

# The Actuarial Update

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AMERICAN ACADEMY OF ACTUARIES

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## In this issue

- |   |  |
|---|--|
| 2 | from a Guest President                     |
| 3 | Letters to the Editor                      |
| 3 | Non-Routine Board Actions                  |
| 3 | Academy to Cosponsor Video Pension Seminar |
| 5 | Discipline Report                          |
| 6 | Interim Board Reviews Proposed Standards   |
| 7 | Actuarial Guideline XIV                    |
| 7 | NAIC Report                                |
| 8 | Checklist of Academy Statements March 1986 |
| 8 | Call for Arbitrators                       |

## Enclosures

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

- Government Relations Watch
- In Search Of . . .

## Heinz Says Congress Must Put an End to Using Pensions to Raise Revenue

*On April 16, 1986, the Senate Committee on Finance marked-up tax reform proposals that would affect pension and employee benefit plans. Modifications approved by the committee incorporated many of the provisions found in the Retirement Income Policy Act of 1985 (RIPA), proposed by Senator John Heinz (R-PA) and Representative William Clay (D-MO). In this interview with Update staff, Senator Heinz talks about his objectives in designing RIPA and his concerns regarding the effect of tax reform on employee benefits.*

**The Update:** Pension legislation in recent years has been almost entirely revenue driven. Should this situation be changed? What can be done to change it?

**Heinz:** Yes, I think the focus should be changed. Our reason for encouraging voluntary retirement plans is to get income to retiring workers so they can maintain their standard of living. The Congress should be concerned not only about the amount of revenue loss, but about the amount of retirement income that is generated for this loss.

We need to focus on encouraging the delivery of substantial retirement benefits to as many workers as possible, particularly those workers who otherwise would rely entirely—or almost entirely—on Social Security.

What can be done to change our emphasis on revenue raising? We have to make benefit delivery the issue in Committee and not look only at the revenue effects . . . and I think Finance has done just that this year. The chairman's proposal on tax reform now before the Finance Committee raises practically no revenue in the retirement area, but contains a number of provisions to improve the delivery of pension benefits. Senator Packwood's proposal also provides sta-



Senator John Heinz (R-PA)

bility in the very mechanism that has been used by the Congress to raise revenue in the pension area—the Section 415 limits on benefits and contributions.

**The Update:** You and Representative Clay have introduced a proposal to create a national retirement income policy, RIPA; how will your bill broaden retirement benefit delivery?

**Heinz:** When we say that retirement benefit delivery is "narrow," what we are really saying is that a large proportion of retiring workers don't receive much in pension benefits, because they were never covered by a plan, they moved around and lost coverage for periods of time, or failed to vest. Some of those who do vest may have a pension that is so small in relation to their Social Security that they get integrated out of their pension benefit.

Let me say, in addition, that the problem of coverage is becoming more than

(continued on page 4)

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from a

Guest

President

Phillip N. Ben-Zvi

## Casualty Actuaries: A Brief History

In 1989, we will be celebrating the 100th anniversary of the actuarial profession in North America. Coincidentally, that same year, we will be celebrating the 75th anniversary of the Casualty Actuarial Society (CAS). All of the actuarial organizations are already working on plans for a great and most appropriate recognition of these important milestones.

The CAS was formed in 1914 by a number of actuaries who were working in the new field of workers' compensation insurance and who recognized the emerging differences from life insurance actuarial theory and practice. Over the years, the scope of the casualty actuarial profession extended into a wide range of non-life product lines, including automobile insurance, homeowners insurance, liability and many other aspects of property and casualty insurance. For most of the first fifty years of the Society's existence, the property and liability insurance business operated on a cartel basis, with prices being established by rating organizations to which all companies belonged. As a result, many of the Society's members were employed by rating organizations or by a relatively small number of the larger insurers. In contrast to the life insurance business where actuaries or their forerunners had essentially invented the business and its growth was based on actuarial underpinnings, the property and liability business was largely run on a subjective basis. In the ensuing years, however, the elimination of the cartels and the emergence of highly competitive pricing, the growing complexity of the business, and the development of the casualty actuarial science has led to a great expansion of the casualty actuarial field and a much more important place for its practitioners in the business.

When I became a Fellow of the CAS in 1968, there were only 233 Fellows in the Society, representing less than a two-

and-a-half-fold increase over the ninety-seven charter members who formed the CAS fifty-four years earlier. In the succeeding seventeen years, there has been exactly a tripling of the number of Fellows in the CAS; with a record number of Associates to be admitted at our spring meeting this year. I would expect a further growth of about 10% in 1986 alone.

The diversity of employment of casualty actuaries has also greatly increased, not only with members being employed by a far greater number of carriers of all sizes, but also increasing numbers entering the regulatory area and, particularly, the consulting field.

For many years, the problems faced by casualty actuaries and the approaches used to solve those problems differed more and more from those that faced life and pension actuaries. Many of the casualty actuarial techniques were based on mathematical statistical approaches rather than probability theory as in the life field, in reflection of the short-term contracts, uncertainty of both frequency and cost of claims, and the rapidly changing factors that influenced property and liability insurance costs. It is ironic, therefore, that the pendulum has begun to swing the other way as casualty actuaries now find that they are faced with many considerations similar to those that life actuaries commonly face, and life actuaries in turn must deal with new uncertainties in their product lines similar in nature to those faced by casualty actuaries.

Casualty insurance contracts may still be very short term; but in liability insurance, companies have found that the "benefit" period is a very long one as claims are often reported to the insurers many years after the occurrence of the event and the settlement of such claims often takes a great many years to adjudicate through our heavily clogged court system. Establishment of reserves for such claims and the pricing of the insurance products need to deal with this long time period, including the ravages of economic inflation during the intervening years. This problem is not unlike that which is dealt with by life and pension actuaries, although it is further complicated by the uncertainties added by "non-economic or social inflation," which results from the growing public attitude of entitlement or expansion of the concept of liability beyond that which may ever have been intended by the original insurance contract language.

(continued on page 3)

## The Actuarial Update

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## Letters to the Editor

### Loss Reserve Certification

The list of states requiring certification of loss reserves for the NAIC Fire and Casualty Blank in the March *Actuarial Update* is the most complete of the several I've seen. I'm sure that it will be very useful to Academy members.

When I chaired the Committee on Property and Liability Insurance, we attempted to compile a similar list. Our search led to some requirements for casualty loss reserve certification for purposes other than the Fire and Casualty Blank. Perhaps these should be included in future listings for the sake of completeness. Here are two that I know of:

- Minnesota (Insurance Regulation 2780.1400, Subpart 1(B)) provides for certification of loss reserves by "an actuary who is an associate member

of the Casualty Actuarial Society" for certain self-insurers qualifying for reduced security deposits; and

- Vermont (Insurance Department Regulation 81-23(E)) requires certification of loss reserves for captive insurance companies by a Fellow of the Casualty Actuarial Society, a member of the Academy, or other person who has demonstrated his/her competence.

Other readers knowing of similar regulations should be encouraged to share that information. This will enable the compilation of a complete list of casualty loss reserve certification (or more properly, casualty loss reserve opinion requirements).

J. A. Scheibl  
Wausau, Wisconsin

### Academy to Cosponsor Video Pension Seminar

The Academy is one of four organizations cosponsoring a nationally telecast seminar, a tele-conference, if you like, entitled "Important Current Operational Problems of Qualified Retirement Plans." The program will be transmitted live by satellite from Washington, D.C. via the American Law Network. The telecast, available to eighty cities around the country, will be held on Thursday, June 5, 1986 from 12:00 noon to 4:00 p.m. (EDT).

The American Law Network is a joint project of the American Bar Association and the American Law Institute, which broadcasts via satellite to locations throughout the United States. This program will feature a number of subjects including operational problems under the Retirement Equity Act, termination procedures for defined benefit plans, a discussion of Internal Revenue Service (IRS) Notice 86-3 (for plans not in compliance with recent tax changes), and the IRS position on actuarial valuations (including a discussion of the definition of "reasonable" actuarial assumptions).

Featured speakers are expected to include Ira Cohen, director, employee plans, technical and actuarial divisions, IRS, and William M. Lieber, pen-

sion tax counsel, Joint Committee on Taxation of the United States Congress. Immediately following the telecast, a local commentator will be available for further discussion at many of the sites.

A list of cities where the seminar will be broadcast, and applications for attendance are available on request from the Academy office. The registration fee for the program is \$120, which includes study materials. Videocassettes of the program will be available for purchase about six weeks after the event for \$150, which includes the study materials. For further information, contact Academy General Counsel Gary D. Sims. Δ

### Non-Routine Board Actions

by Robert H. Dobson

The Board of Directors of the American Academy of Actuaries met on Wednesday, March 19, 1986, and took the following non-routine actions:

- Approved revised guidelines on expense reimbursement for the president and president-elect.
- Expressed its preference that the Academy continue to be solely responsible for funding the Interim Actuarial Standards Board through 1987.

### FROM A GUEST PRESIDENT

(continued from page 2)

On the other side of the coin, life insurers are now regularly offering new product lines with growing investment features and interest rate sensitivity. The life actuaries have to deal with the uncertainties of future economic events that may influence the interest rates that may be earned by the carriers and/or credited to the policyholders. The pricing and reserving problems they face are, thus, greatly complicated, and the difficulties faced are quite similar to those with which their casualty brethren have had to deal.

These are only a couple of the most obvious examples, and we can all list many other similarities that have been emerging in the life, pension, and casualty fields. This commonality of interest and the need for a forum for dealing with such issues of mutual concern is another important reason for the existence of the American Academy of Actuaries. The work being done by the Academy, which has been so enthusiastically supported by its life, pension, and casualty actuarial members, on such topics as the valuation actuary concept and on the development of standards of actuarial practice is very key to all actuaries, of whatever stripe.

Phillip N. Ben-Zvi is president of the Casualty Actuarial Society.

### Correction

A statement in one of last month's lead articles, "The Liability Insurance Crunch: The Environment," should have read: "Insurers are now discovering that exposures which they intended to exclude in their policies are now interpreted as being retrospectively covered." We regret any confusion the typographical error may have caused.

- Received a white paper on flexible education from the Society of Actuaries (SOA) and instructed its liaison representative to the SOA Educational Policy Committee to continue to work with the committee on this.
- Approved a program whereby Academy members could have their names submitted to the American Arbitration Association as potential arbitrators.
- Received a report from the Committee on Discipline. Δ

**HEINZ INTERVIEW***(continued from page 1)*

just the lack of a plan. With the increasing popularity of voluntary savings plans like 401(k)s, the problem also is a lack of participation by people who are technically covered by pension plans.

My bill, RIPA, would make a number of changes to address these problems. In order to expand coverage, we would revise the coverage rules and improve simplified employer plans. We would make it easier to earn a benefit by reducing vesting from ten to five years and limit the reduction of pension benefits through integration. In addition, the bill would encourage employer financing and, thus, employee participation in pension plans by placing limits on the percent of total contributions that can come from individual contributions.

**The Update:** The employee benefit community has expressed concern that burdensome legislation and regulation discourages the creation and maintenance of pension plans. How will your bill reverse this trend?

**Heinz:** We've been through a period of fairly constant legislative change in pension law over the last five years. This rate of change has certainly made it difficult for employers to anticipate the Congress and has required a lot of plan amendments. Driving these changes has been Congress' desire to make the distribution of tax benefits fairer and to raise revenue in various tax bills.

It seems to me that the best way to bring a halt to the legislation is to resolve the remaining concerns about fairness and put an end to raising revenue in the pension area. Support for the tax incentives encouraging the highly paid to set up plans has always been contingent on a clear demonstration that benefits are provided to the rank and file. There is a long-standing concern that the highly paid can too easily structure pension plans to benefit themselves and deprive the rank and file by either not covering them in the first place, or covering them, but preventing them from receiving benefits. This sentiment was the basis for the Tax Equity and Fiscal Responsibility Act of 1982 and the pension proposals in both the Administration and House tax reform proposals.

RIPA intended to make the case that pensions can deliver benefits to a broad cross-section of workers but that Federal policy and rules governing pensions need to be clearer, simpler, and more

stable if employers are going to be encouraged to maintain plans.

A number of proposals in RIPA moved in this direction. First, we demonstrated that with earlier vesting, limits on integration, and restrictions on early distributions, most of the concerns about benefit delivery could be resolved. Second, we designed more straightforward and simpler rules in a number of key areas where the rules have been over-complex: integration, Section 415 limits, and coverage. In every case, we were intent on providing employers clear guideposts and not complex rules on how to get there. Third, we emphasized a long-term approach. We deferred the effective dates of the legislation for five years to give the IRS time to issue regulations and employers time to understand them. We also tied the 415 limits to Social Security to emphasize the relationship of these limits to long-term wage replacement and to make them predictable.

I'm not convinced that changes in the pension law are by definition so burdensome that plan creation is discouraged. I think the rate of change is a more important factor, and the uncertainty about where the Congress is headed and what is expected or will be expected of employers in the future. That is why we worked so hard in RIPA to state our long-run objectives and set up guideposts that employers could focus on for how to get there.

**The Update:** Many employees in small business do not participate in a pension plan. How will your bill encourage small businesses to set up and maintain pension plans?

**Heinz:** The largest gap in coverage is among small employers. There are many reasons small employers don't offer pension plans, but I'm not sure we understand what all of them are. The Carter Pension Commission report suggested several reasons: (1) Small employers may not have the profit margin to take on added labor costs; (2) They may not have been in business long enough to worry about pensions; (3) They may be discouraged by the administrative costs and complexities of setting up a pension; and (4) They may not pay enough taxes to benefit from the tax advantages of a pension plan.

In developing RIPA, we put a lot of effort into coming up with some incentives for small employers to set up pension plans. It's a difficult task. We have one provision in the bill to allow employ-

ers to use salary reduction with a simplified employee plan (SEP). We think it will make SEPs somewhat more attractive, because it allows employers to set up a simple plan without any employer expense. An owner who wants to defer compensation himself would open the opportunity for his employees. Admittedly this is a small step to expand coverage—I view it as just the beginning. We need to do more to understand what prevents small employers from setting up plans and then develop incentives to encourage them to adopt plans.

**The Update:** Your proposal specifies five-year vesting. This would seem to represent a philosophical shift from pensions as a reward for long-term service to pensions as a right granted to every employee. What effect will this change have on the private pension system, and how will it affect the delivery of pension benefits?

**Heinz:** I wouldn't say that pensions are really a reward for long service as much as they are a tool that employers have used to manage their workforce—to hire, retain, and retire workers. Traditionally employers have held out vesting in the pension as a way to encourage workers to stay. Vesting, of course, is not the only method employers have to keep their workers.

It is hard to argue that dropping vesting from ten to five years turns pensions into a right. If anything, it makes retirement plans more effective in delivering what they have promised to today's workforce. Twenty years ago, employers looked for employees who would start with the company out of college and stay with them to retirement. Today's employer and worker have a different relationship. Mobility and flexibility in the workforce have become more important. With declining manpower needs in some industries and growing needs in others, compensation that penalizes mobility may be counterproductive. After all, the average male, full-time worker who starts a job at age forty-five has less than a 50-50 chance of staying on the job for ten years.

Employers are already moving on their own towards plans that more easily provide benefits to shorter service workers. Take, for example, the cash balance accounts that are now becoming popular. These plans are coming into existence because workers want a benefit they feel is theirs and not the employers. Five-year vesting is simply an extension of this trend.

If five-year vesting is adopted, a lot of workers who would have previously gotten nothing from an employer, will get a small benefit. The accumulation of these small benefits over a career will amount to some pension benefit being paid to people who otherwise would have depended solely on Social Security. Recent data, released by ICF, Inc., shows that these changes will help raise the percentage of individuals receiving pensions by 17% and the average income from pensions by 22% over the long run.

**The Update:** Why does RIPA specify five-year vesting for single-employer plans, but not for multiemployer plans?

**Heinz:** We wrestled with the issue of vesting in multiemployer plans. I think the consensus was that multiemployer plans really do have a degree of portability that isn't found in single-employer plans, which takes some of the pressure off of the need for earlier vesting. Most of their workers stay in the same plan for a full career, even though they change jobs regularly. Although earlier vesting might help a few workers, it is not nearly as important as it is in single-employer plans. Secondly, we were aware that many of the multiemployer plans are having funding problems now, and there was some concern that it might be difficult to negotiate added compensation in some of the industries at this time.

**The Update:** RIPA would place new limits on pension integration. Does this change in integration rules reflect a change in the idea that pension plans should proportionately replace an employee's salary?

**Heinz:** Changes proposed in the pension integration rules really do not speak at all to the basic concept of integrating pensions and Social Security benefits to meet a specified replacement rate—this basic concept would remain unchanged. The RIPA rules do two things: they place a limit on the extent to which integration can reduce a benefit, and they un-hinge the mechanics of the pension integration rules from the Social Security benefit.

Essentially what we are doing is detaching federal policy from the structure of integration itself. It's up to the companies to decide how they relate Social Security to benefits—we simply set a floor on how far they can go in reducing the pension. People have complained that the integration rules have not kept pace with the changes in Social

Security policy. Our rules would be relatively permanent since they would not be affected by changes in Social Security. Employers will still be free to design their pensions to achieve their income replacement goals.

**The Update:** How do you reconcile the dollar limitations on 401(k) plans contained in RIPA with the stated policy goal of expanded coverage?

**Heinz:** The dollar limit on the elective deferrals on 401(k)s was really intended to encourage continued employer participation in retirement plans. The concern was that with the expansion of 401(k)s as an attractive retirement income vehicle, the burden of saving for retirement would shift to individuals, and because participation is voluntary, a lot of people would lose coverage as a result. Many people would no longer be participating in a retirement program. The intent of the limit on 401(k) plans (half of the defined contribution limit in RIPA) was to make it necessary to have a substantial employer matching contribution to get up to the total limit—and thus provide employers the incentive to match.

**The Update:** Pension policy is something less than a headline-grabbing issue; moreover, it involves technical and complex components. Is Congress ready to act on this issue?

**Heinz:** I think it's generally difficult to move pension legislation in the Congress, partly because it's technically complex, and partly because it's politically complex. However, in the context of tax reform that is attempting to improve fairness in the distribution of tax benefits and re-evaluating employee benefits that are only given to a portion of the labor force, it is understandable that there would be some interest in the distribution of pension benefits. I think it's going to be difficult for the Congress not to support some changes in pension policy to improve the delivery of benefits this year—particularly since both the Administration and the House have proposed changes in pensions—although I think many of us would prefer to wait and deal with retirement policy more comprehensively.

**The Update:** Should Congress encourage the funding of post-retirement health and welfare plans? If so, should the Deficit Reduction Act (DEFRA) limits be reversed?

**Heinz:** Yes, I think Congress should encourage the funding of post-retirement health and welfare benefits. However, I'm not sure that reversing the DEFRA limits is realistic. As you know, the problems employers are having in providing post-retirement health benefits are only partly a result of federal  
(continued on page 6)

## Discipline Report

A continuing high level of activity by the Academy's Committee on Discipline was reported to the Board of Directors at its March meeting.

In reviewing the previous year's developments, it was noted that a total of nine cases had been terminated. One included an expulsion of a member, and another involved the imposition of a suspension. (Both of the foregoing were discussed in previous issues of *The Update*.) Three other cases were dismissed after investigation by the committee failed to establish sufficient facts to continue processing. The remaining cases were closed after investigations revealed that the complaints were not valid.

The committee also reported that its current caseload includes twelve matters. Four involve complaints related to insurance company insolvencies and are in various stages of investigation. One involves the review of a felony conviction assessed against a member, and another complaint involves allegations of unprofessional and incompetent advice by a pension consultant. Other pending complaints involve questions relating to improper advertising, the inappropriate use of actuarial credentials, a refusal by a pension actuary to cooperate with a former employer, and unjustified public criticism of fellow actuaries.

The Committee on Discipline is ready and willing to investigate any allegation of violations of the Guides and Opinions to Professional Conduct by members of the Academy. Complaints can be filed with the chairperson of the discipline committee, Harry D. Garber, or with the Academy's General Counsel, Gary D. Simms. Confidentiality is assured and mandated by applicable provisions of the Academy's bylaws.

## Interim Board Reviews Proposed Standards

The Interim Actuarial Standards Board (IASB) held its second quarter meeting April 11 and 12 in Chicago. All nine members of the board, as well as chairpersons from three of the operating committees of the IASB attended. Two Academy staff representatives were present. Stephen P. Lowe, who chairs the Committee on Property and Liability Insurance Financial Reporting, David V. Axene, who chairs the Committee on Continuing Care Retirement Communities (CCRCs), and Jarvis Farley, also of the CCRC committee, attended to give presentations to the IASB on the standards work of their committees.

The IASB's full agenda included a review of a proposed exposure draft of standards for continuing care retirement communities, a final review of Interpretation 8-B/Financial Reporting, a draft on Actuarial Practice Guidelines to FAS No. 87, and status reports on the operating committees of the IASB. Moreover, board members developed an outline of procedural guidelines for IASB committees.

The CCRC exposure draft will require additional revisions before board members can vote on whether or not to send the proposed standards to Academy members for comment. Interpretation 8-B/Financial Reporting was thoroughly discussed by the board; it was agreed that this item should be brought to the board once again at its July meeting, where final approval is anticipated.

Charles A. Bryan, who chairs the Casualty Committee of the IASB, gave a status report on the parent committee's three subcommittees and the specific areas for which they are developing standards.

Thomas D. Levy, who chairs the Pension Committee of the IASB, presented the IASB with the FAS No. 87 proposed standard. The committee would like to have an exposure draft ready by July 1986. The Health Committee of the IASB is focusing on claim reserves, health rating filings, and employee benefits. Chairperson Ronald M. Wolf is still recruiting Academy members with a benefits background for this committee.

There was a report on the Discussion Draft on Health Reserves for the National Association of Insurance Commissioners (NAIC). Forty-three responses were received. A revised draft has been completed and will probably be submitted to the NAIC at its June Meeting.

The IASB became involved in an extensive discussion of the commonality of actuarial principles among the various areas of practice; board members agreed to further explore the possibility of sponsoring research into the similarities and differences that presently exist.

The next IASB meeting will be Friday, July 18, in Washington.  $\Delta$

### Two Named to Chair Operating Committees

IASB Chairperson John A. Fibiger announced at the board's second quarter meeting the appointment of two chairpersons to IASB operating committees. Jarvis Farley was named chairperson of the Specialty Committee of the IASB, and Walter N. Miller was named chairperson of the Life Committee of the IASB.

### HEINZ INTERVIEW

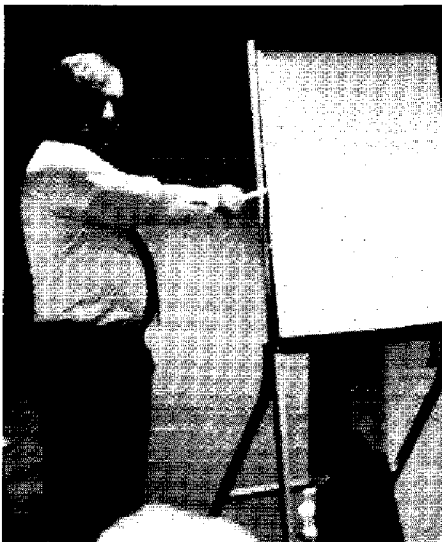
(continued from page 5)

policy. It's more that employers are beginning to recognize the costs that are involved and at the same time are under pressure from the courts to assume liability for the health benefits of current retirees and under pressure from the Financial Accounting Standards Board to book these liabilities.

DEFRA got in before anyone was really pre-funding and shut down the VEBA mechanism. The Treasury had some valid concerns about the potential for abuse in the use of VEBAs because of the lack of minimum standards and the difficulty of valuing future health benefits and the potential for reversions of the trust. I think the two issues, funding and minimum standards, will have to be linked, but clearly the Congress needs to come up with some innovative ways to encourage employers to fund health benefits and I'm working actively on this problem.

**The Update:** What can the Academy do to assist you in the development of balanced guidelines relating to national retirement income policy?

**Heinz:** As you know, we went through a lengthy process of consultation with experts and key labor, business, and pension organizations when we drafted RIPA. The Academy was of tremendous help to us both in providing extensive comments during the development of RIPA and again after its introduction. We haven't finished with this process, and I know we can continue to look to you for assistance in this effort.  $\Delta$



Thomas D. Levy (far left) and (l to r) Eleanor Mower, Thomas E. Murrin, and Edwin F. Boynton

## Actuarial Guideline XIV

### Surveillance Procedure for Use of the Actuarial Opinion for Life and Health Insurers

To assist regulators in their responsibility for surveillance of life and health insurers, the NAIC adopts the following interim procedure for use of the Actuarial Opinion to be used until such time as model legislation and/or regulations are adopted and become effective.

1. The regulator should accept Actuarial Opinions only from qualified actuaries. The educational and experience standards established by the American Academy of Actuaries for this purpose offers evidence that an individual is so qualified.
2. The regulator should determine if an opinion is qualified in any respect, or omits items from the outline provided in the Instructions to the Blank. If so, a follow up with the actuary rendering the opinion as to the nature of the qualification or omission is appropriate if the opinion does not provide a satisfactory explanation.
3. The regulator should examine the circumstances where the actuary rendering the opinion differs from the prior actuary and ascertain the reasons for the change. In some cases the regulator may wish to discuss the change with the current and prior actuaries.
4. The regulator should, if desired, obtain for reviews, documentation supporting the Actuarial Opinion. Except in matters of professional discipline, the regulator's use of these documents should be considered within the Department's guidelines for confidential information.
5. The regulator may require that the actuary furnish an Actuarial Report supporting the Actuarial Opinion; the report should conform to the standards of the American Academy of Actuaries with respect to Actuarial Reports (Opinion 3 of the Guides to Professional Conduct). It should document the methodology and approach to assumptions used in making the opinions and, additionally, provide specific details in reference to items 6 through 10 below, if such details are required by the regulator.
6. In the Actuarial Report, the actuary providing the opinion should refer to the NAIC Insurance Regulatory Information System (IRIS) ratios, point out ratio values outside the prior year's range of usual values, and provide explanations for those which are significant.
7. In the Actuarial Report, the actuary providing the opinion should make specific reference to the extent to which the good and sufficient analysis considered all the unmatured obligations of the company, in aggregate, guaranteed under the terms of its policies.
8. In the Actuarial Report, the actuary providing the opinion should make specific references as to whether the good and sufficient analysis, with respect to annuities and other products with benefits (guaranteed or non-guaranteed) sensitive to interest rates, considered future insurance and investment cash flows as they would emerge under a reasonable range of future interest rate scenarios, and, if so, what those considerations were.
9. In the Actuarial Report, the actuary providing the opinion should make specific reference as to whether the good and sufficient analysis considered the interrelationships of assumptions with respect to guaranteed benefit payments, future expenses, policyowner dividends, and post-issue premium or benefit adjustments—especially among persistency, mortality, morbidity, inflation, and interest rates and, if so, what those considerations were.
10. In the Actuarial Report, the actuary providing the opinion should document the extent to which the opinion is influenced by a continuing business assumption and, if the impact is material, comment on the company's plan of operations with regard to this assumption as it affects assumed expenses and interest rates, and future reserve requirements.
11. A review of the documentation obtained in item 4 above, undertaken or sponsored by the regulator, should: (a) be done by a qualified reviewer, and (b) emphasize an examination of the appropriateness of the actuary's work process, methodology, and approach to assumptions.
12. If at any time during the review, the regulator requires more information deemed to be material to the development of the opinion, the company would be expected to comply with requests for such information.

## NAIC Report

by Stephen G. Kellison

The 1986 Spring Meeting of the National Association of Insurance Commissioners (NAIC) was held in San Francisco, California on March 9–12, 1986. The meeting was immediately followed on March 12–14 by the annual spring meeting of the Blanks (EX4) Task Force at which proposed changes in the various blanks for 1986 were considered. Although the agendas for the March and September NAIC meetings are less extensive than the major June and December meetings, there were a number of items considered during the week that are of professional interest to actuaries.

The Academy hosted its regular briefing session, which was well attended and continues to serve as a focal point for actuaries from all sectors to meet and discuss items of professional interest.

### Life and Health Actuarial Opinions

A major step forward in connection with life and health actuarial opinions was taken with the adoption of Actuarial Guideline 14 for the Examiners' Handbook. This guideline provides an interim surveillance procedure for insurance regulators, pending possible ultimate adoption of a valuation actuary system. In view of the importance of this guideline, it is reprinted in its entirety in the box to the left.

### Casualty Loss Reserve Opinions

A major proposal to make the current requirement for casualty loss reserve opinions more parallel to its life and health counterpart was on the agenda of the Blanks Task Force for consideration. In particular, this proposal would tighten the qualification provisions for non-members of the Academy from a standard of self-certification to a standard of insurance commissioner acceptance. Also, the proposal would be applicable in all states rather than at the option of the domiciliary commissioner. After considerable discussion, no final action was taken on the proposal, and it was laid over for further consideration at the June meeting.

### Health Insurance Reserve Standards

Last December the Academy distributed a Discussion Draft of Health Insurance  
(continued overleaf)

Reserve Standards for the NAIC (white booklet in *Update* mailing). These proposed reserve standards have sparked considerable interest and were the subject of discussion at the meeting. A total of forty-three comments have been received in response to the discussion draft, with several of them representing the view of multiple respondents. The Academy Health Subcommittee on Liaison with the NAIC, chaired by E. Paul Barnhart, is considering the extensive comments received and developing a revised set of reserve standards for further consideration.

### Dividend Disclosure

The proposed changes in Schedule M disclosure in the Life and Accident and Health Annual Statement Blank developed by the Academy Subcommittee on Dividends and Other Non-Guaranteed Elements were adopted by the Blanks Task Force for inclusion in the 1986 blank. The changes were developed to be consistent with the revised Dividend Recommendations and Interpretations adopted by the Academy Board of Directors at its meeting on October 8, 1985 (which appear in the *1986 Yearbook*).

### AIDS

A major panel discussion took place on the problems confronting the life and health insurance industry apropos of AIDS. Panelists from a wide variety of backgrounds presented different perspectives on the issues involved. The Academy Committee on Risk Classification is currently developing a paper on AIDS and risk classification.

### Liability Insurance

Another topic receiving major emphasis at the meeting was the liability insurance crisis and alternatives to address the crisis, including various proposals aimed at tort reform. The liability insurance crisis is rapidly becoming a major political issue at both the federal and state level. One item receiving considerable attention is Proposition 51, which will be on the California ballot in November. This initiative would make no changes in economic loss awards, but would put limits on non-economic loss awards (e.g. pain and suffering). It would also institute proportional liability instead of joint and several liability. The election results will be closely watched as a bellwether of public attitudes on this issue. Also, the NAIC Casualty Actuarial (EX5) Task Force has been asked by the NAIC to consider "costing out" various proposals at tort reform.

### Other Issues

● *Universal life*—The proposed changes in the Universal Life Model Regulation dealing with valuation and nonforfeiture have become quite controversial and were the subject of considerable discussion. The expected timetable for adoption has now been delayed from June until December.

● *Modified guaranteed life insurance*—The proposed model regulation on modified guaranteed life insurance appears to be on track for adoption in June. It is similar to the model regulation on modified guaranteed annuities and contains a provision for a statement of actuarial opinion from a "valuation actuary," which is the first time that phrase has been used in an NAIC model.

● *Life insurance cost disclosure*—The development of a model regulation on a yield index was authorized at the December meeting. A progress report indicated that little has transpired since then.

● *Reinsurance accounting*—There appears to be considerable interest in having the Academy develop standards for reinsurance reserves, although such a request has not yet been forthcoming. The Academy Committee on Life Insurance Financial Reporting will be considering this issue.

● *Non-smoker discounts*—The NAIC is putting pressure on the Life and Health Actuarial (EX5) Task Force to greatly accelerate the three-year timetable for resolving non-smoker discounts in health insurance.

*The next NAIC report will be a special, expanded edition.*

*Stephen G. Kellison is executive director of the Academy.*

## Checklist of Academy Statements March 1986

Copies are available from the Washington office.

TO: Senate Committee on Finance, March 11, 1986. RE: Pension legislation. BACKGROUND: Statement on retirement income issues in House-passed tax bill, H.R. 3838.

TO: Internal Revenue Service, March 31, 1986. RE: IRS Notice 86-3. BACKGROUND: Request for reconsideration of compliance schedule for plan amendments. Δ

## Call for Arbitrators

*Are you interested in new challenges?*

*Are you willing to offer your time and effort to those in need of conflict resolution?*

*Do you want to play a role in stemming the rising tide of litigation in the United States?*

If you answered "yes" to one or more of these questions, take a few moments to consider your future as a part-time arbitrator.

In every profession, some stand out for their knowledge, integrity, and sense of service to the public. Lawyers, accountants, doctors, as well as other professionals donate their time and effort to serve as arbitrators. To date, relatively few actuaries have become involved in this important role. An opportunity has now arisen that will permit actuaries to join the ranks of arbitrators under the auspices of the American Arbitration Association.

The arbitration association has requested that the Academy refer members to them who are in good standing and who express an interest in taking up the role of arbitrator. The American Arbitration Association will screen applicants submitted by the Academy and offer appropriate training and preparation to enable would-be arbitrators to undertake this important role.

Application blanks and additional information are available from the Academy's Washington office. Applicants do not need any prior experience as an arbitrator or with arbitration proceedings. For further information, contact Academy General Counsel Gary D. Simms.