may require individuals to work longer and/or save more.

### CDHPs

National Association of Health Underwriters CEO Janet Trautwein cited the Academy Consumer-Driven Health Plans (CDHP) Work Group's [analysis](#) of CDHPs in a commentary that was published by the *South Florida Sun-Sentinel* on Aug. 10. The Academy said that CDHPs can save as much as 12 to 20 percent in health care costs in the first year and 3 to 5 percent on average in subsequent years. The Academy analysis also was cited in a Sept. 9 *Forbes* article.

### Medicare Reform

The Academy Medicare Steering Committee's [letter](#) to the Joint Select Committee on Deficit Reduction was the subject of articles by Kaiser Health News, *National Underwriter Life & Health*, and CQ HealthBeat on Sept. 12. The actuaries urged the committee to address Medicare's solvency and sustainability by developing proposals to slow health care spending growth.

### Systemic Risk

Academy Financial Regulatory Task Force Chairperson **Jesse Schwartz** was quoted in the Sept. 19 issue of *BestWeek*. He discussed an Academy [letter](#) to the Financial Stability Oversight Council on systemic risk metrics.

### Retirement Planning

The Academy provided statistics comparing the cost of living for single retirees and couples in a Sept. 22 Reuters personal finance article. The Academy said that a single person in retirement spends 70 to 75 percent of what a couple spends and that, on a per-person basis, the cost of living for singles is 40 to 50 percent higher than for couples.

### Senior Pension Fellow

The Academy's new senior pension fellow, **Don Fuerst**, was the subject of a profile that was published in the Sept. 26 issue of *CQ Weekly*. He told the D.C.-based publication that one of his responsibilities at the Academy will be to focus policymakers' attention on Social Security's financial challenges. "One of the underlying problems of Social Security is the increase in the cost of the system because of the increased longevity of all Americans. That is a demographic problem that we feel needs to be

**DISCIPLINARY NOTICE**

**(Effective Oct. 18, 2011)**

The Disciplinary Committee of the American Academy of Actuaries (Academy), acting in accordance with the Academy's bylaws and under recommendation from the Actuarial Board for Counseling and Discipline (ABCD), hereby expels Robert D.J. Scheiring from the Academy for materially failing to comply with his obligations under Precept 1 of the Code of Professional Conduct.

Mr. Scheiring was found guilty of felony charges, the nature of which has been determined to reflect adversely on the actuarial profession and undermine the profession's responsibility to the public in violation of Precept 1 of the Code of Professional Conduct.

addressed with a demographic solution," he said.

Fuerst also discussed former *Wall Street Journal* reporter Ellen Schultz's new book, "Retirement Heist," during the Sept. 29 broadcast of NPR's "Morning Edition." Fuerst told host Steve Inskeep that in his professional experience, most employers have had the best interest of their organizations and employees at heart. He also said that most pension plan funding troubles are related to a poor economy and "extraordinarily complex" pension funding rules. An audio recording of the interview is available in the Academy's [video and audio gallery](#).

### Flood Insurance

Academy Flood Insurance Subcommittee Chairperson **Stuart Mathewson**, a senior pricing actuary for Swiss Re in Eden Prairie, Minn., discussed National Flood Insurance Program reforms in a feature published by the *Baltimore Sun* on Oct. 2. Mathewson said that pending legislation is "not perfect" but will help the program.

### SPEAKERS BUREAU

**Guy Barker**, a life insurance actuary with the Oasthouse Group in Woburn, Mass., spoke on behalf of the Academy during the International

Association of Black Actuaries annual meeting in Boston on Aug. 6. Barker discussed the Dodd-Frank Act.

Academy President **Mary Frances Miller** spoke at an actuarial seminar at CUNA Mutual Group in Madison, Wis., on Aug. 22. She discussed the Academy's public policy work on health issues. Miller also traveled to Atlanta on Oct. 5 for a Casualty Actuaries of the Southeast meeting, where she talked about the Academy's work on issues of importance to casualty actuaries.

Academy Council on Professionalism Vice President **John Gleba** discussed a proposal to improve the U.S. actuarial profession's discipline process during a Sept. 1 Nationwide Financial actuaries' off-site meeting in Columbus, Ohio.

**Ken Kent**, the former chairperson of the Academy's Public Plans Subcommittee and a principal consulting actuary with Cheiron in McLean, Va., spoke on the role of actuaries with public pension plans during a Tax Foundation State Tax Working Group meeting on Oct. 13.

To find out about other actuaries in the news and for external links, visit the Academy's [newsroom](#). ▲



# Private Pensions Face Rising Contribution Costs

**S**PONSORS OF PRIVATE, single-employer pension plans are facing a “rising tide” of pension funding challenges, actuaries told attendees at an Oct. 11 Capitol Hill briefing. During the briefing, actuaries representing the Academy and the Society of Actuaries (SOA) presented the results of an SOA research project, which were contained in a new report, “The Rising Tide of Pension Contributions Post-2008: How Much and When?” The actuaries also discussed implications of the research findings for plan sponsors, beneficiaries, and policymakers.

According to the report, the 2008-09 economic recession and subsequent equity market downturn, combined with falling interest rates, have driven up employers’ cost of providing defined benefit pensions. In the five-year period beginning in 2004, employer contributions to private-sector pension plans averaged approximately \$70 billion per year. Future contributions are projected to average roughly \$90 billion a year over the 10-year period beginning in 2010, peaking at about \$140 billion in 2016.

The larger contributions will have little effect on corporate earnings, said Don Fuerst, Academy senior pension fellow and one of the four who conducted the briefing. Large cash contributions, however, can have a big effect on a company’s cash position and its ability to use cash for other purposes. How much cash companies have on their balance sheet and their ability to make these contributions are serious concerns, he said.

“Many sponsors are anticipating increases in their pension contributions, but the magnitude of the increase is very uncertain,” Fuerst said. “The study’s sensitivity analysis shows that one year of widely varying investment experience can have an enormous impact on contributions that will be required over the next five years.”

The stress that the required contributions will place on the sponsors will vary enormously, Fuerst explained. Companies with very large cash reserves will be able to make these contributions, but companies with small cash reserves could face considerable hardship. Large contributions could affect their ability to use cash in other ways for their businesses.

“While we have projected the contributions in aggregate for the system, from the data we have we really can’t project the individual effects this has on various companies,” Fuerst said.

The level of corporate cash is very high right now, Fuerst said, but that cash is not uniformly distributed among all the companies that need to make contributions. While maintaining their current



Ethan Kra, Don Fuerst, and Joe Silvestri (left to right) speak with an attendee at the conclusion of their Capitol Hill briefing.

funding strategy might be a good option for companies that have a lot of cash on hand, companies without large cash reserves won’t have that luxury and may need to develop other strategies.

## Potential Remedies

Fuerst discussed several actions raised in the report that plan sponsors and regulators could take to manage the funding challenges.

Individual plan sponsors could shift their asset portfolios from equities to bonds to reduce the effects of market volatility and declining interest rates. They could adopt a contribution policy that smooths actual contributions above the minimum levels regardless of market performance. Sponsors also could reduce costs by modifying their plan designs or freezing their plans.

Regulators could link the minimum funding required contributions to the sponsor’s equity portfolio risk, credit rating, or plan maturity. They also could make the minimum required contributions less sensitive to interest rate and equity market fluctuation by changing the current seven-year amortization period to 10 or 12 years.

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## Election Results, continued from Page 1

The number of comments received was relatively small: 157. The vast majority who commented praised the online balloting process. Many also were complimentary of the amount of supplemental material about the candidates and bylaws amendments that was just a click away on the online ballot. A few reported technical glitches in accessing the ballot. And some lamented the lack of competitive choices in the elec-

tion for three regular directors.

“Leadership will of course consider these comments while evaluating this year’s online balloting,” Miller wrote in her letter. She also noted that the board expanded the nominating procedures this year by adding nomination by petition to the two existing methods by which members are nominated for regular director (nomination suggestions can be submitted directly to the

Nominating Committee, and the Nominating Committee can ask active members to accept nomination as a regular director on the board of directors).

“I believe that the availability of a petition process for regular director strengthens our governance. I intend to continue the discussion of this question when the board considers the 2012 elections process,” Miller wrote. ▲

# PROVIDING PERSPECTIVE TO CURRENT AND EMERGING ISSUES

BY ETHAN KRA



IT HAS BEEN A PRIVILEGE AND PLEASURE TO HAVE SERVED AS THE ACADEMY'S VICE PRESIDENT FOR PENSION ISSUES THESE PAST TWO YEARS. OUR VITAL WORK IN THE PENSION ARENA COULD NOT HAVE BEEN ACCOMPLISHED WITHOUT THE EFFORTS OF THE NEARLY 100 VOLUNTEERS FROM OUR VARIOUS COMMITTEES, SUBCOMMITTEES, AND TASK FORCES. THESE INDIVIDUALS ARE LEADERS IN THE PROFESSION. THEY HAVE REPRESENTED ACTUARIES BY SPEAKING AT CAPITOL HILL BRIEFINGS; BY WRITING ISSUE BRIEFS, COMMENT LETTERS, AND PRACTICE NOTES; AND BY HOSTING WEBINARS ON A VARIETY OF PUBLIC POLICY AND PRACTICE ADVANCEMENT ISSUES.

Over the past two years, the Pension Practice Council has prepared numerous commentaries that offered an actuarial perspective on current funding and accounting matters related to public and private (single-employer and multiemployer) pension plans. We've also worked diligently on key practice notes that clarify good practice in setting assumptions under the Pension Protection Act (PPA) and when working with pension plan auditors—all the while working with the Pension Benefit Guaranty Corp. and regulatory agencies on PPA implementation.

The council can be proud of its efforts to promote an open discussion of important pension liability measurement and disclosure topics, about which our profession has no clear consensus. Public pension plans have received an increasing degree of scrutiny in the media and on Capitol Hill, and our volunteers have tackled a broad span of issues ranging from Securities and Exchange Commission regulations to proposals from the Governmental Accounting Standards Board.

As vice president, I've made a concerted effort to reach out to Academy members as the council traveled around the country for its four in-person meetings each year. We invited local Academy members who practice in the pension arena to attend council meetings and participate in discussions. The council began communicating with pension members on a regular basis through its new quarterly e-newsletter, *Retirement Account*, the first edition of which was issued in August. We also instituted annual collaboration meetings with the Pension Section Council of the Society of Actuaries (SOA) to coordinate areas in which the Academy's public policy work could

be enhanced by research undertaken at the SOA, and to move the Retirement 20/20 initiative into the public policy domain.

I'm also pleased to have helped in the Pension Practice Council's efforts to continue shining a light on the actuarial aspects of Social Security. As part of these efforts, the council presented a Capitol Hill briefing in May that addressed the 2011 Social Security Trustees Report and the actuarial implications of various reform proposals. The [Social Security Game](#) continues to be one of the most popular features of the Academy's website and next year will see a more modern design in conjunction with the new Academy website.

Retirement structures that will deal with post-baby boom generations are the focus of a newly formed Forward-Thinking Task Force created by the council in late 2010. The council also has established a joint task force with the Life Practice Council to concentrate on lifetime income issues.

What's ahead? These are certainly challenging times for those of us working in retirement systems—and for the actuarial profession itself. Many now realize a retirement security crisis is looming large. The Pension Practice Council will continue to focus on bringing the best actuarial thinking and perspectives to both current and emerging challenges in our retirement system.

I would like to thank Jeremy Gold, who most ably has served as vice chairperson of the council for the past two years. I am also grateful to the dedicated volunteer chairpersons who continue to provide outstanding leadership: Steve Alpert, Anne Button, Eli Greenblum, Bill Hallmark, Evan Inglis, Tonya Manning, and Janet Barr. I wish the best to my successor, John Moore, who has led the Academy's Pension Committee for the past two years, and to the Academy's new senior pension fellow, Don Fuerst. I also want to give a big thank-you to our very talented staff at the Academy—especially Craig Hanna, director of public policy, and Jessica Thomas, senior pension policy analyst.

**Ethan Kra, an actuary in West Orange, N.J., is the Academy's outgoing vice president for pension issues.**

## PENSION BRIEFS

- ➔ **Ellen Kleinstuber**, managing consultant for The Savitz Organization in Philadelphia, and **Michael Pollack**, principal at Towers Watson in Stamford, Conn., have joined the Academy's Pension Practice Council.
- ➔ **Sandor Goldstein**, a consulting actuary for Goldstein and Associates in Chicago, has joined the Academy's Public Plans Subcommittee.

# SOARING FORWARD IN THE SPIRIT OF COOPERATION

BY ART PANIGHETTI



**T**HEY SAY THAT TIME FLIES WHEN YOU'RE HAVING FUN. SO, HOW QUICKLY DID MY TWO-YEAR TERM SEEM TO ME?

When I assumed the chair of the Academy's Life Practice Council two years ago, the council's efforts were focused on helping the National Association of Insurance Commissioners (NAIC) Life Actuarial Task Force (LATF) put the finishing touches on principle-based reserves (PBR) for life insurance and define a principle-based approach for non-variable annuities. Two years later, the life council and its many work groups continue to be involved extensively in the PBR effort. We are now assisting LATF as it evaluates an impact study for life insurance PBR and addresses any needed changes.

As this long-running, volunteer-intensive PBR initiative nears completion, did we find ourselves with less to do? Not on your life! We supplemented our regular reports to our members on PBR and LATF developments with a new webinar on life product activities. The Life Products Committee focused on nonforfeiture law review, life settlement, illustrations, and—in concert with the Public Interest Committee—lifetime income issues. Hurricane Irene, unfortunately, blew away our opportunity to present our report on the theoretical underpinnings of the nonforfeiture law at the summer NAIC meeting, but this multi-year initiative will be completed in the near future. Our Life Tax Work Group went beyond its historic PBR focus and commented on product and financial reporting issues. On the public accounting front, we provided numerous comments, practice notes, and articles relating to current and emerging U.S. generally accepted accounting principles.

I am particularly proud of the great strides made in expanding the Life Practice Council's collaborative efforts with the other practice councils. We found much common ground by working with our professional actuarial brethren in the pension, health, casualty, and risk management practice areas. We engaged with the Risk Management and Financial Reporting Council on several issues related to the ever expanding scope of international accounting, valuation, capital, and professional standards, as well as these issues' impact on the NAIC's solvency modernization initiative. The Life Practice Council established a joint team with the Pension Practice Council to focus on the critical public interest issue of ensuring adequate lifetime income after retirement.

We worked with all of the councils to review the term "actuarial soundness," which was not as easy as it sounds! We even successfully combined tax expertise with life, casualty, and health risk capital requirements to produce a well-received [recommendation](#) to the NAIC's Capital Adequacy Task Force.

My service on the Academy board opened many new doors for me. I had the opportunity to serve on the Actuarial Foundation board and see firsthand all of the good work that the foundation does with its limited resources. I encourage all actuaries to help the charitable arm of our profession in any way that they can. The Academy's Public Interest Committee is moving the Academy in new and occasionally controversial directions by evaluating actuarial aspects of critical public interest issues—and then taking a stand. During my term on the Academy board, which was superbly led by presidents John Parks, Ken Hohman, and Mary Frances Miller, the board navigated through some tough issues related to board governance and transparency.

My job was made tremendously easier and more enjoyable by the hard work and support from the entire Life Practice Council. My predecessor, Tom Campbell, did much to help smooth the transition and remained available to help as a friend of the council. Our committee and work group chairs kept their teams organized, making progress, and striving for excellence. I would like to thank every one of the many volunteers in the Academy's Life Practice Council for their extraordinary efforts and results.

We, of course, would be nowhere without the high-quality support provided by the Academy staff. In particular, John Meetz, life policy analyst, Bill Rapp, assistant director of public policy, and Craig Hanna, director of public policy, kept us running in the right direction by providing everything from the dial-in number for a call happening in two minutes to expert advice on complex policy issues. And I can't thank Nancy Bennett, our senior life fellow, enough—she serves our council in many important ways.

I had the pleasure of working side by side with the best, brightest, and most dedicated members of my profession. I had the opportunity to help the Life Practice Council and the Academy board lead the way on issues that are important to the public and our profession. I learned a lot and realized that I still have much more to learn! Along the way, I made many new friends with a shared purpose and dedication.

Well, did time fly for me? No, it soared!

**Art Panighetti, an actuary at Northwestern Mutual in Milwaukee, is the Academy's outgoing vice president for life issues.**



# VOLUNTEER PARTICIPATION INCREASES DRAMATICALLY

BY HENRY SIEGEL



I HAD THREE PRIMARY GOALS WHEN I BECAME THE ACADEMY'S VICE PRESIDENT FOR RISK MANAGEMENT AND FINANCIAL REPORTING (RMFR) IN OCTOBER 2009. FIRST, I WANTED TO GET MANY MORE MEMBERS INVOLVED IN THE REGULATORY AND RISK MANAGEMENT SIDE OF WHAT THE ACADEMY IS DOING. SECOND, I WANTED TO INTRODUCE THE ACADEMY TO THE NEW FEDERAL INSURANCE OFFICE (FIO) THAT WAS FORMED FOLLOWING THE 2008 FINANCIAL CRISIS AND TO DEVELOP THE SAME KIND OF COOPERATIVE RELATIONSHIP WITH THE FIO THAT THE ACADEMY HAS LONG HAD WITH THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS. FINALLY, I WANTED THE ENTIRE PRACTICE COUNCIL TO BECOME MORE INVOLVED WITH INTERNATIONAL ISSUES.

I am pleased to say that we have been successful on all counts.

One of my first actions was to create the ERM Committee. Enterprise risk management (ERM) issues previously had been handled primarily by the Solvency Committee. This created a situation in which neither ERM nor solvency issues could be fully addressed. By splitting the work into two committees, the number of members actively involved in these issues nearly tripled from 16 to 47.

Two years ago, I was amazed to discover that the Academy did not have a committee dedicated to reinsurance. Reinsurance issues were handled by the same committees that dealt with the direct issues, and, as a result, reinsurance issues typically received less attention. So we established a subcommittee of the Solvency Committee. The 23 new volunteers on the Reinsurance Subcommittee now address accounting, solvency, and any other issues that affect reinsurance.

The number of members who participate in RMFR practice council committees has increased nearly 70 percent (from 122 to 207) during the two years I've been in office—a gratifying result. (These numbers exclude the temporary DTA Bridge Group and the RMFR Council itself, which consists mainly of committee chairs.) I credit the committee, subcommittee, and task force chairpersons who made a concerted effort to reach out to new people and differing points of view. The results have been clear in the quality of our work.

When the FIO was formed last year, the Financial Regulatory Reform Task Force worked to establish a cooperative relationship

with its staff. Led by Jesse Schwartz, the task force produced a number of letters and papers on the regulation of insurance, particularly from the systemic risk perspective. The FIO staff have told us that our comments are among those they read most carefully because they appreciate our unbiased approach to the issues.

When I took office, the accounting side of the practice council had been energized by the International Accounting Standards Board (IASB) project on insurance contracts and already had broad participation (nearly 50 volunteers). The other important aspects of international regulation, however, were just becoming evident. The Solvency Committee and Financial Reporting Committee, chaired by Tom Herget and William Hines respectively, and the International Accounting Standards Task Force, currently chaired by Steve Strommen, have been active in the International Association of Insurance Supervisors and the IASB. These organizations have begun to put in place international standards that may affect our industry for years to come. While this is an ongoing process, we have been able to ensure that U.S. actuaries have a strong voice in these developments.

There have been many others who have worked hard during my tenure, including the members of the Risk Classification Work Group and Life Settlement Task Force. I greatly appreciate the help of all the volunteers. I'm sure that under my successor, Maryellen Coggins, the Risk Management and Financial Reporting Practice Council will continue its growth.

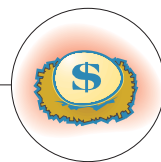
**Henry Siegel, vice president in the office of the chief actuary for New York Life Insurance Co. in New York, is the Academy's outgoing vice president for risk management and financial reporting issues.**

## CASUALTY BRIEFS

- ➔ **Charles Mitchell**, consulting actuary for Milliman in Brookfield, Wis., has joined the Academy's Medical Professional Liability Subcommittee.
- ➔ **Kathryn Rokosz**, assistant actuary for Allstate Insurance Co. in South Barrington, Ill., has joined the Academy's Natural Catastrophe Subcommittee.

## PROFESSIONALISM BRIEFS

- ➔ Joining the Academy's Committee on Professional Responsibility are **Lloyd Spencer Jr.**, vice president and research actuary for Hannover Life Reassurance Co. of America in Charlotte, N.C., and **Lisa Ullman**, actuary, human resource services for PricewaterhouseCoopers in Boston.



## Question Regarding Form 5500 Instructions

**THE PENSION COMMITTEE** raised a question about the instructions for Form 5500, Schedule H on the reporting of premium payments made to the Pension Benefit Guaranty Corp. (PBGC) from qualified defined benefit plan assets. The committee detailed its concerns in an Oct. 17 [letter](#) to Department of Labor (DOL) and Internal Revenue Service (IRS).

Prior to 2009, the Form 5500 instructions did not say where to report PBGC premium payments made from plan assets, but the prevailing practice was to report the premiums as “other” administrative expenses. The Schedule H instructions were modified in 2009 to include instructions that PBGC premium payments should

be reported on Line 2l as a transfer of assets from the plan.

PBGC premiums paid from plan assets most appropriately are reported on Line 2i(4) as “other” administrative expenses, the committee wrote. Given that the instructions for Line 2i(4) appear immediately prior to those for Line 2l, it is possible that the instructions for reporting PBGC premium payments inadvertently were placed in the wrong location.

The committee encouraged the DOL and IRS to issue guidance as soon as possible to the retirement plans community with instructions on where to report PBGC premiums and to extend the filing due date for 2010 calendar plan year Form 5500 returns. ▲

## MCMs Are a Class of Measures

**THE PENSION COMMITTEE** submitted [comments](#) on Oct. 14 to the Actuarial Standards Board (ASB) on Actuarial Standard of Practice (ASOP) No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*. The ASB’s discussion draft on ASOP No. 4 was released in January 2011 and includes a proposal to define market-consistent measures (MCMs) of pension obligations.

There are a number of difficulties associated with attempting to define a universally applicable MCM, the committee wrote. Rather than define a single MCM for pension obligations, the committee recommended that the ASB identify MCMs as a class of measures and include a discussion of factors that could be considered in the development of such a measure.

“The discussion should provide sub-

stantial flexibility and should be clear that the factors considered, the assumptions used, and the measurement itself, can vary substantially based on the purpose of the measurement,” wrote John Moore, chairperson of the Pension Committee. “We believe that an Academy practice note might be a more appropriate vehicle for advancing practice in this evolving and diverse area.” ▲

## Clarification Needed for At-Risk Plan Calculations

**THE PENSION BENEFIT GUARANTY CORP.** (PBGC) should consider clarifying how at-risk plans should calculate unfunded vested benefits, the Academy’s Pension Committee wrote in a Sept. 22 [letter](#) to the PBGC.

“We specifically believe that when a plan is subject to the 4 percent and \$700 per-participant load (applicable when a plan

has been at risk for two of the prior four years), that load should not be included in the premium funding target for purposes of determining the variable rate premium,” wrote John Moore, chairperson of the Pension Committee.

The statutes and regulations require that only vested benefits be taken into account when determining the premium funding

target, the committee explained in the letter, and these vested benefits must be determined using the at-risk assumptions specified in the Employee Retirement Income Security Act (ERISA) 303(i)(B). The additional load is neither a plan benefit nor an assumption under the statute, and therefore should not be included in the premium funding target. ▲

### Practice Note Re-exposed

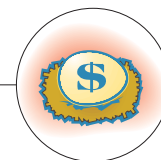


**THE LIFE FINANCIAL REPORTING COMMITTEE** has re-exposed the *Optional Retrospective Application of ASU 2010-26 Acquisition Costs* [practice note](#). The deadline for comments has been extended to Oct. 28, 2011.

### LIFE BRIEFS

- ➔ **David Sowers**, actuarial director for Nationwide Financial in Columbus, Ohio, has joined the Academy’s Annuity Reserves Work Group.
- ➔ **David Christianson**, director of in-force product management for Thrivent Financial for Lutherans in Minneapolis, has joined the Academy’s Life Public Interest Task Force.





## Pension Practice Council Comments on GASB Amendments

**T**HE ACADEMY'S PENSION PRACTICE COUNCIL, in an Oct. 14 [letter](#) to the Governmental Accounting Standards Board (GASB), submitted separate comments from its Public Plans Subcommittee and the Joint Academy/Society of Actuaries Pension Finance Task Force on proposed amendments to the existing pension standards that would change how the costs and obligations associated with the pensions that governments provide to their employees are calculated and reported. The *Accounting and Financial Reporting for Pensions* exposure draft, which primarily relates to reporting by governments that provide pensions to their employees, and the *Financial Reporting for Pension Plan* exposure draft, which addresses the reporting by the pension plans that administer those benefits, were released in July.

While both pension groups support GASB's move to a single-cost method, the reduction in deferrals relative to prior versions of the standards, and the expanded disclosure information that was included in the two exposure drafts, the two groups offered different suggestions for improving the amendments.

The Public Plans Subcommittee recommended separating asset and liability deferral items in the schedule of changes to the employer's statement of net position related to pensions. In addition, the subcommittee recommended requiring a schedule that compares actual employer contributions with actuarially calculated employer contributions.

"The disclosure is so essential to enabling financial statement users to assess whether or not the plan has been following a reasonable funding regimen that the additional work required, if any, is warranted," the subcommittee wrote.

The subcommittee also requested that large multiple-employer pension plans be allowed to use the plan's year-end to measure and report agent and cost-sharing expenses as opposed to each employer using its own fiscal year-end.

The Pension Finance Task Force described several issues created by using an expected rate of return for discounting in the calculation of a pension actuarial liability used for accounting purposes. It also pointed out that the entry-age-normal method for determining liabilities and periodic costs that GASB calls for is better suited as a funding-cost method and is not appropriate for accounting purposes.

"By requiring reporting on this basis, plan sponsors who report or intend to report on a more economically representative basis would be discouraged or prohibited from doing so," the task force wrote. "Our view is that the pension obligation is a liability that should be discounted at close to a default-free rate for presentation in the balance sheet."

The Pension Practice Council submitted comments last year in response to the GASB's *Preliminary Views* document and in 2009 in response to the *Invitation to Comment*. ▲

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### HEALTH BRIEFS

- ➔ **Martin Sheerin**, vice president and chief financial officer for John Hancock Financial Services in Milton, Mass., has joined the Academy/SOA Long-Term Care Valuation Work Group and the Academy's Long-Term Care Principle-based Work Group.
- ➔ **Robert Pipich**, an actuary for Milliman in Wayne, Pa., has joined the Academy's Medicare Steering Committee.
- ➔ Joining the Academy/SOA Group Long-Term Disability Work Group are **Warren Cohen**, senior vice president actuarial for Reliance Standard Life Insurance Co. in Philadelphia; **Richard Ferree**, an actuary for MetLife in New York; **Stephen Maher**, principal at Risk Capital Strategies in Avon, Conn.; and **Frank Reynolds**, professor emeritus in Waterloo, Ontario.
- ➔ **Thomas Persichetti**, an actuary in Arlington, Va.; **Mien Niu**, chief actuary, planning and policy analysis for the U.S. Office of Personnel Management in Washington; and **Frank Reynolds** have joined the Academy/SOA Cancer Claims Cost Tables Work Group.
- ➔ **John Kinney III**, director, actuarial services for Excellus BlueCrossBlueShield in Pittsford, N.Y., has joined the Academy's Health Care Receivables Factors Work Group.
- ➔ **Howard Atkinson**, vice president and health actuary for The Segal Company in Washington, has joined the academy's Health Solvency Work Group and the Medicare Part D RBC Subgroup.

## Actuarial Update

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## International Standards, continued from Page 1

The first exposure draft of ISAP 1 is open for comments from IAA members as well as individuals. A transmittal letter and a copy of the exposure draft are available at this [link](#).

The Academy is considering whether to file additional comments to those of the ASB. In her letter to Academy members, Miller invited members to send comments on the exposure draft to [international@actuary.org](mailto:international@actuary.org). Comments received by Nov. 4 will be considered in any response from the Academy. Members also can comment directly to the IAA. Comments should be addressed to [ISAPcomments@actuaries.org](mailto:ISAPcomments@actuaries.org) with "ISAP 1" in the email header and should be posted by Dec. 1.

Members who comment directly to the IAA are encouraged send a copy of their comments to [international@actuary.org](mailto:international@actuary.org) so that the Academy is aware of their concerns.

The IAA has authorized four other task forces to draft model standards for enterprise risk management, International Accounting Standard 19, insurance accounting, and Social Security. The Academy plans to follow the same process if and when those models are released by the IAA: asking the U.S. Actuarial Standards Board to review any proposed ISAPs, and then sharing the IAA model standard and the ASB comments directly with Academy members before any comment period closes. ▲

## Briefing, continued from Page 4

### The Report

The SOA research report used data from the regulatory filings of the private-sector defined benefit pension system and the Pension Insurance Modeling System (PIMS) that was developed for the Pension Benefit Guaranty Corp. (PBGC) to analyze the private, single-employer defined benefit system. By simulating the demographic and economic experience of 421 single-employer defined benefit plans over more than 10 years under a set of assumptions determined by the SOA, the report projected the funding requirements for the remainder of this decade. The report is the first of its kind to measure the effect the 2008 economic

crisis has had on the private, single-employer pension plan system. The SOA launched the research project as part of its rapid retirement research initiative "to provide timely data-driven research to the public and to policymakers," said Tom Terry, chairperson of the SOA's Rapid Research Modeling Oversight Group.

Joining Fuerst and Terry on Capitol Hill to present the results were Ethan Kra, chairperson of the Academy's Pension Practice Council, and Joe Silvestri, the SOA's retirement research actuary.

The [report](#) is available online. A video of the Capitol Hill briefing and the slide presentation are available on the Academy [website](#). ▲

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