

THE ACTUARIAL update

AMERICAN
ACADEMY OF
ACTUARIES

VOLUME 24
NUMBER 8

AUGUST 1995

THIS MONTH

2

From a Guest President

3

Life Practice Council News

4

Many Won't Disclose Code
Violations to ABCD

5

Academy Meets with
Accounting Boards

6

Notes & Comment

7

Capitol Views

8

Hustead Testifies on MSAs
before Ways and Means

ENCLOSURES

Included with this month's
issue of *The Actuarial Update*
are the following:

In Search Of

ASB Boxscore

Second ASB Exposure Draft
on Social Insurance

CLRS Handouts Order Form

Academy Joins Labor Department Savings Education Campaign



Academy Executive Director Wilson Wyatt and Secretary of Labor Robert Reich greet each other at a VIP reception before the Department of Labor press conference launching the Retirement Savings Education Campaign.

The Academy has joined forces with the Department of Labor and a broad array of private-sector groups in a public education campaign to promote retirement savings. Under the banner "SAVE! Your Retirement Clock Is Ticking," Secretary of Labor Robert Reich and Treasury Secretary Robert Rubin launched the effort at a July 19 press conference in Washington, D.C.

The educational campaign will target American wage earners with the message that they must

prepare early for a financially secure retirement. Employees will be urged to inform themselves about their Social Security and private pension benefits and to begin a disciplined program of individual saving.

Workers will also be encouraged to suggest their employers start a pension plan. "We certainly don't wish to promote defined contribution plans over defined benefit plans, or to suggest that individuals go it alone," said Reich. "To the contrary, we hope this campaign will strength-

en all the elements of the traditional three-legged stool, including employer-sponsored pensions."

Besides the Academy, campaign cosponsors include the American Council of Life Insurance, the American Institute of Certified Public Accountants, the AFL-CIO, and the Pension Rights Center.

Academy Task Force

The centerpiece of Academy involvement will be the report of the Pension Practice Council's Task Force on Trends in Retirement Income Security. The task force is examining private and public pension systems, Social Security and Medicare, and individual savings—combining existing data into an actuarial analysis of the income needs of future retirees. The task force report will be a key informational source for policy makers, as well as an educational tool for the general public through the profession's public relations program.

"This campaign is the first step in the right direction," said Academy Executive Director Wilson Wyatt. "The actuarial profession, which by its nature focuses on the long-term, can play an important role in steering policy makers and the public away from short-term solutions that contribute to the erosion of future retirees' income security."

In addition to the Department of Labor campaign, the Academy also has joined two newly formed pension education groups: the American Savings Education Clearinghouse and the Pension Education Clearinghouse. In addition, Academy Senior Pension Fellow Bob Heitzman is working with the Employee Benefit Research Institute (EBRI) to establish a joint Academy-EBRI Pension Research Council. 30

THIRTY
30
YEARS

Serving the Actuarial Profession

**AMERICAN
ACADEMY OF
ACTUARIES**

President
Charles A. Bryan

President-Elect
Jack M. Turnquist

Vice Presidents
John M. Bertko
Howard Fluhr
David P. Flynn
Paul F. Kolkman
Charles Barry H. Watson

Secretary-Treasurer
James R. Swenson

Executive Director
Wilson W. Wyatt, Jr.

EXECUTIVE OFFICE

**The American Academy
of Actuaries**
1100 Seventeenth Street, NW
7th Floor
Washington, DC 20036
(202) 223-8196
Fax: (202) 872-1948

**MEMBERSHIP
ADMINISTRATION**

Woodfield Corporate Center
475 N. Martingale Road
Schaumburg, IL 60173-2226
(708) 706-3513

**THE ACTUARIAL
UPDATE**

**Committee on Publications
Chairperson**
E. Toni Mulder

Editor
Adam Reese

Associate Editors
William Carroll
Ronald Gebhardtshauer
Patrick J. Grannan

Managing Editor
Jeffrey Speicher
74764,2620@compuserve.com

Contributing Editor
Ken Krehbiel

Production Manager
Renée Saunders



Statements of fact and opinion in this publication, including editorials and letters to the editor, are made on the responsibility of the authors alone and do not necessarily imply or represent the position of the American Academy of Actuaries, the editors, or the members of the Academy.

FROM A
guest president



Organizational Teamwork

By Allan M. Kaufman

Like clockwork, it seems that every decade or so brings a new project to unify the actuarial profession. However, with only a few months left in my term as president of the Casualty Actuarial Society, it looks as though the profession has avoided that effort during my 5 years as a CAS officer.

I consider that a good sign, evidence that the profession's organizations are working well together. I expect we will make it through the 1990s without a new unification effort. Nonetheless, we must continue to make our professional organizations better serve the needs of the profession.

The most important needs of the profession include the following:

- Helping members stay current in their fields of practice
- Training new professionals
- Developing actuarial science
- Demonstrating to the public and to decision makers why our work is relevant to them.

While the CAS has primary responsibility in the first three areas for property and casualty matters, and the fourth area is the province of the Academy, serving our members' needs requires the coordinated effort of all actuarial organizations. There are several ways in which the CAS coordinates with the Academy.

Last year, Academy Casualty Practice Council (CPC) Vice President Steve Lowe and I reviewed the CAS and Academy long- and short-term casualty goals. Not surprisingly, we discovered that nearly every research issue has public policy, research,

and basic and continuing education implications.

Last month, Dave Flynn, current CPC vice president, identified the areas in which the Academy Casualty Practice Council has been active, which were the following:

- Environmental liabilities issues, including Superfund reform
- Medical malpractice reform as part of the overall tort reform;
- Catastrophe reserving and a primer on natural disaster insurance
- Redlining and HUD action
- Financial reporting on issues such as modifications of Statements of Opinion, the casualty practice note on loss reserve opinions, updating the Loss Reserve Law Manual, technical advice on risk-based capital issues, and reinsurance accounting topics.

These issues are identical to the list of important CAS issues. Two particularly important CAS research areas are the development and use of tools to analyze natural disaster and environmental liability costs. In these areas there have been significant developments over the past several years in the tools available to actuaries for use in assisting insurance companies and non-insurance businesses.

The two issues also have major public policy implications. The Academy is involved in Superfund reform discussions. While there has been limited public debate regarding the funding of natural disaster costs, this issue is part of the insurance industry legislative agenda and will likely become an important public

issue. The Academy's efforts to begin to address these issues before they become major public issues are to be applauded.

The Academy program also reflects that education of our members and education of public policy makers can be coordinated. On environmental liability, the CAS needs to educate its members on current developments. The Academy must inform decision makers that actuaries are experts in this field with unbiased information to offer. These two needs will be served simultaneously by the Environmental Liability Seminar that the two organizations will conduct in October. From the Academy perspective, the seminar is a public interface event, and for the CAS it will provide a unique opportunity for member education.

Risk classification is an issue that involves three actuarial organizations. The CAS is involved in research regarding ratemaking methods and data issues associated with the risk classification process. The Academy is interested in the policy aspects, especially the availability and affordability of insurance and the concept of redlining.

The CAS is also preparing risk classification principles. While casualty risk classification principles might be solely a CAS activity, this is the type of project that is best done for all actuarial disciplines simultaneously. Therefore, the CAS Principles Committee is working closely with the Principles Committee of the Society of Actuaries to develop principles for all areas of practice.

To maximize the impact of our volunteer efforts and to improve efficiency, CAS research committees and Academy property casualty issues subcommittees coordinate their activities as much as possible.

With the Academy public interface agenda and the CAS research and continuing education agendas being developed in tandem, both organizations ensure that the interests of the profession are effectively served.

*Kaufman is president of the
Casualty Actuarial Society.*

LIFE
practice council
 NEWS

Life Committee Works on NAIC Model Law

By Paul Kolkman



Paul Kolkman

In the past few months, proposed life and annuity nonforfeiture laws have been at the forefront of the Academy Life Practice Council's public policy collaboration with the National Association of Insurance Commissioners (NAIC).

The Academy Committee on Life Insurance (COLI) has been active in the develop-

ment of the new life nonforfeiture model law. Committee chair Andy Ware and Randy Mire, who will take the committee helm in October, have participated in conference calls of the NAIC Life & Health Actuarial Task Force (L&HATF). These invitations are quite a compliment to Academy volunteers, since regulators' calls have rarely, if ever, been open to outsiders in the past. COLI has been asked to provide the L&HATF with recommendations on the structure and components of the law at the September Philadelphia meeting.

The L&HATF may also decide to reconsider the annuity nonforfeiture law at that meeting and to redraft it to reflect the principles and premises adopted by the L&HATF for the life nonforfeiture law. If the annuity law is revised, it is expected that COLI will be asked to provide assistance.

Academy Vice President Paul Kolkman heads the Life Practice Council.

Life Practice Council

Paul Kolkman, *vice president*
 (202-223-8196, ext. 252)

Key Issue	Academy Objective	Academy Action
Life and Health Standard Valuation Law Manual	Assist appointed actuaries in complying with state law	Committee on Life Insurance Financial Reporting has to update manual
Life Practice Notes	Assist life & health actuaries in keeping informed on state valuation laws and regulations	Life Practice Notes are being reviewed and updated
Life Insurance Sales Illustrations	Provide technical expertise to NAIC, states, and federal government on actuarial aspects of this issue	ASB draft standard will be finalized by summer's end; NAIC Life (A) Committee will consider draft model regulation at September meeting
Life Nonforfeiture Model Law	Provide technical expertise and assistance to NAIC Life Actuarial Task Force in drafting model law	Committee on Life Insurance (COLI) now discussing model law provisions with the NAIC
Annuity Nonforfeiture Model Law	Provide comments to NAIC committees as law moves through adoption process	NAIC Life Committee withdrew draft model law at June meeting; COLI will review proposal for consistency with life nonforfeiture law proposal
Quality of Asset Adequacy Opinions	Enhance consistent application of Standard Valuation Laws	No action yet taken
	Recommend improvements to quality of actuarial opinions; identify profession's concerns about standards of practice	Academy-sponsored conferences for opinion writers under consideration
	Ascertain regulators' perception of opinion quality and usefulness	Academy may sponsor regulator focus groups
	Educate regulators and insurers on dynamic analysis of financial condition	Regional seminars for regulators under consideration
Life Risk Based Capital	Provide analytical and research support to NAIC Life Risk Based Capital Working Group	Life Risk Based Capital Task Force reported on mortgage factors and combinations of risks at June NAIC meeting
	Review NAIC study of impact on insurers of RBC formula changes	Will conduct study on NAIC staff report
	Provide NAIC with theoretical study of C-1 risk issues in Life RBC formula	Will conduct study on NAIC request
SAP/GAAP	Comment on actuarial aspects of project	COLIFR will respond to questions on actuarial issues in SAP/GAAP codification for September NAIC meeting
Life Insurance Risk Classification	Educate policy makers and consumer groups on risk classification issues	Committee on Risk Classification white paper for state commissioners, consumer advocacy groups, and interested policy makers is being developed
	Provide technical support to NAIC on risk classification and genetic testing issues	Committee on Risk Classification sponsored conference on genetic testing and insurance May 18; committee will continue to provide information and analysis to NAIC
Fair Accounting Project	Educate FASB on actuarial aspects of the treatment of liabilities	Report was presented to FASB in June (see page 5)
		COLI also is responding to NAIC request for information on reserving for minimum guaranteed death benefits in variable annuities
Minimum Guaranteed Death Benefits for Variable Annuities	Provide technical expertise to NAIC Separate Assets Working Group	COLI is preparing preliminary recommendations for September NAIC meeting

CAS Survey Says Many Actuaries Unwilling to Report Wrongdoing

A 1993 survey by the Casualty Actuarial Society reported that only 63% of those responding were willing to report fellow actuaries to the Actuarial Board for Counseling and Discipline for possible violations of the Code of Professional Conduct.

At the time of the survey, Precept 15 of the Code required that "an actuary with knowledge of an apparent, unresolved material violation of this Code shall disclose such violation to the appropriate counseling and discipline body of the profession, except where the disclosure would divulge confidential information or be contrary to law."

It is disturbing that over one-third of those responding to this survey indicated that they would not abide by this precept.

Why would these actuaries choose to put their own professional status on the line by looking the other way when a Code violation occurs? One can only speculate. Perhaps actuaries believe that reporting a violation would require them to prove the validity of the accusation. Or perhaps they fear retaliation by the offending actuary. Or they might argue that their silence did not mean they condoned the activities of the offending actuary.

The U.S.-based actuarial organizations were aware that the 1992 Code's Precept 15 was somewhat demanding and looked for other, more effective, ways to enforce the Code from within the profession. The answer came in the form of a new Precept 14 and associated annotations, which superseded the old Precept 15 and its annotations as of January 1, 1994.

Discuss, Then Report

Under the new Precept 14, the obligation to report a violation exists only when the violation is "an apparent, unresolved material violation." New annotation 14-2 includes language that provides that an actuary can fulfill his/her obligation by taking the following course of action:

"If appropriate, discuss the situation with the other actuary or actuaries and, if necessary, agree upon a course of action to ensure that the apparent violation is resolved."

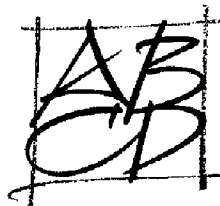
When this course of action is followed, there is no need to inform the ABCD. However, the counseling actuary may wish to keep a written record of such advice in case he or she is challenged under the current Precept 15 at some future date.

If the discussion option is not appropriate or is unsuccessful, the apparent violation must be brought to the ABCD's attention.

Annotation 14-2 also provides that an actuary is not expected to take this action while he or she is acting in an adversarial environment involving the other actuary or actuaries. Also, as with the old Precept 15, the new Precept 14 does not apply when the disclosure would divulge confidential information or be contrary to law.

Both the old and new precepts apply only when the violation is material. The definition of "material" did not change with the new Code. It is defined in new Annotation 14-1 (and in a similar manner in old Annotation 15-2) as:

"... one that is important, has influence or effect, or affects the merits of a situation, as



opposed to one that is trivial, does not affect an outcome, or is one merely of form."

The Duty to Report

Despite the option for resolving material violations by discussion with the apparent offender and the waiver of the reporting requirement in cases involving confidential information or legal barriers to reporting, the basic duty to report still exists and is subject to the ABCD's Rules of Procedure. These rules consider reports of violations of the Code of Professional Conduct to be complaints and subject to processing procedures to ensure unbiased and confidential treatment.

How Deeply Involved?

In some instances, an actuary fulfilling his or her obligation under Precept 14 may have valid reasons for not getting further involved in a case. While the ABCD's rules must be followed, they are not bureaucratically rigid. They allow for anonymous complaints where the complaining actuary does not want to be identified to the actuary who is the subject of the complaint or even to the ABCD.

Anonymity Honored

If the complaining actuary does not wish to be identified to the subject actuary, that wish should be clearly articulated in the written complaint, and the ABCD will make a reasonable effort to safeguard the identity of that complainant. If the complaining actuary does not want to be identified to the ABCD, ABCD counsel will make the same efforts to abide by that wish. If the complaint is unsigned, it will still be filed and the complaining actuary may wish to maintain a copy in his or her files as evidence against an alleged violation of Precept 14. In either case, ABCD's efforts to protect the anonymity of a complainant may hamper the ABCD's ability to investigate a complaint.

There might be situations in

Academy Senior Pension Fellow Bob Heitzman appeared on CNN's Inside Politics on July 20. For a produced piece on Sen. Bob Dole, CNN sent a camera crew to the Academy to ask an actuary about the average life expectancy of a 72-year-old.

which a subject actuary deduces the name of the complainant from the circumstances surrounding the charges against him or her. If the complaining actuary is aware of such a possibility, he or she may request that no action be taken on the complaint. If the ABCD feels that such an investigation would, in fact, result in a violation of its confidentiality rule, it may elect to set up an informational file and take no further action at the time. Should there be further complaints of a similar nature from other sources, the file information typically would again be reviewed, and the original complainant could be contacted to determine whether that file might be used in an investigation in conjunction with the new complaint.

Precept 14 is a real challenge to the profession. Without enforcement, the Code of Professional Conduct becomes little more than suggestions. Absent a full time dedicated enforcement agency, compliance with the Code depends on practitioners who spot violations in their day-to-day work. The responsibility falls heaviest on actuaries employed by reinsurers, regulators, and consulting firms. However burdensome this requirement may seem, the obligation to report Code violations remains an integral part of the actuary's duties as a professional.

An actuary who is aware of another's Code violations has a variety of options for complying with Precept 14. These options typically should suffice to avoid a violation of this key precept and the consequences that might result from such inaction. They should also provide encouragement to actuaries who foster the profession's reputation for integrity.

This article is one of a series prepared by the ABCD to assist actuaries in complying with the Code of Professional Conduct. It is not necessarily based on inquiries or requests for guidance received by ABCD or on actual cases. These articles are advisory in nature. Actuaries are encouraged to suggest topics for future articles. 30

Academy Presents Report on Liabilities at Annual Meeting with FASB, GASB

Actuarial appraisal and option pricing methods could play a role in the estimation of life insurance company liabilities,



Jim Hohmann

according to the Academy Task Force on the Fair Value of Liabilities. The task force's monograph was unveiled June 29 at the annual meeting of Academy leaders and the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB) in Norwalk, Conn.

The Academy monograph outlines two major types of methodology to adjust liability values that change with market conditions. In presenting the Academy findings to FASB, task force members Jim Hohmann and Barbara Snyder emphasized that the actuarial profession would need time to refine these methods and develop standards for their use before implementation. Hohmann said, "While certain of the methods have broad applicability, others may be inappropriate for property/casualty coverages. Accordingly, the monograph has been limited to life insurance company liabilities, and additional research is needed for property/casualty liabilities." (The task force monograph, *Fair Value of Life Insurance Company Liabilities*, is available on request from Cheryl Padilla at the Academy.)

Also at the meeting: Hohmann, Snyder, and Academy Casualty Practice Council Vice Chairperson Pat Grannan commented on Expected Cash Flow Measurements, a FASB research report on

present-value-based measurements, which also will be reviewed by the Academy Financial Reporting Steering Committee.

In other issues: Grannan discussed how FASB and the Academy could work together to better measure long-term environmental liabilities; Academy Pension Accounting Committee Chairperson Larry Johansen reported on experience with GASB pension standards; and Actuarial Standards Board Chairperson Gary Corbett updated FASB/GASB members on ASB standards projects. Academy President Chuck Bryan, President-elect Jack Turnquist, and Executive Director Wilson Wyatt also attended the joint meeting. 30

Executive Director Wilson Wyatt Meets One-on-One with Members

During July, Executive Director Wilson Wyatt took the Academy message to Capitol Hill in a series of face-to-face meetings with members of Congress.

Wyatt met with Sens. Wendell Ford (D-Ky.), Tom Harkin (D-Iowa), Joseph Lieberman (D-Conn.), Mitch McConnell (R-Ky.), as well as Reps. Lee Hamilton (D-Ind.) and Mike Ward (D-Ky.)

"These meetings are a key part of our effort to heighten Academy visibility," said Wyatt. "It is vital that elected officials—as well as staff—know and understand the technical resources the Academy and the profession have to offer. While it's gratifying to meet with members who are already aware of our activities, it's even more important to inform those still unfamiliar with the actuarial perspective."

Wyatt will intensify his schedule of Hill meetings this fall, including one-on-one visits with key members of the Republican majority.

Two Modest Proposals for Balancing the Federal Budget

By Adam J. Reese

Current discussion in Washington centers on balancing the federal budget. And rightly so. Failure to do so will lead to an increasing burden on the working generation and may ultimately lead to intergenerational disharmony. As I see it, there are two approaches to budget balancing that have yet to be explored as possible solutions.

An Easy Way

The federal budget deficit is the difference between federal income and expenditures. The national debt, currently around \$4.8 trillion (about \$19,000 for every man, woman and child in America) is the accumulated amount of all prior years' budget deficits. The government could easily cut the deficit simply by paying less interest on the national debt. The savings from implementing this approach are huge. If fully implemented, the savings can be enough to balance the budget—or even produce a surplus and pay off some of that \$4.8 trillion.

Currently, when the government borrows money it issues fixed interest bonds. With fixed interest bonds, the government borrows \$1,000 and promises to pay interest at, say, 7% for 25 years, then repay the \$1,000 at the end of the term. If the government manages to sell the bonds at face value, then over the course of 25 years the government pays back \$2,760 for every \$1,000 it borrows. With inflation around 3% per year, investors are making a 4% real return. That is a risk-free return because the govern-

ment's promise to pay the interest is backed by its ability to raise taxes! The risk the investors are taking is that inflation might

NOTES & comment

average more than 3% per year over the next 25 years. Even with inflation at only 3% per year, the \$1,000 the government repays will only be worth \$480.

I am proposing that the government issue index-linked bonds instead of fixed-interest bonds. Index-linked bonds shifts risk from the investor to the government. Instead of paying 7% the government can pay 3% in the first year, with the interest payments increasing in line with an inflation index such as the Consumer Price Index (CPI). Each interest payment would be adjusted by the change in the CPI. If inflation was exactly 3% per year, then the interest paid in the 25th year would be \$61 and the repayment would be \$2,094. If inflation averaged 5% per year, the interest paid in the 25th year would be \$97 and the repayment would be \$3,386. Let's see what would happen if the government refinanced all the national debt using 3% index-linked bonds. (See table.)

Not all the current fixed interest bonds are paying 7% (the 1996 budget has \$235 billion in interest payments) so the savings in the first year would be about \$90 billion. However, unless the budget moves quickly into surplus, the maturing \$4.8 trillion national debt will need to be reissued at the prevailing (higher?) interest rates.

Several years ago the U.K. government started issuing index-linked bonds. When they were first issued they had interest rates of 2%. Depending on how many index-linked bonds are issued and the interest rate that is offered, this approach could reduce the federal

expenditures by up to \$110 billion, and move the budget from a deficit position to a surplus.

A Hard Way

One of the biggest growth items in the U.S. budget is Medicare spending. Medicare pays the doctors and hospitals for health care services delivered to the aged and disabled. With the aging of the population, more and more Americans are reaching age 65 and becoming entitled to very broad hospital benefits and surgical and medical insurance. A 60-day hospital stay would only cost the retiree \$716, while a \$4,000 hip replacement charge would cost the patient about \$900.

In 1993, the U.S. spent \$152 billion on Medicare, a figure projected to increase to \$266 billion in 2000. A recent study published in the *New England Journal of Medicine* showed that 28% of Medicare spending was for patients in their last year of life. Of that \$74 billion, half will be spent in the last 30 days. That means by the year 2000, \$74 billion will be spent providing care to people who, despite the best health care system in the world, will die.

That is why I call this approach the hard way, for it would require millions of Americans to change their behavior. Families will need to discuss the emotional subject of living wills, and have them prepared in case they are needed. Doctors and care givers will need to reevaluate their protocols of delivering care. It will be hard to adapt our culture to deliver comfort care. If we as a nation can find a way to treat the terminally ill in a humane way that does not cost three out of every ten Medicare dollars, and then channel those resource elsewhere (either within the health care system on preventive medicine, wellness initiatives, or, even better, outside the health care system), we can save a significant amount of the \$74 billion.

Reese, a principal with the Wyatt Company in Washington, D.C., is editor of the Actuarial Update.

	Fixed Interest Bonds	Index-Linked Bonds
US Debt	\$4,800 billion	\$4,800 billion
Interest rate	7%	3%
Interest in 1996	336 billion	144 billion
Savings	—	192 billion

Banking Reform

National banks will be permitted to join in holding companies with insurance firms in states that allow state-chartered banks to have insurance affiliations, under an amendment to a bank regulatory relief legislation (H.R. 1858) adopted by the House Banking Committee.

The amendment, passed over the objections of House Republican leaders, threatens to undermine passage of H.R. 1858.

Rep. Richard Baker (R-La.), a strong backer of expanding bank powers, offered the affiliation amendment to offset language in H.R. 1858

that would end the authority of the Office of the Comptroller of the Currency (OCC) to expand bank insurance powers. House GOP leaders inserted the language to address lawmaker and insurance industry concerns over recent OCC efforts to grant additional insurance powers to banks. Republicans who found the OCC language too hostile to banks supported the Baker amendment, as did Democrats who hoped to sink the whole measure.

The committee also adopted an amendment to limit state authority to regulate national banks' insurance sales more tightly than those of other providers. The bill now goes to the House Rules Committee where Chairperson Gerald B. H. Solomon (R-N.Y.), a strong ally of the insurance industry's, will try to forge an agreement between the warring parties. Floor action on the bill is not likely before September.

Superfund

Retroactive liability would be repealed under a Superfund reform proposal by Sen. Bob

Smith (R-N.H.). Smith's proposal would repeal retroactive liability for legal dumping before December 11, 1980, the date that CERCLA, the law that created Superfund, was enacted.

For companies held liable for polluting sites after CERCLA was enacted, Smith's proposal would replace the current system of joint and several liability with a proportionate liability system.

Smith also calls for: ending the federal government's role in cleanups after 3 years in all cases that do not pose an immediate threat to human health and the

environment; requiring the EPA to select remedies that protect human health and the environment at the lowest cost; capping the number of sites that could be added to the EPA's priority list of cleanup sites; and

giving states a greater role in cleanups.

Meanwhile, the leading House proponent of Superfund reform, Rep. Mike Oxley (R-Ohio), will soon introduce a reform plan that would go even further by eliminating retroactive liability for dumping that occurred before 1987. Oxley and Smith will have to convince enough Democrats and key Republicans that repealing retroactive liability can be paid for.

In order to assist lawmakers as they develop legislative proposals, the Academy Work Group on Environmental Liabilities has reviewed and summarized various cost estimates of the Superfund program for reasonableness and made its own comments in a monograph that was distributed to select members of Congress. Key congressional staff have requested meetings with work group members to discuss their findings.

Pension Simplification

A pension simplification bill introduced by Senate Finance

Committee members David Pryor (D-Ark.) and Orrin Hatch (R-Utah) would create a blue ribbon commission to identify long-term goals for private retirement savings.

Provisions also include a tax credit of up to \$1,000 for small businesses that can be applied to the retirement plan start-up costs, repeal Section 415(e) (the combined limits), and greatly simplify the tests for leased employees and for highly compensated employees. Elective deferrals would be counted as compensation under Section 415, defined contribution plans would be exempted from the minimum participation rules, and the Social Security retirement age would be established as the uniform retirement age under the nondiscrimination rules.

Pension simplification has broad support from Congress and the Clinton administration, and it may be included in budget reconciliation legislation this fall. The Academy's Pension Committee, which has long advocated

Continued on page 8

Academy Submits Testimony on Social Security Trust Fund

On July 6 the Academy Committee on Social Insurance urged Congress to "act now to bring the Social Security program back into long-range balance." The recommendation came in testimony submitted to a Senate Finance Committee hearing on the solvency of the Social Security Trust Fund.

The testimony presented potential solutions to the financing problems facing the Social Security program, highlighting proposals with the greatest potential to solve Social Security's financing problems. The committee also described other proposals that may be widely debated, but which would offer little chance to resolve the Social Security dilemma. The Social Insurance Committee also recently completed a public statement that focuses on the solutions to Social Security's and Medicare's financial problems.

Copies of the Social Insurance Committee's Senate Finance Committee testimony and public statement are available from Doreen Moaning of the Academy public policy staff.



pension simplification, is reviewing Pryor's proposal, as well as President Clinton's plan (see July 1995 *Update*), for comment and analysis.

Health Care Reform

Senate Majority Leader and presidential aspirant Sen. Bob Dole (R-Kans.) has officially entered the 1995 health care debate with an incremental reform bill.

The 133-page draft, which has been distributed to industry groups for comment, does not include the low-income subsidies, community rating, or minimum benefit requirements of the bill Dole sponsored last year. The draft bill does contain portability, guaranteed issue, and guaranteed renewal requirements that would apply to individual as well as group plans.

The new proposal also includes full tax deductibility for health insurance for the self-employed and uninsured workers, medical savings accounts (MSAs) and new tax deductions and exemptions for long-term care services and insurance.

Medicare

President Clinton has signed legislation to expand the Medicare Select program to all fifty states for at least 3 years. Congress approved the measure despite a Health Care Financing Administration study showing that the program significantly increased Medicare costs in eight of the twelve participating states surveyed.

Under the legislation, Medicare Select—which allows seniors to purchase Medigap policies through HMOs—would be extended to all fifty states and would become permanent after June 20, 1998, unless the secretary of Health and Human Services finds reason to discontinue the program. Congress continues to consider broad reform options

for the Medicare program, including proposals to move more beneficiaries into managed care arrangements.

In June, the Academy's Medicare Work Group addressed this issue in testimony to the House Ways & Means Health Subcommittee. The testimony focused on managed care under Medicare and MSAs as a Medicare option. The

group subsequently attached the testimony to a letter to the entire Senate and House offering its assistance.

For further information on legislative or regulatory matters described in this column, or to pass on a tip about late-breaking policy news, contact David Rivera of the Academy public policy staff. 30

**This year's
Academy
Annual Meeting
is being held
in conjunction
with the Society
of Actuaries
Annual Meeting
and Exhibit,
October 15-18
in Boston.
The Academy
is sponsoring
a Monday
luncheon for
all attendees.
If you didn't
receive the
annual meeting
brochure sent
to all members
in July,
please call the
Academy.**

Families Could Take MSA Hit, Hustead Tells Ways and Means

A medical savings account bill now before Congress could cost American families money, according to Edwin Hustead, chair of the Academy Medical Savings Account (MSA) Work Group.

Hustead delivered that message before a House Ways and Means Health Subcommittee hearing on June 27. The hearing

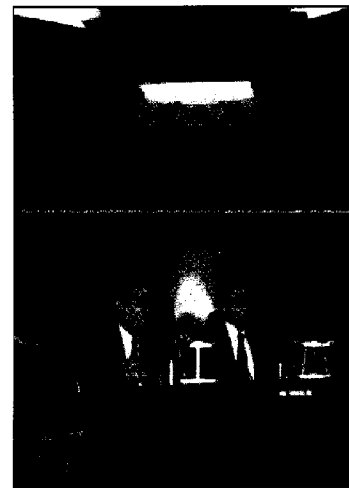
focused on H.R. 1818, the Family Medical Savings and Investment Act sponsored by Ways and Means Chairperson Bill Archer (R-Tex.) Also testifying was Academy MSA Work Group member Peter Hendee.

Under an MSA system, employers could replace traditional health insurance with high-deductible plans supplemented by medical savings accounts. The Archer bill sets a \$3,600 lower limit on family plan deductibles. Hustead said, "The family plan requirement, taken as a minimum expenditure that the family must meet, could yield an

increase in out-of-pocket expenses much greater for a family than for an individual."

Hustead also cautioned the subcommittee, "Employers will need to design their MSA/high-deductible plans carefully and get accurate estimates of their probable cost" to achieve health care spending reductions. The Academy work group released its monograph at a press briefing last May; its detailed analysis of the Archer bill is expected later this summer.

Hustead and the Academy monograph were cited in *The Washington Post's* June 29 lead editorial on MSAs, "Not a Cure." The *Post* editorial urged Congress to look twice at the medical savings account idea, which could "weaken rather than strengthen the health insurance system." The testimony was also telecast on C-SPAN.



Academy work group members Edwin Hustead (left) and Peter Hendee (right) testify on MSAs before the House Ways and Means Health Subcommittee.