JUL 2015

CELEBRATING 50 YEARS
AMERICAN ACADEMY *of* ACTUARIES
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Actuarial UPDATE
THE NEWSMONTHLY OF THE AMERICAN ACADEMY OF ACTUARIES

ASB Gathers Multitude of Viewpoints at Public Hearing on Pension Plans

THE ACTUARIAL STANDARDS BOARD (ASB) heard from a variety of stakeholders representing diverse views on public pension plan policy during its first public hearing in nine years. As the ASB considers whether or how to add to or adapt actuarial standards of practice (ASOPs) based on public input, more than a dozen people testified and were asked follow-up questions by ASB members at the July 9 hearing, which drew more than 75 people to the Ronald Reagan Building and International Trade Center in Washington.

ASB Chairperson Tricia Matson (third from right) makes a point at the opening of the July 9 public hearing.

"The funding of public pension plans is a matter of significant interest to the public," ASB Chairperson Tricia Matson said in her opening address. "This input is critically important to us as we further deliberate on the need for new or revised standards of practice applicable to actuarial work in the public pension arena."

The ASB decided to hold the hearing based on feedback it received through its recent pension-related projects, "in an effort to solicit the broadest possible input on any potential new or revised standards," Matson said. It will use the information to consider any next steps for ASOPs applicable to public pension plans, she said, but added that the ASB has not and will not take any positions until it deliberates further.

Matson noted there are six specific ASOPs related to pension actuarial work and that over the past five years all of those standards have been evaluated and revised to reflect

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Sessions Set for Academy's Annual Meeting

EDUCATIONAL AND PLENARY SESSIONS at the Academy's Annual Meeting and Public Policy Forum Nov. 12-13 in Washington will offer public policy and professionalism content relevant to all actuarial areas of practice on topical casualty, health, life, pension practice, and professionalism issues. Discount registrations are available through Aug. 31 for the meeting and celebration of the Academy's 50th anniversary this year.

Knowledgeable subject-matter experts leading sessions will include congressional and federal agency representatives, leaders of the NAIC and of the U.S. actuarial profession, and other prominent speakers. Enjoy networking opportunities and a day-and-a-half of practice-specific and cross-practice sessions on issues informing your actuarial practice.

As of late July, by attending the entire Annual Meeting and Public Policy Forum, attendees can to earn up to 10 organized activity continuing education (CE) credits depending on your area of practice, 1.5 hours of business CE credits, and 2.4 hours of professionalism CE credits. In addition to satisfying this year's CE requirements, you may also roll over excess CE credit to help complete next year's requirements.

Plenary sessions will include a presidential transition luncheon with Academy President Mary D. Miller and President-Elect Tom Wildsmith. Breakout sessions will include:

- Climate change risk, cybersecurity threats, price optimization, the changing personal auto market, and the public policy implications surrounding those issues.
- Health care and the 2016 elections, updates on Affordable Care Act implementation, payment and delivery system reform, and long-term care.
- The latest on life insurance regulation reforms, including professionalism issues related to principle-based reserving.
- Implications of the Multiemployer Pension Reform Act and new legislative and regulatory efforts.

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AUGUST

4 Webinar: International Insurance Regulation 201: IAIS Development Of Insurer Capital Standards

27 Post-NAIC Webinar

SEPTEMBER

2 Seminar: Vrrm, Vrrm, VM-20 – Start Your Engines, The Race to the PBR Finish Line is On!

2 Webinar: Exploring Global Health Care Cost Drivers: Australia and Singapore

9-11 Casualty Loss Reserve Seminar (CLRS) & Workshops, Atlanta

NOVEMBER

4 Webinar: Exploring Global Health Care Cost Drivers: Canada and Chile

9-12 2015 Life and Health Qualifications Seminar, Arlington, Va.

12-13 Academy Annual Meeting and Public Policy Forum and 50th Anniversary Gala, Washington, D.C.

DECEMBER

1-2 Seminar on P/C Effective Loss Reserve Opinions (location TBD)

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 login page on the Academy website.

Academy NEWS Briefs

Professionalism Webinar Draws Large Audience to Hear Debate on Actuarial Modeling Standard

THE ACADEMY'S JULY 22 WEBINAR, "The Great Modeling Debate: What Standards Should Apply?" drew more than 4,000 people, who heard presenters debate issues around actuarial modeling standards. The issues they discussed were based on the many comments the Actuarial Standards Board (ASB) received since issuing the first and second exposure drafts of a new modeling standard in 2013 and 2014.

The debaters were Shawna Ackerman and Mary Simmons. Ackerman is the Academy's vice president for casualty and chairperson of the ASB's Catastrophe Modeling Task Force, which is charged with drafting the actuarial standard of practice (ASOP) for using catastrophe models in actuarial work. Simmons is a member of the ASB General Committee, under which the Modeling Task Force falls, and previously served on the ASB Credibility Task Force, which revised ASOP No. 25, *Credibility Procedures*, in 2013.

The webinar began with ASB Chairperson Tricia Matson setting the stage and noting that at its September meeting, the ASB plans to make a decision about what the next appropriate steps will be. She said the ASB had previously discussed the modeling comments, particularly those concerning scope, at its June meeting.

The event featured a poll that allowed audience members to vote yes or no to 16 questions that were debated by Simmons and Ackerman, who took opposite points of view based on views expressed in the comments received on the exposure drafts. The audience clearly found the conversational style engaging and entertaining, and questions poured in from the beginning to the end of the 1.5-hour CE-eligible session. For the first time in an Academy webinar, the audience was able to participate through repeated polling on the debated questions, and it was interesting to see both how close and how far apart some of the audience's polling answers were.

Panelists took questions from the audience, and one attendee asked whether modeling should be categorized as actuarial work. "The Code of Conduct says the standards of practice apply where you are doing an actuarial work product, and if modeling is part of that actuarial work product, then that model is part of actuarial work," Simmons said. "On the P&C side, we've already had that debate and decided the answer is a resounding 'yes,'" Ackerman added.

Shawna Ackerman (left) and Mary Simmons debate during the Academy's July 22 professionalism webinar.

In response to a question about what models would be out of scope—as the draft is currently written—Ackerman said she thought most methods, as opposed to models, should be out of scope. "Using examples from P&C, I would see a stochastic reserving model as in scope, but spreadsheet calculations and deterministic models as out of scope," she said. Matson agreed that basic mathematical calculations are not necessarily models, while Simmons, on the other hand, said she has spoken to people who think the definition is so broad that "anything involving numbers is in scope."

Asked what types of models a series of modeling standards (instead of a single standard) might cover, Ackerman said "it was probably time to have a modeling standard related to predictive modeling," which is commonly used in property and casualty, as well as in health and life. "It could be a modeling standard specific to predictive modeling for all practice areas. I think that might be helpful for regulators as you see these models deployed in rate filings, and would be helpful for the profession to provide that additional guidance," she said. Simmons added that projected earnings models and embedded value models could be other possible candidates for standards.

The webinar's audio and slides are available to Academy members free of charge in the Professionalism Webinars section of the Academy's website.

Webinar Discusses Profits Followed by Losses Practice Note

THE PROFITS FOLLOWED BY LOSSES SUBGROUP held a webinar on July 1 to discuss its new practice note. Chairperson Robert Frasca of the subgroup and member Charles Chacosky provided background on the Accounting Standards Codification (ASC) 944-60 *Premium Deficiency and Loss Recognition* guidance, which provides the accounting foundation for situations of profits followed by losses; the identification of profits followed by losses and common situations in which they are encountered; and actuarial approaches that may be considered to address situations of profits followed by losses in Generally Accepted Accounting Principles-basis (GAAP) financial statements.

The robust question-and-answer period featured a discussion of long-term care products and how they may be affected by situations of profits followed by losses, as well as implications of non-GAAP accounting for profits followed by losses in long-duration contracts. For slides from the webinar, click here.

Recently Released

JULY HAS BEEN A BUSY MONTH for Academy communications, with four publications released.

The July/August issue of *Contingencies* includes a cover feature on Big Data that explores how an actuarial alternative can help business leaders make better decisions. Also in this issue, learn how developers create games by weaving mathematical modeling with thematic design, dive into the murky waters of settlement annuities and factoring, and more.

In the July issue of *HealthCheck*, the Supreme Court's King v. Burwell decision is reviewed. You can also find some of the widespread media coverage of the Academy on that case, the new Academy issue brief examining wellness initiatives in several countries, and read about several Medicare-related bills that were passed by the U.S. House of Representatives.

In the summer 2015 issue of *PBA Perspectives*, read about the NAIC Life Actuarial Task Force's (LATF) consideration of mortality tables in conjunction with principle-based reserving (PBR) for life insurance in advance of the NAIC's Summer 2015 National Meeting in August. Also read recaps of other PBR issues before LATF, view upcoming events, and stay up to date on PBR progress at state legislatures.

In the Summer 2015 edition of *Enrolled Actuaries Report*, read about the Academy's testimony on the implications of lump-sum disclosures in pension plans, the Actuarial Standards Board's July 9 public hearing on public pension plans, and the 2015 Enrolled Actuaries meeting.

New Issue Brief Looks at International Wellness Programs

THE ACADEMY'S HEALTH PRACTICE INTERNATIONAL COMMITTEE released a new issue brief in July that examines wellness initiatives in several different countries—India, Israel, Japan, South Africa, Mexico, the United States, and the United Kingdom—and explores some of the results and implications from these case studies.

The issue brief, *International Wellness Initiatives*, notes that chronic diseases are a current global health challenge affecting both developed and developing countries. In 2007, the Milken Institute estimated that seven major chronic diseases have an annual impact of $1.3 trillion on the U.S. economy.

Further studies are needed to quantify the value of wellness programs, but the committee believes such programs can result in meaningful benefits, and that an emphasis on wellness is warranted, the issue brief said.

Two studies of South Africa's Discovery Vitality program showed that participating members are generally healthier, experience lower average health care and chronic disease costs, and report shorter hospital stays and fewer admissions than the overall population. Discovery Vitality is a private-sector program targeted at wellness offerings based on an individual's risk profile, and provides services on a spectrum from lifestyle to disease management.

A mid-term assessment of Healthy Japan 21—a public program—showed that among the 70 goals that were initially established only a few showed improvement, while some worsened. Japan is one of the world's healthiest countries due to cultural habits and a holistic approach to health. This 10-year national campaign established guidelines to help local governments implement wellness initiatives in areas such as food and nutrition, mental health, diabetes, and cancer.

The issue brief also looked at the health care programs of global employer American Express in the United States, United Kingdom, India, and Mexico. Differing efficiencies of care-delivery systems in those countries presented some challenges, as the demand and design of the wellness offerings varied from country to country.

Some examples of outcomes based on the American Express program included a 150 percent increase in U.S. employees who were given flu shots from 2008 to 2009; employee participation in Indian wellness programs exceeded 50 percent; U.K. employees were 100 percent satisfied and enthusiastic about the program; and in Mexico, the Caesarean-section rate was 43 percent among women who completed a maternity-coaching program, which was 20 percent less than women who did not enroll in the program.

Objectivity Drives the Academy's Mission of Public Policy and Professionalism

By Tom Wildsmith, President-elect, American Academy of Actuaries

The Academy exists to serve the public and the U.S. actuarial profession. Unlike a trade association or a union, we do not represent the narrow commercial interests of our members or the industries they work in. Those industries are represented by very effective trade associations. The Academy has a higher calling. First, to ensure that U.S. actuaries—both individually and collectively—grow to be all that we can be as professionals. Second, to provide U.S. actuaries with a voice that can bring our professionalism to bear on the public policy questions facing our nation. Both aspects of our mission demand objectivity.

We can only improve as a profession if we are brave enough to examine ourselves honestly. That's why the Actuarial Standards Board (ASB) held a public hearing (see story, page 1) earlier this month on potential actuarial standards of practice (ASOPs) relating to public pension plans. The willingness to objectively consider the concerns of all affected stakeholders when setting standards is a hallmark of true professionalism. Why? Because being a professional requires more than skill and a business-like demeanor—true professionals recognize a social duty to all the stakeholders who may be affected by their work.

Fulfilling this broader social duty motivates all the Academy's public policy activities. Once again, we must be willing to objectively consider the concerns of all affected stakeholders. We can't fully serve the public interest if we approach it in a self-serving manner. Maintaining our objectivity is also absolutely necessary to preserving the credibility of the Academy's voice. Washington is full of advocacy organizations that profess high-minded values—and full of policymakers who are equally skilled at seeing through to the advocacy agendas of those organizations.

The Academy has a widely recognized 50-year track record of independence and objectivity, giving us a reputation and credibility with policymakers and regulators that is more valuable than gold. We have inherited a culture of objectivity from prior generations, and hold it in trust for the future. That's why all Academy volunteers are required to sign a conflict-of-interest acknowledgment and attest to compliance with continuing education requirements. It's also why all public statements by the Academy go through a review process that's unmatched by any other actuarial organization, including not only peer review, but policy review, legal review, and communications review. This is why legislators, regulators, and journalists turn to the Academy as a trusted, reliable source of independent, objective insights on critical public policy issues such as Medicare and Social Security.

Ultimately, public service and professionalism benefit us all. We all benefit from the trust the U.S. actuarial profession has earned by fostering an increasing level of actuarial professionalism over time. We all benefit from the recognition the profession has earned over the years through the unselfish engagement of Academy volunteers in thorny public policy issues. This is the heritage we celebrate as we observe the Academy's 50th anniversary.

Does the Academy stress objectivity simply to claim the moral high ground? No. Objectivity is not just a virtue—it's necessary for us to be able to achieve our mission.

Academy Releases Annual Volunteer Survey

ACTUARIES WHO VOLUNTEER at the Academy have a voice in public policy and the future of the profession, the ability to expand their own personal expertise, and the opportunity to earn CE credit. It's an opportunity actuaries are fortunate to have, and something most careers don't offer.

The first step to volunteering is to fill out the Academy's annual volunteer survey. This takes just a few minutes, and lists and describes Academy's committees, highlighting those that are actively seeking volunteers. Noting your interest will be of great help to the chairpersons of the committees you are interested in, and will increase the likelihood of matching your expertise and interest to committees' needs.

The survey will be open through **Wednesday, Aug. 5**. If you have any questions about volunteering or the survey, contact Kasha Shelton by email at volunteer@actuary.org or phone at 202-223-8196.

IN THE NEWS

Senior Health Fellow Cori Uccello was quoted by *Health Leaders Media* in its reporting on the 2015 Medicare Trustees Report predicting that the Medicare Hospital Insurance (HI) Trust Fund will remain solvent until at least 2030, a 13-year improvement over 2009 estimates. Uccello stressed the updated projections should not be interpreted as a sign of the program's long-term sustainability: "It's not just that the HI Trust fund is going to be depleted in 2030. It's that in general medical spending over time is still going to make up an increasing share of GDP and that is going to put pressure on the federal budget, and on household budgets. At least on the Part B and Part D side they are going to have to pay higher premiums down the road as spending goes up," she said. "So, the optimism in this report regarding lower long-term spending shouldn't make us complacent about the need to make changes to the program to ensure its sustainability in the long term."

Bankrate Retirement Blog's coverage of the 2015 Social Security Trustees' Report quoted Tim Leier, chairperson of the Social Security Committee, who commented on the need to address the projected depletion of the Disability Insurance (DI) trust fund late next year. Leier said the urgency of the problem "will be a great test to show us how Congress will go about solving the long-term issues facing the rest of Social Security. There are certainly serious problems that need to be resolved and challenges that need to be faced long term."

The Lifetime Income Risk Task Force's comments to the Department of Labor regarding proposed regulations defining fiduciaries and conflict of interest were posted in *Life & Health Advisor* and *BenefitsLink*.

BenefitsLink also posted the Pension Committee's comments to the IRS regarding the timing for release of the mortality tables.

Media outlets across the country turned to the Academy following the Supreme Court's 6-3 decision in King v. Burwell that upheld ACA premium subsidies in states participating in the federally facilitated marketplace.

Senior Health Fellow Cori Uccello was quoted in *Modern Healthcare*, saying, "This avoids the likely kind of chaos that would've resulted in a ruling for King." Uccello also weighed in on what the decision means for premiums. "Everyone's adjusting to the new program and the shifting dynamics, and we're still not at the steady equilibrium of enrollment and premiums... There's still some uncertainty in the rate development process."

Other reports that cite the Academy in the wake of King v. Burwell include:

- *Becker's Hospital Review*
- *Bloomberg BNA* (subscriber only)
- *Detroit Free Press*
- *Georgia Health News*
- *Greeneville News* (S.C.)
- *Healthinsurance.org*
- *Milwaukee Business News*
- *Talk Business* magazine

A *New York Times* story focused on hotly contested issues raised by speakers who testified at the ASB's July 9 public hearing on public pension issues, in particular the selection of discount rates, the transparency and disclosures of risk to different stakeholders, and the responsibility of plans regarding contributions. The ASB interactively and professionally engaged through Q-and-A with all the speakers who testified at the hearing, and is objectively deliberating on the different perspectives raised in the oral and written comments to determine what, if any, changes might be needed to actuarial standards of practice (ASOPs). Additional stories by *Politico* and *The San Diego Union-Tribune* also included reporting on the ASB hearing.

The *Los Angeles Times* cited the Academy issue brief, *The 80% Pension Funding Standard Myth*, in a story reporting that the California Public Employees' Retirement System—the nation's biggest public pension fund—is only 77 percent funded and currently falling far short of its annual investment goals. The story points to the Academy's analysis that pensions should set long-term goals of 100 percent funding or greater. *Columbus Business News* also cited the issue brief, in a subscriber-only story examining potential flaws in how studies evaluate state pension systems.

Bloomberg BNA reported on the June 25 Capitol Hill panel discussion, "ACA Premiums For 2016: What's the Deal?" hosted by Third Way at which Senior Health Fellow Cori Uccello represented the Academy. The subscriber-only story quotes Uccello on continuing uncertainty in premium rate setting due to incomplete market information. "Although plans have information on their 2014 experience, they don't have information on the experience of the market as a whole," said Uccello. "They still didn't have that information, so there's still uncertainty." *America's Health Insurance Plans Coverage* also reported on the panel discussion.

A July 2 *Bloomberg BNA* subscriber-only story reporting on new 2015 enrollment estimates for the Affordable Care Act's (ACA) small business exchanges cited the Academy's issue brief, Potential Implications of the Small Group Definition Expanding to Employers With 51-100 Employees. The story noted the Academy's analysis that companies with 51 to 100 workers are likely to see higher premiums if their work force is younger and healthier and lower premiums if their work force is older and sicker under ACA provisions scheduled to begin in 2016. A July 8 Bloomberg BNA subscriber-only story also cited the Academy's brief in a story about ACA rules affecting mid-size employers.

WFSU, the National Public Radio affiliate for northern Florida and southern Georgia, mentioned the ASB in a report about a study released by the Mercatus Center at George Mason University, which ranks U.S. states by order of financial health. In explaining how pension health factored into the rankings, the story reports that, "most states rely on the Government Accountability Standards Board and the Actuarial Standards Board to set the tone for pension calculations."

A *Benefits and Pensions Monitor* story discussed the Academy's new aging initiative, under which the Academy is providing resources that contribute to a productive national policy discussion on aging.

Pension Committee Comments on Mortality Tables

THE PENSION COMMITTEE sent comments this month to the Internal Revenue Service and the Department of the Treasury regarding the timing for release of 2016 applicable mortality tables, stressing the urgency for these tables to be released soon.

Casualty News

Casualty Work Groups Address Price Optimization, Terrorism Risk Insurance

THE PRICE OPTIMIZATION TASK FORCE responded to the NAIC's Casualty Actuarial and Statistical (C) Task Force's draft Price Optimization White Paper with a comment letter that offers general and specific comments on the draft white paper, along with a few clarifications on definitions and nomenclature.

The task force's July 2 letter offered comments on the acceptable difference between selected and cost-based rates, addressed at what point the difference results in an unfairly discriminatory rate, looked at the types of data that are available to review in establishing a rating plan and price, and considered the level of granularity that is acceptable in developing a rating plan. Additionally, "it is important to isolate the potential areas of regulatory concern to better define acceptable pricing practices," wrote Mike Angelina, chairperson of the task force.

Separately, the Terrorism Risk Insurance Subcommittee submitted a comment letter July 6 to the NAIC on its "Terrorism Risk Insurance Supplement and Instructions" draft.

The letter offered suggestions to improve draft terrorism risk insurance supplement and instructions, noting the provision that policies should be counted regardless of whether a premium is charged separately for terrorism coverage "may have unintended consequences."

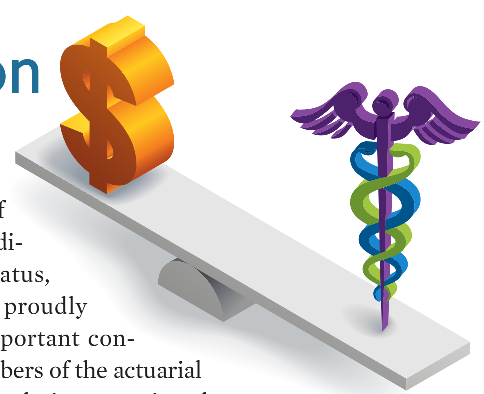
That's because many types of insurance policies offer some element of terrorism coverage even though no explicit terrorism risk insurance is being provided in exchange for a premium, which "could result in inconsistent reporting by companies completing the Supplement, particularly in terms of policy count."

Academy Presents at NCOIL

Also this month, Shawna Ackerman, vice president for casualty, gave a presentation on price optimization during a special Property-Casualty Committee session at the National Conference of Insurance Legislators' (NCOIL) Summer Meeting. Academy Senior Life Fellow Nancy Bennett also discussed principle-based reserving (PBR) at a Life Insurance & Financial Planning Committee panel discussion at NCOIL's meeting.

Health News

Academy Releases Issue Brief on Medicare's Financial Condition



THE ACADEMY'S MEDICARE SUBCOMMITTEE released an issue brief following the release of the annual Medicare Trustees' Report on July 22. The issue brief, *Medicare's Financial Condition: Beyond Actuarial Balance*, notes that the projected financial condition of Medicare has improved in the short-term for the Federal Hospital Insurance (HI) trust fund—with a depletion date in 2030, the same year as projected in last year's report—but has deteriorated somewhat for the Supplementary Medical Insurance (SMI) trust fund.

While the trustees found that Medicare's long-term condition has improved for all parts of the program due to lower health care cost growth assumptions in this year's report, it also noted that total Medicare expenditures will continue to make up an increasing share of federal outlays and U.S. gross domestic product, threatening the program's long-term sustainability. Medicare still faces three fundamental long-range financing challenges:

- Income to the HI trust fund is not adequate to fund the HI portion of Medicare benefits.
- Increases in SMI costs increase pressure on beneficiary household budgets and the federal budget.
- Increases in total Medicare spending threaten the program's sustainability.

The trustees' report is the primary source of information on Medicare's financial status, and the Academy proudly recognizes the important contribution that members of the actuarial profession have made in preparing the report. Actuaries play a vital role in providing information to the public about the important issues surrounding the 50-year-old program's solvency and sustainability.

The subcommittee agrees with the trustees that the Medicare program continues to face serious financing problems. Because Medicare plays a critically important role in ensuring that Americans age 65 and older and certain younger adults with permanent disabilities have access to health care, it urges action to restore the program's long-term solvency and financial sustainability. Changes are needed to improve Medicare's long-term solvency and sustainability, the brief said, and the sooner such corrective measures are enacted, the more flexible the approach and more gradual the implementation can be.

Health News

Work Group Sends Memo to NAIC Task Force

THE INDIVIDUAL DISABILITY TABLES WORK GROUP provided a memorandum to NAIC's Health Actuarial Task Force responding to comments it received on the "The Individual Disability Valuation Standard Report of the Joint American Academy of Actuaries/Society of Actuaries Individual Disability Tables Work Group."

HEALTH BRIEFS

- **Annette James** has joined the Health Solvency Subcommittee, Health Care Receivables Factors Work Group, and the Stop-Loss Work Group.
- **Al Livingood** has joined the Group Long-Term Disability Practice Note Work Group.

Pension News

Academy Releases Issue Brief on Social Security's Financial Condition

THE ACADEMY'S SOCIAL SECURITY COMMITTEE released an issue brief following the release of the annual Medicare Trustees' Report on July 22. The issue brief, *An Actuarial Perspective on the 2015 Social Security Trustees Report*, notes that while the program's combined Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) trust funds are projected to be depleted in 2034—a year later than last year's report—and that only about 79 percent of scheduled benefits would be payable following that year, declining to 73 percent in 2089.

Social Security's fiscal health improved somewhat from last year's report, but in order to bring the program into actuarial balance for the next 75 years under best-estimate assumptions, changes equivalent to either an immediate increase of 2.62 percentage points in the payroll tax rate, or an immediate decrease of 16.4 percent of benefits for all current and future beneficiaries, or some combination thereof, is required. Analogous figures from the 2014 report were a 2.83-percentage-point increase in the payroll tax rate and a 17.4 percent decrease in all benefits.

The Academy's Social Security Committee believes that any modifications to the Social Security system should include "sustainable solvency" as a primary goal. Sustainable solvency means that not only will the program be solvent for the next 75 years under the reform methods adopted, but also that the trust fund reserves at the end of the 75-year period will be stable or increasing as a percentage of annual program cost.

Social Security's DI Trust Fund is projected to deplete its reserves by the fourth quarter of 2016—the same as last year's projection—at which time the trustees project that 81 percent of scheduled benefits would be payable. The DI's depletion must be addressed immediately to continue to pay scheduled benefits in 2016 and beyond, the issue brief said.

Lifetime Task Force Submits Comments on Proposed Labor Fiduciary Rule

THE LIFETIME INCOME RISK JOINT TASK FORCE submitted comments to the Department of Labor on controversial proposed regulations defining fiduciaries and conflict of interest.

"Financial preparation for retirement has two phases—accumulation and decumulation," the letter said. While the financial press has focused on accumulation for retirement preparedness, "decumulation is equally important for retirement security and merits greater attention, particularly as larger numbers of Americans in the baby boomer generation move into retirement," it said.

"An adviser should be required to advise on a broad range of decumulation strategies and products when providing advice to individuals ... relevant to the individual's goals, requirements, and current circumstances," the letter said, adding that a "requirement to discuss a broad range of options should exist regardless of the adviser's ability or inability ... to provide any specific strategy or sell any specific product, and is necessary in light of the intertwining of the accumulation and decumulation phases needed to secure lifetime income."

The task force also recommended the Department of Labor have educational material—and perhaps an interactive tool on its website—to reinforce whatever information an adviser provides on managing lifetime income. Such material "should include information on lifetime income risks, which is essential for individuals to gain a better appreciation of their retirement income planning and management needs," it said, adding that "advisers should be required to direct their clients to such a site as part of the investment advisory process."

Letters From Early Academy Leaders Still Resonate

IN HONOR OF OUR 50TH ANNIVERSARY, throughout this year we are reprinting communications from early Academy presidents. This month's letter is from the 1971 Yearbook, which contained a record of the activities for 1970. Academy President Walter L. Rugland marks the occasion of the Academy's fifth anniversary—particularly appropriate as we mark our 50th—and discusses the importance of recognition and accreditation for the actuarial profession, and for the Academy as the organization representing all U.S. actuaries.

Report of the President

This is the Fifth Annual Meeting of the Members of the Academy. It is the second time that our meeting has been held in conjunction with the annual meeting of the Casualty Actuarial Society. We are grateful to the officers and members of that Society for making time and facilities available to us.

The Academy is now five years old. Some members may well ask, "What has been accomplished?" "Are our objectives being attained?" The wheels of attainment move slowly but those of our members who are deeply involved on our behalf on one committee assignment or another can and do report very significant gains. Most noteworthy are those on the federal level. Our Washington Counsel, Mr. Richard Congleton, and the Washington subcommittee of our Committee on Accreditation point to important areas in legislative and administrative circles where as recently as a year ago the Academy was relatively little known but where now it is recognized as the one single organization which represents the whole actuarial profession.

I believe it is of significance toward recognition of the Academy that there are now a relatively large number of members of the Academy occupying actuarial positions in departments of government and regulatory agencies on both federal and state levels. It is my observation that this increase in numbers has been accounted for, in part, by the fact that a number of actuaries in career positions applied for membership and were deemed qualified for admittance under the so-called grandfather provision of the Academy's Bylaws. In addition, the increase in salaries and other benefits in recent years has made government service attractive to more Fellows and Associates of the Society of Actuaries, the Casualty Actuarial Society, and the Conference of Actuaries in Public Practice.

A matter of some urgency, in my judgment, in the Academy's efforts toward recognition and accreditation of actuaries is the relationship of the Academy to the education and examination of actuarial students. Under the Bylaws of the Academy an applicant for admission must now demonstrate his educational qualifications by having passed comprehensive examinations in specified subject categories, which examinations "shall be examinations given by the Academy or examinations recognized and accepted by the Academy given by other professional organizations." The subject categories under the Life and Health Insurance and Pension Major are described exactly as those of the corresponding subject categories of the Society of Actuaries examinations and under the Property and Casualty Insurance Major are described exactly as those of the examinations of the Casualty Actuarial Society. Thus the completion of those examinations is properly accepted by the Academy as demonstrable evidence of educational qualifications for admission.

In some respects, however, this procedure leaves something to be desired. The Academy very properly presents itself as the one body which represents the whole actuarial profession but seeks recognition and accreditation for its members on the basis of standards of qualifications set by other bodies. This very briefly indicates why the Academy representatives on the joint Committee on Review of Education and Examinations have proposed, and the Board of Directors of the Academy has approved, the idea of joint sponsorship of examinations. This possibility is under discussion by both the Society of Actuaries and the Casualty Actuarial Society from which bodies invitation to the Academy to join in joint sponsorship must come. I am sure there are many problems to be resolved before joint sponsorship can become a reality. Our profession owes much to the 200 or more members of the Society of Actuaries and the Casualty Actuarial Society who constitute the Education and Examination Committees. Theirs is a labor of love and professional pride. Except for the members on these committees who may not have had the number of years of "responsible actuarial work" required for membership in the Academy, these committee members are also members of the Academy.

If we bear in mind that the Academy is the one body which represents the whole profession in seeking legal recognition and accreditation for the profession in the U.S.A., it follows that the Academy should be directly identified with the education and standard-setting roles which signify to the public the attainment of actuarial competence. In Canada, the Canadian Institute of Actuaries is similarly situated.

In the event that joint sponsorship proves to be not attainable as a practical matter, it is my judgment that the best interests of the profession would be served if the Education and Examination programs of the Society of Actuaries for Parts 1 through 8 and of the Casualty Actuarial Society for Parts I through VII could be transferred-lock, stock, and barrel-to the Academy and the Canadian Institute jointly. I would see no change whatever in the objectives, the goals, the classes of membership, and the programs of any of the four sponsoring actuarial organizations of the Academy under this arrangement. The same people, the same education and examination structure, and the same objectives with respect to standards and other matters would pertain. The only difference would be that credit for examinations in the Society of Actuaries and the Casualty Actuarial Society would be given on the basis of examinations technically given by the Academy instead of vice versa. Also, the Fraternal Actuarial Association and the Conference of Actuaries in Public Practice could do likewise. The benefit to the profession in getting recognition and accreditation is, I believe, self-evident.

On behalf of the Academy and on my own behalf I want to express appreciation to the officers, directors, committee chairmen, and members of committees, as well as to Barry Watson and the efficient staff at the headquarters office for faithful performance of duties over the past year. It has been a pleasure to serve a year as president of the Academy.

Walter L. Rugland

RMFRC Sends Letter to Federal Reserve on MOCE

THE RISK MANAGEMENT AND FINANCIAL REPORTING COUNCIL sent a comment letter this month to the Federal Reserve Board on issues related to a "margin over current estimate" (MOCE) for international insurance capital standards. The council said it believes that a change to a different underlying assumption basis with a similar structure should be announced as soon as possible and noted that depending upon the structure of the 2016 mortality tables, it could take several additional months to allow for careful updating and testing of the changes.

RISK MANAGEMENT AND FINANCIAL REPORTING BRIEFS

- **Tyson Mohr** has joined the ERM/ORSA Committee.

PENSION BRIEFS

- **Tom Lowman** is now vice chairperson of the Public Plans Subcommittee.

LIFE BRIEFS

- **Carrie Kelley** has joined the Life Reserves Work Group.
- **Miles Williams** has joined the SVL Interest Rate Modernization Work Group.

Annuity Reserves Work Group Provides Report on Representative Scenarios Method

THE ANNUITY RESERVES WORK GROUP submitted a report to the NAIC's Life Actuarial Task Force VM-22 (A) Subgroup outlining the potential uses of the representative scenarios method (RSM) in calculating annuity reserves.

The work group is considering the use of an RSM for the calculation of a component of the VM-22 minimum reserve standard called the Modeled Reserve. The Kansas Insurance Department has been field-testing an RSM for fixed indexed annuities with guaranteed lifetime income benefits to test the practicality and accuracy of an RSM to right-size the modeled reserve. Based on those results, the work group will determine the position on the use of an RSM.

The report notes that the work group's goal for the methodology underlying VM-22 requirements is to propose a sound principle-based reserve standard for annuities other than variable annuities incorporating several key factors, and cites various advantages, disadvantages, and considerations of RSM scenarios.

UPCOMING EVENTS

Register Now to Learn All About VM-20 and PBR

Make plans to attend this seminar on implementation of life principle-based reserve requirements, to be held Sept. 2 in Boston. "Vrmm, Vrmm, VM-20 — Start Your Engines, The Race to the PBR Finish Line Is On!" will offer practical examples of how to implement the new requirements; sessions outlining the basics of performing a VM-20 calculation, ideal for those with little to no understanding of the VM-20 requirements; and advanced sessions focusing on complex VM-20 requirements and strategies to successfully implement VM-20. The seminar follows the 2015 Valuation Actuary Symposium, also in Boston.

More Details on International Insurer Capital Standards

Join us on Aug. 4 as members of the Academy's Solvency Committee provide a detailed look at the International Association of Insurance Supervisors' (IAIS) insurer capital standard, including the finalized basic capital requirement, the proposed insurance capital standard, and the proposed higher loss absorbency requirement.

The IAIS is developing group solvency and capital standards that could have a profound effect on global systemically important insurers and internationally active insurance groups, including several U.S. insurers.

The webinar will provide an overview of the Solvency Committee's basic solvency principles for domestic and international policymakers developing capital standards and an in-depth examination of the IAIS's activities related to insurer capital standards. Ned Tyrell, international technical policy advisor of the NAIC, joins fellow members of the Solvency Committee Novian Junus and Henry Siegel as presenters. Solvency Committee Chairperson Elizabeth Brill will moderate. Register now.

Registration Continues for Casualty Loss Reserve Seminar

The 2015 Casualty Loss Reserve Seminar (CLRS) and Workshops, jointly sponsored by the Academy and the Casualty Actuarial Society, will be held Sept. 9-11 at the Omni Hotel at CNN Center in Atlanta.

CONTINUED ON PAGE 11 →

Attendees at the ASB's July 9 public hearing in Washington.

advances in actuarial practice. The hearing's 10-person panel also included members of the ASB's Pension Task Force.

As the standards-setting body for the U.S. actuarial profession, the ASB is actively looking at issues involving public pensions and is obtaining input from many points of view to help it further revise or develop new pension ASOPs. There was an obvious high level of engagement at the hearing. ASB and Pension Task Force members followed up with questions of all those who testified and will use that information in deciding any future action.

Frank Todisco, a member of both the ASB and the Pension Task Force, led the question-and-answer discussion, and Matson and Pension Task Force members Alan Milligan and Mita Drazilov posed a large number of questions to those who testified. (All comments that were submitted to the ASB can be read here.)

Many who testified spoke about amortization and liability concerns within public plans, and offered suggestions on how to make ASOPs pertaining to public pension plans more effective. Bill Hallmark, chairperson of the Academy's Public Plans Subcommittee, said the actual amounts contributed to pension plans can be determined in a variety of ways, including via legislative appropriations, statutes that dictate all or part of contribution procedures, or delegation to a retirement board. Hallmark said that the Academy subcommittee does not support specific limits on the length of amortization periods, as there is a balance to be struck between benefit security, contribution stability, and generational equity, and cited a 2013 Academy issue brief, *Measuring Pension Obligations—Discount Rates Serve Various Purposes*, which said that expected-return based measures are used to establish a pattern of contributions that accumulates to the amount needed to pay benefits when due if assets earn an expected return.

Paul Angelo, speaking on behalf of the Conference of Consulting Actuaries' Public Plans Community Steering Committee, also addressed cost methods and amortization policy, and said that any changes that are made to funding issues should be incorporated in current ASOPs and apply to all plans. Similarly, Kim Nicholl, of Segal Consulting, said the ASB should require additional disclosures, which would be helpful for certain amortization practices if certain cost methods were used.

Several commenters testified about the general state of funded status of public pensions. Bailey Childers, executive director of the National Public Pension Coalition, which represents teachers, nurses, firefighters, and others who rely on public pensions, said that while some public plans are in poor fiscal condition, that is almost always due to systemic budgetary problems or a lack of funding discipline, and not erroneous actuarial assumptions.

David Kausch, chief actuary for Gabriel Roeder Smith & Co., said that as a public plan actuary he was concerned about the reputation of the profession, with increasing scrutiny on public pension plan funding. "It is important to note that many of the cases of public pension plans that have received increased national attention for funding issues are cases where the plan sponsors, regulators and/or boards of trustees have not followed the actuary's recommendation," he said.

Most commenters testified about whether existing ASOPs are adequate or can be strengthened. Robert North, a consulting actuary who was formerly chief actuary for New York City's retirement systems, said he believes ASOPs could provide better support for actuaries who practice in the public pension plan area.

"The world has really changed in the last few years with respect to public plans," North said. "We get a lot more press because they're a lot bigger." Unlike with the insurance industry, he said, the regulatory structure is somewhat lax for public sector pension plans because of varying state rules, though he noted he has seen improvements in ASOPs in the past few years regarding enhanced disclosure.

Robert Stein, chairperson of the Society of Actuaries' (SOA) Blue Ribbon Panel on Public Pensions, recommended that pension standards be strengthened in three areas: the adoption of clear funding principles and priorities; the development of stronger guidelines for establishing actuarial methods and assumptions; and the adoption of risk-management and disclosure practices that are consistent with current standards. Bradley Belt, also a member of the blue-ribbon panel, testified with Stein. Belt—who was executive director of the Pension Benefit Guaranty Corp. under President George W. Bush—said he would welcome ASOPs that provide greater consistency, clarity, and comparability.

Gordon Latter, chairperson of the Joint Academy/SOA Pension Finance Task Force, recommended the ASB require disclosure of solvency liability and normal cost based on discounting at a default-free discount curve and the unit credit actuarial cost method; projected cash flows forming the basis of the solvency liability, which he said was the most critical element of its recommendation; and solvency liability deficit and funded percentage, both calculated to the market value of assets.

The board will take some time to consider the written and oral submissions as it continues its deliberations on these issues. Updates will be included in future issues of *Actuarial Update* and in *ASB Boxscore*.

HEALTH BRIEFS

- **John Schubert** is now chairperson of the Retiree Benefits Subcommittee.
- **Al Schmitz**, **Barb Klever**, **Colleen Driscoll**, and **Susan Mateja** have joined the Health Practice Council.
- **Alisa Johnson Widmer**, **Annette James**, **Carol Chio**, **Joe Allen**, **Nilabh Sanat**, and **Malgorzata Jankowiak-Roslanowska** have joined the Health Practice International Committee.
- **Annette James** and **Joyce Whaley** have joined the Financial Reporting and Solvency Committee.

Actuarial Update

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DISCIPLINARY NOTICE

The following was posted to the Academy's Public Discipline page on July 16, 2015.

The American Academy of Actuaries ("Academy"), acting in accordance with its *Bylaws*, has reviewed the findings from the Actuarial Board for Counseling and Discipline ("ABCD") and a decision by a Disciplinary Panel of the Joint Discipline Council regarding Kenneth P. Shapiro, MAAA, FSA. The Academy hereby suspends Mr. Shapiro's membership in the Academy for one year for failing to comply with Precepts 1, 2, 3, and 12 of the *Code of Professional Conduct*.

Mr. Shapiro materially violated Precept 1 of the *Code of Professional Conduct*. Mr. Shapiro failed to perform professional services with skill and care while providing service as an expert witness because of the following.

1. Mr. Shapiro's expert report was based upon a mistaken understanding of the minimum funding rules. Mr. Shapiro did not know that, as an alternative to using the segment rates under the Internal Revenue Code § 430 as modified by the Moving Ahead for Progress in the 21st Century (Map-21), a plan sponsor may elect to use the spot segment rates to determine a retirement plan's minimum required contribution for a year.
2. Mr. Shapiro acknowledged that there are other methods but incorrectly asserted that the Map-21 rates were the only basis allowed by Congress to determine the funded status of a retirement plan.

Mr. Shapiro materially violated Precept 2 of the *Code of Professional Conduct* by failing to meet the requirements for continuing education prior to performing services as an expert witness. Mr. Shapiro admitted that he issued actuarial statements of opinion despite failing to meet his continuing education requirements. Mr. Shapiro incorrectly believed that his retirement status exempted him from continuing education obligations.

Mr. Shapiro materially violated Precept 3 of the *Code of Professional Conduct* by failing to ensure that professional services performed by him satisfied the Actuarial Standards of Practice (ASOPs). Section 3.8 of ASOP No. 17, *Expert Testimony by Actuaries*, states, "When the actuary testifies concerning other relevant testimony, including opposing testimony, the actuary should testify objectively, focusing on the reasonableness of the other testimony and not solely on whether it agrees or disagrees with the actuary's own opinion." Mr. Shapiro testified that any methodology other than the one he proposed was a violation of "actuarial practice and actuarial theory" in violation of ASOP No. 17.

Mr. Shapiro materially violated Precept 12 of the *Code of Professional Conduct* by wrongfully making use of the membership designations of the American Academy of Actuaries and the Conference of Consulting Actuaries while providing expert witness services by identifying himself as a current member of those organizations despite the fact that he was not.

Based upon the foregoing, Mr. Shapiro's membership in the Academy is suspended for one year.

← **EVENTS**, CONTINUED FROM **PAGE 9**

Attend the 2015 CLRS to stay current with industry developments and learn from expert analysis of innovation in reserving. For more information on attendee registration, please email arc@casact.org or visit the CLRS website.

Post-NAIC Webinar Set for Aug. 27

Join the Life Practice Council on Aug. 27 for a webinar reviewing the NAIC's summer national meeting in mid-August. Stay tuned for more information.

Reminder: Don't Miss the 2015 LHQ Seminar

Registration continues for the 2015 Life and Health Qualifications Seminar, to be held Nov. 9-12 in Arlington, Va. (metropolitan Washington, D.C.). See why so many of your peers find this seminar the most succinct and effective way to acquire the required basic education and continuing education to assist in being qualified to sign NAIC annual statement life and health actuarial opinions.

This seminar is the primary source of instruction for actuaries who wish to be qualified to issue actuarial opinions for either the NAIC Life and A&H Annual Statement or the NAIC Health Annual Statement but may not have met the basic education requirements set forth in Section 3.1.1 of the U.S. Qualification Standards (USQS).

Meeting, continued from page 1

- Lessons from the first year of Own Risk and Solvency Assessment (ORSA) report implementation.
- A focus on cross-practice ethics issues, including discussion of new Academy research about perceptions of ethical challenges.
- A discussion led by the Public Interest Committee of the sustainability of public programs/systems with agency stakeholders.

The Academy has also added new, facilitated professionalism and business skills programs this year. At a Nov. 13 professionalism plenary session modeled after the NPR program "Wait, Wait Don't Tell Me!" the Academy will offer its own version of the popular public radio show featuring a game-show style format in which a panel of members will engage on actuarial ethical issues. Lively audience participation will be encouraged and facilitated by ProEthics.

And in the spirit of *Saturday Night Live*, an additional option this year is a highly interactive breakout session to hone your business skills through interactive, small-group exercises facilitated by Second City Works, the business-to-business arm of renowned improv group The Second City. This limited-attendance session will be offered twice on Nov. 12.

The Academy's 50th Anniversary Gala Dinner on Nov. 12 will be hosted in the spectacular Renaissance Revival-style halls of the National Museum of Women in the Arts. The dinner is included in the two-day registration fee, and dinner tickets can also be purchased separately; see options on the registration webpage.