SEP 2011

Actuarial UPDATE
THE NEWSMONTHLY OF THE AMERICAN ACADEMY OF ACTUARIES

Academy Urges Policymakers to Fix Social Security

THE ACADEMY'S SOCIAL SECURITY COMMITTEE urged President Obama and congressional leaders to work together to improve the long-term solvency and fiscal sustainability of Social Security in a Sept. 22 letter to the policymakers.

"Whether modifications to the Social Security program are included in the final recommendations of the Joint Select Committee [on Deficit Reduction] or undertaken on a parallel legislative track, improving the program's financial situation would be in the best interest of the nation by strengthening a critical element of retirement security for current and future retirees," Janet Barr, chairperson of the Social Security Committee, wrote.

The Social Security trustees for two decades have reported annually that the system is not in actuarial balance. In their most recent report, the trustees projected the Social Security trust fund to run out of assets in 2036 and the disability insurance (DI) fund to run out of assets by 2018.

➜ SEE LONG-TERM SOLVENCY **PAGE 7**

Seminar Features Experts on Actuarial Opinions

JOINING THE FACULTY OF EXPERTS at this year's annual Life and Health Qualifications seminar is Louis Lombardi, author of *Valuation of Life Insurance Liabilities*, a book that many consider to be a definitive text in the field of valuation.

At the Nov. 7–10 seminar, now in its 12th year, Lombardi and other seminar leaders will discuss the statutes and regulations actuaries need to know to issue actuarial opinions for the National Association of Insurance Commissioners' (NAIC) Life, Accident, and Health Annual Statement and the Health Annual Statement.

"Actuaries who have taken the seminar in previous years have said that it is one of the most useful seminars they've attended," said Esther Milnes, a member of the faculty and chairperson of the Life and Health Qualifications Seminar Committee. "Participants enjoy discussing case studies with the faculty and welcome the opportunity to ask questions about topics on the syllabus as well as about issues they've encountered at their workplace."

Joining Lombardi and Milnes on the faculty of this year's seminar, to be held in Arlington, Va., are Donna Claire, president of Claire Thinking Inc.; Darrell Knapp, executive director of Ernst & Young LLP; Craig Morrow, assistant vice president and corporate actuary at The Hartford Life Insurance Co.; Sheldon Summers, an actuary at Claire Thinking Inc.; William Thompson, a principal and consulting actuary at Milliman; Joeff Williams, a consultant at Actuarial Management Resources; and Sheila Kalkunte, the Academy's assistant general counsel.

During the first three days of the seminar, the faculty will cover state- and country-specific basic education that actuaries may not have obtained during the Society of Actuaries (SOA) examination process or through subsequent testing or alternative education. Participants can take the test on the final day to assist them to qualify to issue statements of actuarial opinion. Actuaries attending the first three days may earn up to 27.3 continuing education credits—including the 15 hours required each year under the U.S. Qualification Standards related to the NAIC life and health annual statement opinions.

The seminar is popular with fellows of the SOA who completed the exam process during 2000–2006 but have not yet satisfied the basic education requirements of Section 3 of the Qualification Standards.

The seminar also attracts experienced actuaries looking for a basic education refresher, foreign actuaries who would like to practice in the United States, fellows and career associates of the SOA who are thinking about changing their practice area, casualty or pension actuaries who want to learn about life and health statutory requirements, and regulators who want to learn about life and health actuarial topics.

The Academy annually offers the seminar in cooperation with the SOA.

CALENDAR

SEPTEMBER

8 Senior Staff Collaboration meeting, Washington

14 Preparing for Change under PBA: Life Company Reserves and Capital Seminar, Orlando, Fla. (Academy, SOA)

14–15 Actuarial Standards Board meeting, Washington

15 CUSP meeting, Oaxaca, Mexico

16–17 NAAC meeting, Oaxaca, Mexico

21 Professionalism webinar: Code of Professional Conduct (Academy, ASPPA, CAS, CCA, SOA)

29–Oct. 2 IAA meeting, Zagreb, Croatia

OCTOBER

11 Capitol Hill briefing: Important New Research Findings Indicate a "Rising Tide" of Contributions Facing Defined Benefit Pensions, Washington (Academy, SOA)

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, Arlington, Va. (Academy, SOA)

16–17 P/C Effective Loss Reserve Opinions Seminar, Baltimore (Academy)

17–20 NCOIL annual meeting, Santa Fe, N.M.

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

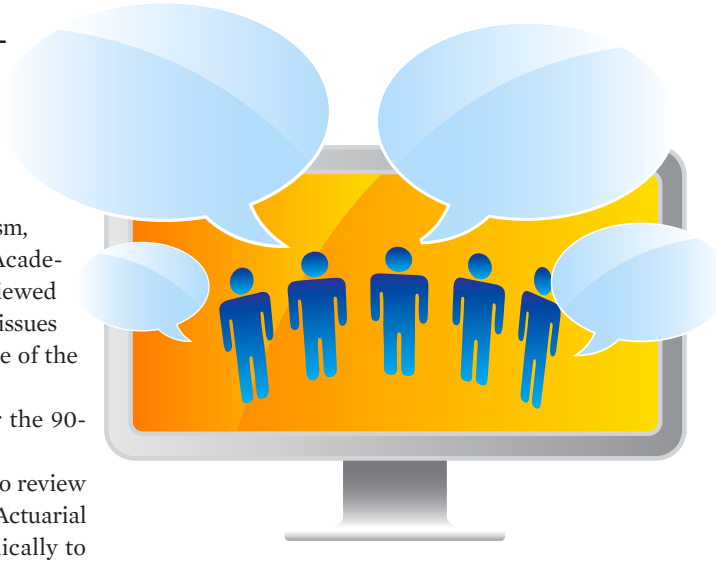
17 CUSP meeting, Washington

18 Board of Directors meeting, Washington

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

Academy NEWS Briefs

Applying the Code in Uncertain Times



THE CODE OF PROFESSIONAL CONDUCT doesn't change during difficult times, presenters told participants at a Sept. 21 webinar hosted by the Academy's Council on Professionalism. Presenters Kevin Dyke, a member of the Council on Professionalism, and Karen Smith, chairperson of the Academy's Committee on Qualifications, reviewed the 14 precepts of the code emphasizing issues that some actuaries might face because of the current economic environment.

More than 600 sites registered for the 90-minute webinar.

The presenters reminded listeners to review the Code of Professional Conduct and Actuarial Standards of Practice (ASOPs) periodically to ensure that they are not making questionable decisions. Attendees were encouraged to ask themselves whether they are bending their personal ethical standards during this economic slowdown or allowing their work quality to decline because of time or staffing pressures. Dyke and Smith also cautioned their audience not to make a client's problems their own by pushing the limits of the ASOPs or the Code of Professional Conduct.

"As I was preparing for this webinar, I was thinking of the well-intentioned actuary who, under stress or economic pressure, makes one bad decision that leads to many more bad decisions," said Smith after the webinar. "Keeping the Code and ASOPs fresh in their minds can help actuaries from starting down that slippery slope. I think the fact that the webinar was so well-attended is a testament to the fact that actuaries take their obligations under the Code of Professional Conduct seriously."

The webinar was cosponsored by the Academy, the American Society of Pension Professionals and Actuaries, the Casualty Actuarial Society, the Conference of Consulting Actuaries, and the Society of Actuaries. An archived version of the webinar and speakers' slides are available online.

CLASS Act Future in Doubt

THE FUTURE of the Community Living Assistance Services and Supports (CLASS) program, a voluntary federal long-term care program created by the Patient Protection and Affordable Care Act, is in question after news accounts surfaced on Sept. 22 reporting that the CLASS office staff had been reassigned. The news came on the heels of the release by a group of congressional Republicans of a critical report on the CLASS program. The report cited the Academy's July 2009 letter to the U.S. Senate Committee on Health, Education, Labor and Pensions. The Academy letter included an analysis of the CLASS program conducted by a joint task force of the Academy and the Society of Actuaries. In its comments, the task force concluded that the structure of the CLASS program could lead to adverse selection and ultimately threaten its sustainability. The Republicans' report also cited recommendations for improving the program that were included in the Academy's letter.

➜ CONTINUED ON **PAGE 3**

➜ CONTINUED FROM **PAGE 2**

IN THE NEWS

Lifetime Income

The Academy's response to a request for information from the departments of Labor and Treasury regarding lifetime income options was cited in a new Government Accountability Office report on ensuring lifetime income throughout retirement. An excerpt of the report, including the Academy citation, was published by *National Underwriter Life & Health* on July 1. The Academy response also was cited and linked in the July issue of *Financial Advisor* magazine. The actuaries wrote that an individual would need to set aside 50 percent to 75 percent more money to achieve a specified level of retirement security than if the individual participated in a risk-pooling arrangement such as an annuity.

"Cadillac" Tax

A January 2010 technical report by the Academy and Society of Actuaries regarding the excise tax contained in then proposed health care reform legislation was cited in an op-ed by Rep. Joe Courtney that was published by the Huffington Post on July 7. The actuaries detailed some of the unintended consequences of the excise tax as proposed in the legislation.

Retirement Age

Academy Public Interest Committee Chairperson Tom Terry testified on July 8 to the U.S. House Committee on Ways and Means Subcommittee on Social Security. The congressional hearing was aired live by C-SPAN 3. Terry, president of TTerry Consulting in Chicago, testified to subcommittee members that actuaries support increasing Social Security's retirement age to account for longevity improvements as part of a package of reforms to restore actuarial balance to the program. Terry's testimony was covered in numerous trade publications, including *National Underwriter Life & Health* on July 8, Producers Web on July 15, and *Insurance & Financial Advisor* magazine on July 15.

Pension Dipping

Academy and Society of Actuaries Joint Pension Finance Task Force Chairperson Evan Inglis discussed how tapping into a pension could cost individuals more than they think—and not only from taxes. In a personal column that was first published by the *Chicago Tribune* on July 15, Inglis, chief actuary for the Vanguard Group in Valley Forge, Pa., wrote that a worker also should consider how much he or she could earn through investment growth and from future annuity payments by leaving the pension intact and using it for a lifetime income stream. The column was later published in newspapers nationwide including the July 17 issues of the *Baltimore Sun* and *St. Louis Post-Dispatch*.

Pop Culture

The Academy provided life expectancy and mortality data for the average 27-year-old female in a July 26 *Wall Street Journal* blog item on the "27 Club" that was prompted by the death of 27-year-old singer Amy Winehouse. Winehouse is the latest in a string of pop culture celebrities who died at age 27.

Social Security

The Academy's Social Security Game was mentioned and linked in a July 27 MSN Money article that attempted to dispel popular misconceptions about the program.

SPEAKERS BUREAU

Steve Schoonveld, the head of linked benefit product solutions for the Lincoln Financial Group in Hartford, Conn., gave a presentation on the Community Living Assistance Services and Supports (CLASS) program on behalf of the Academy during the July 11 National Conference of Insurance Legislators (NCOIL) summer meeting. His remarks focused on educating lawmakers about the new voluntary long-term care services program.

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

HEALTH BRIEFS

- Joining the Academy's newly formed Large Group Medical Business Practice Note Work Group are **Cheryl Allari**, vice president and valuation actuary for Wellpoint in Mason, Ohio; **Stephen Butz**, vice president and appointed actuary for Health Care Service Corp. in Chicago; **Jon Canine**, actuarial director for Humana in Louisville, Ky.; **Jan Graeber**, life health group actuary for the Texas Department of Insurance in Austin; **Dewayne Ullsperger**, vice president and actuary for UnitedHealth Group in Edina, Minn.; **Russell Willard**, actuarial director with Humana in Louisville, Ky.; and **Norman Zwitter**, valuation actuary for Blue Cross/BlueShield of Tennessee in Chattanooga. **Darrell Knapp**, executive director for Ernst & Young in Kansas City, Mo., has been named chairperson of the work group.
- **Martin Sheerin**, vice president of product review and development for John Hancock Financial Services in Milton, Mass., has joined the Academy's State Long-Term Care Task Force and the joint Academy/SOA Long-Term Care Valuation Work Group.
- **Shereen Jensen**, actuary for BlueCross/Blue Shield of Minnesota in St. Paul, has joined the Academy's Medicaid Work Group.
- **Roger Martin**, senior vice president and chief financial officer at Unum U.S. in Portland, Maine, has joined the Committee on State Health Issues.

Fuerst Comes Aboard

THE ACADEMY WELCOMED DON FUERST to its staff in September as the new senior pension fellow.

Fuerst, who retired last fall as a senior partner and consulting actuary after more than 30 years with Mercer, said that he is excited to come out of retirement so that he can use his knowledge and experience to influence public policy and improve the American retirement system.

"I'm looking forward to working with the Academy and the actuarial profession to help make a financially secure retirement a more attainable goal," he said.

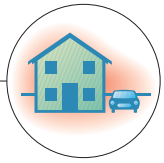
Fuerst said that throughout his career, actuaries have faced the challenge of dealing with new legislation, changing accounting rules, and new financial perspectives. The focus of pension actuaries, however, has changed greatly since he became an actuarial analyst in 1971. At that time, pensions were a growth business and the focus was on making pension plans a strong benefit that attracted employees. Over the years, the growth slowed and the focus evolved to finding ways to make the retirement money that employers and employees put into the system provide the security that retirees need.

"As actuaries, we have a unique perspective and understanding of how difficult it is for American workers to retire with a secure financial future," Fuerst said. "We also have the expertise to help people reach this goal."

Fuerst is the author of several award-winning papers, including "Affordable Retirement Income Through Savings and Annuities," which received an award from the Society of Actuaries' Retirement 20/20 project in 2010, and "Risk Allocation in Retirement Plans: A Better Solution," which received the 2006 John Hansen Memorial Prize from the Actuarial Foundation. He also served on the board of directors of the Conference of Consulting Actuaries from 2004 to 2011.

Fuerst, who majored in mathematics and minored in economics at Regis University in Denver, said he entered the actuarial profession because it offered a practical application of both of these fields. He landed his first job with Marsh & McLennan—which later formed Mercer—in St. Louis. After stints in Stamford, Conn., and Los Angeles, he and his wife, Michele, settled down in Denver in 1989, where they raised their two sons, Brian, now 24, and Benjamin, 22.

An avid skier, mountain biker, and bridge player, Fuerst said he will miss Colorado but is excited about living in Washington. He and Michele plan to find a home downtown so they can take advantage of the city's rich entertainment and cultural opportunities.



Actuaries Comment on Accounting Guide

IN AN AUG. 26 letter to the American Institute of Certified Public Accountants (AICPA), the Academy's Committee on Property Liability Financial Reporting offered a number of recommendations to clarify terms and definitions used in the working draft of AICPA's *Audit and Accounting Guide for Property and Liability Insurance Entities*. The committee's comments were in response to the AICPA's June request for input on the draft from the financial reporting community.

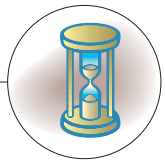
The committee's suggestions included recommendations for ways to improve the definition of "assumed reinsurance premiums" and clarify the definition of "short-duration." The committee also observed that the wording in one section indicates that actuaries generally use the same projection methods to estimate both gross and net loss reserves. Casualty actuaries, however, use a variety of methods, the committee explained, as no one method is preferred.

The committee expressed concern that the section on auditing loss reserves that is in the current edition of the guide has been removed from the working draft.

"We viewed the information in that section to be valuable, and we would like to see that guidance provided in this document or elsewhere," wrote Joseph Herbers, chairperson of the Committee on Property Liability Financial Reporting.

CASUALTY BRIEFS

- **Leon Gottlieb**, principal for Oliver Wyman in Chicago; **Steven Math**, an actuary with Texas Mutual Insurance Co. in Austin, Texas; and **Rebecca Williams**, manager, data analysis for the North Carolina Rate Bureau in Raleigh, N.C., have joined the Academy's Workers' Compensation Subcommittee.
- Joining the Academy's P/C Extreme Events Committee and Flood Insurance Subcommittee are **Mark Allaben**, vice president and actuary for The Hartford in Hartford, Conn.; **Rade Musulin**, chief operating officer for Aon Benfield Analytics Asia Pacific in Sydney, Australia; and **Katie Rokosz**, assistant actuary for Allstate Insurance Co. in South Barrington, Ill.



Preparing for PBA

NEARLY 75 ACTUARIES journeyed to Orlando, Fla., in September to attend a seminar designed to help actuaries prepare for the adoption of the principle-based approach (PBA) to valuing life company reserves and capital. The seminar, which was held following the Society of Actuaries' Valuation Actuary Symposium, was one in a series sponsored by the Academy's Life Practice Council.

The seminar featured a lively presentation by Peter Marion, assistant vice president, U.S. taxation, at Sun Life Financial, on the significant differences between the Valuation Manual-20 (VM-20) and tax law Section 807's reserve rules. Marion also discussed how those differences ultimately might be reconciled. He said the industry must determine how to "round off the corners of the square peg that is life PBR to make it fit into the round hole that is Section 807."

Presenter Sheetal Kaura, a consultant for Towers Watson in Chicago, told seminar participants that the National Association of Insurance Commissioners' (NAIC) Solvency Modernization Initiative (SMI) was formed to ensure that the U.S. regulatory and solvency framework keeps up with global regulatory requirements. Own Risk and Solvency Assessment (ORSA) is expected to be a foundational element of the SMI, she explained. She also discussed the NAIC's recently released draft of the guidance manual that will be used by regulators as they implement ORSA.

Following the presentations, participants had the opportunity to discuss high-level emerging issues during afternoon breakout sessions.

Katharine Young, one of the seminar participants and vice president of valuation and risk management at Pacific Life Insurance Co., said that she attended the seminar to get answers about the PBA implementation, to learn about new developments, and to network with other actuaries.

"Peter Marion did a great job of explaining the intricacies of the tax considerations," said Young. "And Sheetal Kaura's presentation on the solvency modernization initiative and ORSA was particularly valuable to me. It was good to step back and look at the bigger picture—especially when you have been immersed in VM-20."

Also presenting at the seminar were Dave Neve, chairperson of the Academy's Financial Soundness/Risk Management Committee and vice president/capital management at Aviva USA; Jason Kehrberg, senior consultant at Towers Watson; Mary Bahna-Nolan, chairperson of the Academy's Life Experience Subcommittee and director of actuarial and insurance management solutions at PricewaterhouseCoopers, LLP; and Kerry Krantz, an actuary at the Florida Office of Insurance Regulation. Craig Reynolds, a principal and consulting actuary at Milliman, moderated the afternoon breakout session.

LIFE BRIEFS

- **David Ruiz**, assistant vice president and valuation actuary for Pacific Life Insurance Co. in Newport Beach, Calif., has joined the Academy's Life Financial Reporting Committee.
- **John Gould**, consultant at Gould & Yee Risk Management in Highland Park, Ill., and **Scott Haugh**, director, capital management for Aviva U.S.A. in West Des Moines, Iowa, have joined the Academy's Life Products Committee.

Foundation Awards 48 Scholarships

THE ACTUARIAL FOUNDATION has awarded a record 48 scholarships to actuarial students for the 2011–2012 academic year.

Minyu Cao, a student at Maryville University of St. Louis, was awarded the *Actuary of Tomorrow*—Stuart A. Robertson Memorial Scholarship. She received $7,500 for education expenses.

Actuarial Diversity Scholarships ranging from $1,000 to $3,000 were awarded to 31 undergraduate and graduate students. The award recognizes and encourages African-American, Hispanic, and Native American students' academic achievements as they pursue a degree that may lead to a career in the actuarial profession.

The John Culver Wooddy Scholarship was awarded to 14 college seniors who have successfully completed at least one actuarial examination, ranked in the top quartile of their class, and were nominated by a professor at their school. Each student received $2,000.

The Caribbean Actuarial Scholarship was awarded to two actuarial students at the University of the West Indies who demonstrated a strong record of accomplishment, leadership qualities, and a commitment to becoming an actuary. A total of $4,000 was awarded.

To learn more about the scholarships and this year's winners, visit The Actuarial Foundation website.

IAIS Seeks to Create a Common Framework

IN COMMENTS submitted to the International Association of Insurance Supervisors (IAIS) on its concept paper "Common Framework for the Supervision of Internationally Active Insurance Groups," the Academy's Solvency Committee wrote, "It is never possible to address all potential material sources of risk. What should be addressed is the process for identifying and managing risk, not a list of potential risks."

The IAIS released the paper for comments in July and invited its members, observers, and the public to respond to questions and submit comments. The paper is the first part of ComFrame, a three-year initiative to improve the regulation of internationally active insurance groups by building a common framework to address groupwide activities and risks.

"This is a massive commitment by the regulator," the committee wrote in its comments to the IAIS. It stressed that continuity will be important and encouraged face-to-face meeting with regulators of all the internationally active insurance groups.

The Solvency Committee's comments also covered the methods of operating groupwide supervision of internationally active insurance groups. In addition, the committee helped craft the International Actuarial Association's comments on the paper and provided the National Association of Insurance Commissioners with viewpoints to consider in its response to the paper.

RISK MANAGEMENT BRIEFS

Laurel Kastrup, senior manager for KPMG in Dallas, has joined the Academy's International Accounting Standards Task Force and the Financial Reporting Committee. **D. Joeff Williams**, consultant for Actuarial Management Resources Inc. in Winston-Salem, N.C., also has joined the Academy's Financial Reporting Committee.

Long-term Solvency, continued from Page 1

"Now is the time to address the program's long-term solvency," Barr wrote. "The longer we wait, the larger the changes will need to be and the less time people will have to plan before the changes take effect."

Barr referred to several publications recently released by the Social Security Committee that address a number of different options for reforming the program. She also wrote that the Academy would welcome the opportunity to provide policymakers with objective actuarial information and analysis on reform measures under consideration.

"The bottom line is that now is the time to improve Social Security's long-term financial condition," said Academy Senior Pension Fellow Don Fuerst. "This essential component of retirement security needs to be strengthened. The legislative track is not as important as the substance. It just needs to get done."

Super Committee Urged to Look at Medicare

As the Joint Select Committee on Deficit Reduction looks for ways to reduce the federal deficit, it should develop proposals to slow health care spending growth to improve the long-term solvency and sustainability of the Medicare program, the Academy's Medicare Steering Committee wrote in an Aug. 31 letter to the 12 members of the "super committee" appointed by Congress to find $1.5 trillion in federal budget cuts over the next 10 years.

"With Medicare's critical role of ensuring access to health care for Americans age 65 and older and certain younger adults with permanent disabilities, we as a nation cannot afford to have this important program continue on its current financial path," wrote Edwin Hustead, chairperson of the Medicare Steering Committee. "When members of the committee evaluate potential Medicare reforms for the purpose of deficit reduction, they should be mindful of the effect that these reforms could have on the cost, access to, and quality of care," he added.

Hustead offered the Academy's assistance in providing objective actuarial information and analysis of reform proposals being considered by the committee. He also noted that the Academy has written a number of publications that address payment and delivery system reforms, which have the potential to control costs and improve quality through better alignment of incentives to encourage integrated and coordinated care.

"Health care spending growth is threatening the sustainability of not only the Medicare program and the overall health system but also the nation's fiscal health," said Cori Uccello, the Academy's senior health fellow. "Our message to the members of the committee is that achieving long-term sustainability for Medicare will require slowing the growth in overall health spending, not simply shifting costs from one payer to another."

Actuarial Update

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