

# The Actuarial Update

VOLUME 19 NUMBER 10

AMERICAN ACADEMY OF ACTUARIES

OCTOBER 1990

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## Enclosures

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

- Government Relations Watch
- In Search Of . . .
- ASB Boxscore
- Issues Digest
- Actuarial Standard No. 16
- Exposure Draft: Performing Cash Flow Testing for Insurers
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## Cash Flow Testing: A Proposed Standard for Casualty & Life Actuaries

by Douglas J. Collins

Actuaries of all kinds use cash flow testing, also known as cash flow analysis, in their work. Actuarial appraisals, reserving, pricing or funding studies, evaluations of investment strategy, and forecasts of financial results can all include the projection and comparison of cash flows related to an insurer's assets and obligations.

The Actuarial Standards Board (ASB) has approved the exposure of a proposed standard, *Performing Cash Flow Testing for Insurers*, which was developed by the Joint Casualty/Life Cash Flow Testing Task Force. A copy of the exposure draft is included in this *Update* mailing. You are encouraged to review this exposure draft and submit your comments to the ASB.

Development of actuarial standards of practice in the cash flow testing area was originally undertaken separately for the life and health and the property and casualty specialties. In October 1988, the ASB adopted Actuarial Standard of Practice No. 7, *Concerning Cash Flow Testing for Life and Health Insurance Companies*. In April 1990, the ASB was presented with a proposed standard titled *Cash Flow Testing for Property and Casualty Insurers*. The ASB decided that the proposed standard for property/casualty insurers should be revised so as to apply broadly to life and health insurers as well. The Joint Casualty/Life Cash Flow Testing Task Force was appointed by the ASB

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## Accelerated Benefits: Forthcoming Guidance

by Donna R. Claire

A new insurance benefit that has generated a lot of interest recently is the so-called accelerated benefit. This benefit provides "accelerated" life insurance benefits before death, typically in cases of a policyholder's terminal illness. Some of the newer life insurance policies are including accelerated benefits automatically; other life products offer the benefits as an option or rider. Both individual and group insurance policies may include accelerated benefits. As accelerated benefits become more common, regulators, legislators, and actuaries are preparing the necessary guidance.

### Events That Could Trigger Benefits

Although each life policy will differ, here are some typical events that could be covered under a life policy's accelerated benefit.

Mary Jones has just been diagnosed with an inoperable brain tumor, and her doctor has told her she has six months to live. Although she has noticed a slight problem with her vision, she feels O.K. She and her husband want to enjoy their remaining months together and take a long-dreamed-of vacation to the Caribbean. Certain types of accelerated benefits will allow them to do just that.

Paul Smith has Alzheimer's disease and has just been committed to a nursing home where he is expected to remain for the rest of his life. Rather than use all the family's assets to pay for the nursing home, Paul's family decides to accelerate the benefits of his life insurance policy to defray the nursing-home and medical costs.

Cindy Doe needs a heart transplant. Her medical insurance will pick up 80% of the cost, but that still leaves a sub-

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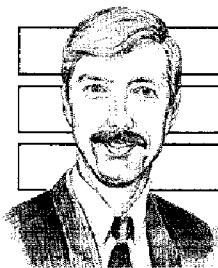
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**From  
a Guest  
President**

**Robert L. Brown**

### A Distinct Society's Coming of Age

June was an eventful month in Canada. The entire nation was taken on a political roller coaster involving the authority to amend our constitution through the Meech Lake Accord. The latest attempt to make the Province of Quebec a fully participating partner in this process of legislative evolution eventually failed on June 23.

It seems that if one thing remained as a result of the prolonged Meech Lake debate it was a nagging belief that the majority of non-Québécois Canadians did not really understand in their hearts what it was that the people of Quebec wanted, or why they wanted it. The desire of Quebecers to be recognized as a 'distinct society' came not from a desire to be superior or to gain an advantage, but rather it came from a recognition that there does indeed exist in Quebec a unique culture with 400 years of history; and this recognition was mixed with a recently gained confidence that Quebec can and will survive according to its own philosophy and model, not one imposed from outside.

Other Canadians might suggest that the Québécois' desire to be recognized as a 'distinct society' is only a franco-phone echo of a traditional Canadian lament of not being able to convince others that we are a distinct society within a broader North American culture. Canadians are often seen as little more than quiet Americans—people who don't get emotional, except over whizzing hockey pucks. Even actuaries in Canada must often persist in their efforts to be seen as members of a unique and distinct professional body by actuaries in the States.

It is perhaps ironic, then, that this June the Canadian Institute of Actuaries celebrated its twenty-fifth anniversary—its "coming of age"—in the beautiful city of Quebec, just across the street from the provincial legislature

where the 'distinct society' phrase was voiced so heatedly.

While the Canadian Institute of Actuaries, as a legal entity, is only twenty-five years old, it is built on a foundation that spans the actuarial profession's one hundred years of growth and tradition in North America. Jack Moorhead's *Our Yesterdays* documents that the Canadian actuaries were always a notable group within the North American actuarial profession.

The Canadian actuarial profession has grown to a size and stature not even foreseen at the Canadian Institute of Actuaries' (CIA) inception in 1965. (There are now 1,600 Fellows in the CIA.) Throughout its history, members of the Canadian Institute have cherished their place in the broader North American profession. However, they have still progressed in directions very independent of the various models adopted by our extended family in the United States.

The CIA does not have a direct parallel in the United States, and this can sometimes lead to some confusion about the role of the CIA. First, the CIA is the only actuarial body in Canada. Because of that, it has the responsibility for educating its members (a responsibility it happily shares with the Casualty Actuarial Society and the Society of Actuaries). It also has the responsibility for deciding who is eligible for CIA membership and who may need discipline or counseling. In addition, the CIA has the unique responsibility of speaking on behalf of all actuaries in Canada as well as presenting official actuarial opinion on matters of public policy (a responsibility more and more seen to lie with the American Academy of Actuaries within the United States).

The CIA has a history of being accepted in Canada as *the* body that is responsible for all actuarial matters. In most legislation, actuarial matters are referenced, "to be defined by the Canadian Institute of Actuaries." For example, statutory reserves are required to be "adequate and appropriate;" the details are left to the profession to determine.

With this responsibility comes a duty to enunciate appropriate standards of practice defining the intent of the actuarial matters implied by the legislation. This has allowed the members of the Canadian Institute a great deal of freedom, but has equally burdened the Institute with the duty of assuring the

*(continued on page 9)*

## Letters to the Editor

### HIV Standard Revisited

On page six of the June *Actuarial Update*, Harold G. Ingraham, Jr. reports on the proposed HIV standard on behalf of the Actuarial Standards Board (ASB). He says that the ASB disagrees with those commentators on the proposed HIV standard who believe that such a standard is not needed.

I am one of those who believe that the standard is not needed, and I am disturbed by the suggestion in *The Update* article that the ASB "believes that existing standards of practice for life insurance company financial reporting do not provide enough guidance in the general area of reserve testing to help the actuary address the HIV issue adequately." If this assertion is correct, I believe the ASB's time should be spent in correcting the deficiencies in the general area of reserve testing advice, rather than in promoting a single disease to an unwarranted level of actuarial recognition. In fact, I find little in the proposed HIV standard that is not applicable to all reserve testing situations.

While the ASB has developed a procedures manual, to the best of my knowledge it has yet to develop the criteria by which an issue is to be judged worthy of an actuarial standard of practice. This would be a timely project for the ASB.

William Schreiner  
Washington, D.C.

*ASB Chairperson Walter N Miller responds: Mr. Schreiner states that "the ASB's time should be spent in correcting the deficiencies in the general area of reserve testing advice, rather than in promoting a single disease to an unwarranted level of actuarial recognition." It is the ASB's position that the HIV epidemic is not analogous to any single disease, such as cancer or cardiovascular disease. Nor is the HIV epidemic comparable to the influenza epidemic of 1918-19, which claimed a significant number of lives but which lasted only nine months. A principal feature of the HIV epidemic is the delayed appearance of symptoms. At the present time, it has not been possible to define the HIV epidemic in either magnitude or duration.*

*As noted in the HIV standard approved by the ASB for re-exposure, provision for excess mortality attributable to the 1918-19 influenza epidemic was made at the time by insurance companies through a combination of dividend reductions and capital and surplus funds. These measures have been accepted as appropriate treatment for an epidemic of sudden impact and relatively short duration. In the case of the HIV epidemic, the ASB believes that reserves should be increased directly to cover any estimated excess claims costs, rather than alternatively making an appropriation of surplus. The ASB's position also reflects the need for the actuary to optne on the adequacy of reserves.*

### In Effect, All Are Bound

Benjamin E. Feller asks which actuaries are subject to the standards of practice developed by the Actuarial Standards Board. (See July *Actuarial Update*, p. 3.) I think Walter N. Miller's

response, dealing only with discipline within the profession, does not go far enough.

As a practical matter, if a client, employer, or the public is dissatisfied with the work of any actuary (defined as broadly as possible), or if any judge, jury, or regulator has the work of an actuary brought before them, they will look for standards of practice wherever they may be found. These individuals will not be interested in the fine distinctions in membership among our several actuarial organizations (the Society of Actuaries versus the Academy, for example) but will judge an actuary's work by the only standards at hand; namely, those of the Actuarial Standards Board (ASB).

For this reason, I think it is dangerous for any actuary to ignore the standards of the ASB, simply because he or she is not a member of the Academy. And it is naive to remain outside the Academy either as a protest to the work of the ASB or as an attempt to avoid being subject to the Academy's standards.

Kenneth A. Bonvillet  
Columbus, Ohio



"Larry, you have everything it takes to go far in this company, but a word of advice: lose the laugh."

## CASH FLOW TESTING

(continued from page 1)

to accomplish this revision. The result is the enclosed exposure draft.

### Why This Standard Is Necessary

Cash flow testing has become an increasingly important aspect of actuarial work. Fluctuations in insurers' operating results during the '70s and '80s led some state regulators to focus attention on improving the measurement of insurers' financial security. Several states now require the comparison of asset and liability cash flows related to items contained in statutory financial statements. The proposed standard, *Performing Cash Flow Testing for Insurers*, is intended to provide guidance to actuaries practicing in this area, as well as in the other areas where cash flow testing is performed.

### Scope of Proposed Standard

The standard describes considerations that should be reflected in a cash flow test, as well as limitations that should be disclosed and specific areas that should be covered when communicating the cash-flow-test results.

The use of the term *insurer* in the exposure draft is not intended to limit the proposed standard's scope to insurance companies alone. Cash flow testing for other entities that cover losses or provide benefits, such as self-insurers, HMOs, and preferred provider organizations (PPOs), would also be subject to the proposed standard.

One aspect of the exposure draft that generated significant debate during its development was the use of the term *obligation* rather than the more common word, *liability*, in reference to outgoing (or reductions of incoming) cash flows. Despite its less common usage, *obligation* was selected as a term that has broader meaning relative to intangible and non-balance-sheet items.

A key element of cash flow testing is the scenario or set of economic and operating assumptions over which the projections are performed. The proposed standard does not require that the actuary use multiple scenarios; it states that the determination of the appropriate number of scenarios should reflect consideration of the various risks that affect the cash flows.

In the case of a cash flow test involving only a portion of the insurers' assets or obligations, the proposed standard

states that the actuary should disclose whether the adequacy of remaining assets to support remaining obligations has been examined. The scope of the cash flow test being performed may not include such an examination. The proposed standard does not address the ethical issues that would be involved were the actuary to select assets for the test in such a way as to cause obvious cash flow problems in the remaining balance sheet items.

The standard also states that the actuary should disclose the source or basis for any material assumption on which the actuary expresses no opinion as to appropriateness. If an as-

sumption produces a result that conflicts materially with the actuary's professional judgment, Interpretative Opinion as to Professional Conduct 3(c)(1) guides the actuary to advise the client or employer of the conflict and to include appropriate qualifications or disclosures in any related actuarial communication.

We encourage all actuaries to contribute to the development of standards of practice by commenting on the enclosed exposure draft.

*Collins is chair of the joint task force and a member of the Casualty Committee of the ASB.*

## Media Tour Sweeps Canada

The demographic trend of an aging population in North America will increasingly involve the actuarial profession in the coming decades. Actuaries will be called upon to offer their expertise in areas such as long-term care, financial planning for retirement, and the implications of a more mature labor force. Because actuaries already play a key role in these areas, the topic, "graying of the population," was chosen as one of five challenges being addressed during this year's *Forecast 2000* campaign.

The graying of the population was the focus of a media tour targeting the cities of Montreal and Toronto in early August. Canada was chosen as a target location because its population is aging more rapidly than other countries, having had a pronounced "baby boom" followed by a "baby bust," or steep decline in the birthrate.

Jacques Cloutier, former president of the Canadian Institute of Actuaries, was the French-speaking spokesperson on the tour, and Robert Brown, current president of the Canadian Institute of Actuaries, served as the English-speaking spokesperson.

"Perks at Work: Aging Society Means Changes in the Way Benefits Are Provided," was the headline in the *Montreal Gazette* (August 1, 1990) following the newspaper's interview with Brown. The article focused on a need for flexible benefit plans as society ages; it concluded with statements about the changing nature of the actuarial profession and actuaries' increasing involvement in policy making.

Brown was also interviewed on CJAD Radio's "Melanie King Show," which aired in Montreal. In addition to touch-

ing on the topic of the graying population, Brown explained to listeners how actuaries calculate risks in their roles as professionals in the insurance and employee benefits industries.

Montreal's two French-language dailies conducted in-depth interviews with Jacques Cloutier resulting in a large article in *La Presse* on August 1. The reporter highlighted how the elderly are replacing the young in the labor force. Later that month, *Le Journal de Montréal* published a feature article that focused on the actuarial profession and the *Forecast 2000* program.

Results in Toronto were equally successful with a number of news outlets planning lengthy features and/or series incorporating actuarial viewpoints. An interview between Brown and a labor reporter at the *Toronto Globe and Mail* led to a feature story on pension and retirement issues that was picked up by the Canadian Press wire service and fed to newspapers across Canada on August 2.

The *Financial Post* also met with Brown to discuss the actuaries' perspective on the workforce of the '90s. A five-part series on this issue will be published this fall. The reporter plans to use much of the *Forecast 2000* material throughout the series.

Other interviews in Toronto included one with a labor reporter at the *Toronto Star* who plans a feature on the aging of the population. And, the final interview of the tour was a studio-taped program on CKFM Radio, which aired the evening of August 1.

The graying of the population was the third of five issues that the profession is focusing on during the 1990 *Forecast 2000* program. The next media tour will focus on the high cost of automobile insurance and will take place in California during the last week of October. Δ

## ACCELERATED BENEFITS: FORTHCOMING GUIDANCE

(continued from page 1)

stantial cost that must be borne by her family. Some forms of accelerated benefits will pay the "death benefit" early in order to provide extraordinary medical intervention, without which the insured would die.

### Types of Products Available

There are three major categories of policy designs for accelerated benefits that have emerged in the United States so far. The first policy type involves the nondiscounted acceleration of benefits. Such a policy would provide for a defined event triggering a one-time acceleration of some or all of the death benefit that has a nondiscounted matching reduction in the amount payable on death. These contracts or riders typically charge an extra premium for the accelerated benefit.

A second kind of policy design involves the actuarially discounted acceleration of benefits. Such a product would offer an appropriate actuarial adjustment in the amount paid as a living benefit to the policyholder in order to represent the amount forgone by the insurer in paying out the death benefit early.

A third product type is called the "policy lien" or "interest accrual approach," whereby the insurer accrues

an interest charge on the accelerated benefit to account for lost investment income from the date the benefit was accelerated to the date of death.

### Regulation of Accelerated Benefits

Currently, more than forty states allow for some kind of accelerated benefit. An Accelerated Benefits Working Group and Advisory Committee, chaired by Harold C. Yancey, insurance commissioner of Utah, is developing an accelerated benefits guideline for the National Association of Insurance Commissioners (NAIC). The working group is made up of regulators and industry representatives, and they are aiming to have a guideline available for state adoption at the December meeting of the NAIC.

This guideline will cover the types of products allowable, criteria for payment, disclosure requirements, and general actuarial and reserve requirements, among other items.

### Actuarial Guidelines To Supplement

In conjunction with Commissioner Yancey's group, the Academy Committee on Life Insurance had been asked to form a task force to develop *actuarial* guidelines for the accelerated benefit product. These guidelines will be reviewed by the NAIC Life and Health

Actuarial (Technical) Task Force and Commissioner Yancey's group.

The proposed actuarial regulations will discuss reserving methodologies and delineate items that should be considered by actuaries in developing the product and in submitting actuarial memoranda to the states. Since these benefits are evolving, there are a number of items left to actuarial judgment (e.g., the mortality discount that should be applied for certain terminal illnesses). It is expected that the actuarial guidelines will cover areas that are not spelled out in any detail in the NAIC working group's guidelines.

### Taxation of Benefits Considered by Legislators

Even after the NAIC guidelines are adopted, there will still be some open-ended issues regarding accelerated benefits. One of the issues is the federal taxation of these benefits. Advocates of these benefits think that accelerated benefits should be taxed like any other life insurance benefit. Senator Bill Bradley (D-NJ), Representative Barbara Kennelly (D-CT), and others have introduced bills to ensure that accelerated benefits get favorable tax treatment. However, taxation of these benefits is still an open issue.

Another open issue regards Medicaid. Insurers offering these benefits do not believe that Medicaid eligibility should be affected by the presence of accelerated benefits. A regional office of the Health Care Financing Administration (HCFA) has issued a letter supporting this position; however, a final decision from HCFA is still pending.

### In Summary

Accelerated benefits provide a policyholder or certificate holder with an additional benefit under a life insurance policy. State insurance regulators and some congressional leaders seem generally in favor of helping the industry to provide this benefit. As a result, accelerated benefits are expected to become more available.

*Claire is assistant vice president and actuary for The Equitable. She is a member of the Life Committee and is chairing the Academy's actuarial task force on accelerated benefits.*

### New Subcommittee To Handle Qualifications Review for Loss-Reserve Opinions

The Academy has approved the formation of a new subcommittee of the Qualifications Committee, charged with the initial handling of requests for review of qualifications by members of the Academy who wish to sign casualty loss reserve opinions. The subcommittee, chaired by Charles L. McClenahan, also includes among its members Walter J. Fitzgibbon, Jr., Patrick J. Grannan, Joseph W. Levin, and David S. Powell.

This subcommittee will review the "Request for Review of Qualifications for Signing the NAIC Fire and Casualty Annual Statement Loss Reserve Opinion," which Past President Joe Brownlee invited interested members to submit in his August letter to members. The procedures are aimed at those members of the Academy who are *not* members of the Casualty Actuarial Society, but who are nevertheless qualified to sign loss reserve opinions. The process helps fulfill new NAIC requirements for actuarial opinion qualifications.

The subcommittee will provide its recommendations to the Casualty Practice Council, chaired by Mike Walters. The Council will make final determinations on qualifications. Individuals seeking additional information should contact Gary Simms at the Academy's Washington office.

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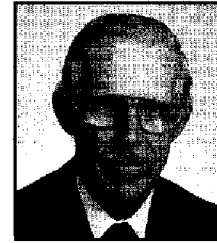
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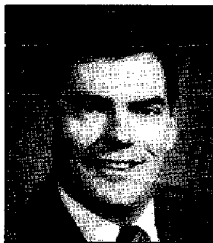
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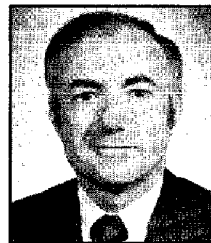
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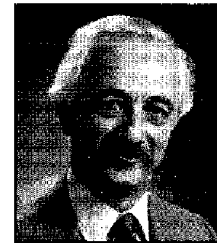
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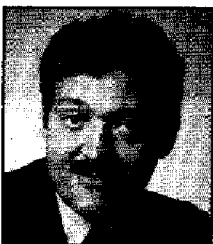
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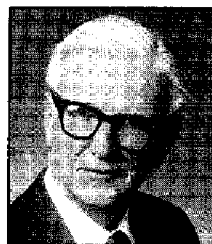
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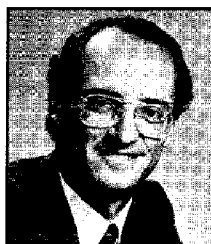
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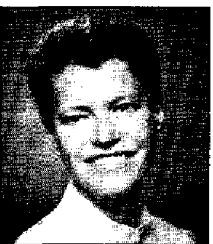
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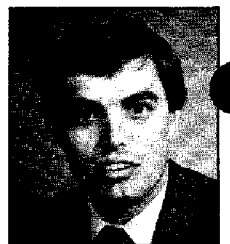
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## Committee Roster

The 1990—91 Academy committees and their respective chairpersons are set forth below. The complete roster of members serving on each of these committees will be published in the 1991 Yearbook.

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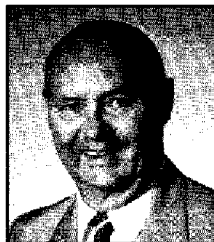
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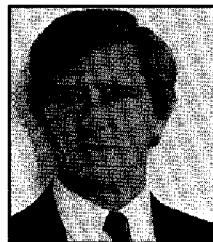
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Issues for State and Federal  
Guaranty Funds**  
John C. Angle

## **Academy Speaks Out**

### **Pension Committee Continues to Support "Keep-It-Simple" Tax Policy**

The Pension Committee continues to pursue a goal close to the hearts of most pension actuaries: making the tax code simpler and the regulations more workable. The committee submitted comments to the House Ways and Means Committee on the impact, effectiveness, and fairness of the Tax Reform Act of 1986 earlier this year.

The Pension Committee's statement hit hard on certain points: "The distribution rules enacted in 1986 need to be simplified and made more consistent." "The current contribution limits are appropriate and are achieving their intended purpose, although some adjustment in their technical operation is desirable." "Employers and practitioners are not given sufficient time to adjust when Congress enacts changes to the tax code that require significant new regulations." The committee also suggested that Congress consider options for discouraging preretirement distributions from defined contribution plans.

Following the hearing, Academy staff represented the Pension Committee in meetings with staff from Senator David Pryor's and Representative Rod Chandler's offices. As a result of these meetings and extensive input from the employee benefits community, Pryor and Chandler introduced a tax simplification bill in July. The Pension Committee prepared a statement supporting the bill for hearings of the Senate Finance Subcommittee on Private Retirement Plans and Oversight of the Internal Revenue Service (IRS), which Pryor chairs.

At the hearings, a Treasury Department representative stated flatly that the administration opposed the tax simplification bill, mostly because it would cost money. However, by the time Congress recessed in August, eleven members (a majority) of the Senate Finance Committee were cosponsors of the bill, including Senate Finance Committee Chairman Lloyd Bentsen. The Pension Committee is now working to help recruit members of

the Ways and Means Committee as cosponsors for Representative Chandler's House version of the tax simplification bill.

In line with the overall goal—making tax regulations simpler—Pension Committee Chairperson John B. Thompson, along with representatives from the Conference of Actuaries in Public Practice, the American Society of Pension Actuaries, and the Society of Actuaries, met with IRS staff to discuss the proposed nondiscrimination rules. The discussions took place at the regular midyear meeting between these actuarial groups and IRS staff. The discussions focused on a list of over sixty questions that actuaries had raised regarding the new rules and gave examples of situations in which the rules might not work. The IRS was open to suggestions and, in several instances, asked for proposed solutions to be submitted in writing. The Pension Committee has submitted its initial comments to the IRS on the proposed nondiscrimination regs and will testify at the IRS hearings September 26-28.

### **State Insurance Issues: Murphy Meets with Deputy Commissioner Solitro**

James J. Murphy met with Robert Solitro, deputy insurance commissioner for the state of New Hampshire on July 31. Solitro chairs the National Association of Insurance Commissioners (NAIC) Blanks Task Force. The Blanks Task Force is beginning to exercise a key role with respect to NAIC's strategy for safeguarding insurer solvency. This past June, the NAIC adopted a requirement for an *actuarial* opinion for loss reserves, applicable to all states and effective with filings for the 1990 fiscal year. Insurance-company insolvencies, widely publicized by the congressional report, "Failed Promises," were a major impetus for the NAIC's move.

To implement this change in the instructions to the Fire and Casualty Blank, the Blanks Task Force established a threefold definition of a "qualified" actuary. (See *July Update*.) The new NAIC requirement that loss reserve opinions be signed by a "qualified actuary" is a major achievement that the Academy has sought for many years. The Academy now is seeking to enhance this achievement and amend the NAIC's definition of "qualified actu-



ary" for the fire and casualty blank to parallel the requirement for the life and health blank, so that a "qualified actuary" would be a member of the Academy or one who has otherwise demonstrated actuarial competence to the domiciliary state's insurance commissioner. As a member of the Academy, the "qualified actuary" would be subject to the Academy's qualifications and standards, including experience and continuing education requirements, the Academy's discipline process, and the Actuarial Standards Board's standards of practice.

Murphy and Solitro also discussed the issue of life and health company solvency, touching on the Blanks Task Forces' role in developing instructions for the model Standard Valuation Law. Murphy proposed that the instructions require an opinion by a valuation actuary, in accord with proposed revisions to the Standard Valuation Law. Murphy commented and Solitro agreed that it would be helpful to educate the Blanks Task Force on the valuation actuary concept in the year ahead.

## Executive Council To Aid Academy Administration

In order to streamline the ongoing administration of Academy affairs, James J. Murphy now meets quarterly with a group called the Executive Council. Academy past president, president, and president-elect comprise the council, which reviews with Murphy a variety of matters having to do with staff, committees, and task forces.

The group will do a lot of the work that has traditionally been the sole responsibility of the president. Yet, this new arrangement will add continuity to the administrative work of the Academy. Considering the amount of Academy activity, it is desirable that the president-elect be made aware of all the Academy programs before assuming the presidency, and that the past president's knowledge and experience be properly utilized.

## Health Committee Makes Inroads on Hill

One of the objectives set by the Academy's leadership last year was to get actuaries into the loop as active contributors to Congress's ongoing deliberations on health policy. This seems to be happening—and in the way that the profession wants it to happen—with actuaries serving as expert witnesses and the Academy Health Committee being called on for substantive information.

This past spring the Health Committee was asked to prepare a written statement for the House Ways and Means Subcommittee on Health, and to provide expert witness testimony for the subcommittee's hearing April 3. The subject of the hearing: Health Insurance in the Small-Group Market. The Academy committee's assignment was to provide the subcommittee and its staff with answers to such basic questions as, What are the risks that insurers face in providing group health insurance? and in providing it to small groups, in particular? How can insurers protect themselves against biased selection by small-group employers? What role do preexisting-condition exclusion clauses play? What renewal guarantees do insurers give to small-group employers? Gordon Trapnell represented the committee at the hearing as one of only two lead witnesses.

Before the hearing, Academy staff briefed subcommittee staff to prepare them to hear testimony in this new area. Much of the briefing was devoted to the principles of risk classification. Academy staff relied considerably on the material in the half-hour slide presentation on risk classification prepared last fall by the Academy Committee on Risk Classification. (The slide show had first been presented to commissioners and insurance department staff at the December 1989 meeting of the National Association of Insurance Commissioners.)

The House Ways and Means Subcommittee on Health must have been pleased with our Health Committee's contribution, because our testimony before the Ways and Means Committee was specifically noted by the Energy and Commerce Subcommittee on Commerce, Consumer Protection, and Competitiveness when it asked the Academy Health Committee to testify at a September 19 hearing titled, "Access

to Health Insurance: Who Is 'Medically Insurable?'" The assignment this time is a little broader: It deals with individual as well as group insurance. Comments are requested on a specific bill, H.R. 2649, which would direct the Secretary of Health and Human Services to promulgate national standards for providing health insurance to individuals with preexisting conditions.

Harry Sutton is preparing to represent the Health committee as an expert witness.

The specifics of the testimony are not yet known. However, there appears to be considerable agreement within the Health Committee that providing access to affordable health insurance at the low end of the market—for individuals and small groups—is one of the tougher problems. In a voluntary system, it's not clear that private insurers can make insurance affordable to everyone. It's also unclear how to structure social subsidies without causing a plethora of other problems, such as skyrocketing costs. For the moment it may be best to let the states continue to experiment before considering any national program.

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**FROM A  
GUEST PRESIDENT**  
(continued from page 2)

continued professionalism of all its members at all times. The CIA must ensure that its members follow its standards of practice diligently.

It comes as no surprise, then, to find that the CIA's agenda for its twenty-sixth year is filled with matters related to our evolving responsibility to our broad publics within Canada. And, as our long and proud history would predict, the CIA will deal with these matters with uniquely Canadian solutions.

Truly, the Canadian Institute of Actuaries has earned the right to say that it has *come of age*, and it looks forward to *the coming age* with confidence and high expectation.

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*Brown is president of the Canadian Institute of Actuaries. He represented the profession in North America at a recent Forecast 2000 media tour in Toronto and Montreal. (See story on page 10.)*

## Actuaries: Addressing Canada's Aging Society

by Robert L. Brown

The profession's choice of "graying of the population" as one of the major challenges facing North Americans in the twenty-first century proved to be an especially apt issue for Canada because our population is aging more rapidly than those of the other Western industrialized countries.

To share a few statistics, the proportion of elderly in Canada will grow more than 135% from 1985 to 2025, with most of that growth being experienced after the year 2010. A decline in birth-rates, coupled with an enhanced life expectancy, also means that there will be fewer young people in Canada to provide economic security to the larger number of elderly.

Naturally, this demographic situation has important implications for the future of the Canadian labor force and economy. Certainly, the increasing elderly population will place added demands on the health-care system. There will be, for example, a greater need for extensive nursing-home care, which may in turn provide new insurance-marketing opportunities.

### Heizman Heads New Task Force on Business Affairs

Robert Heizman was appointed chairperson of the new Task Force on Business Affairs. This task force is charged with developing a report for the guidance of Academy officers and staff, to help them to identify and address those issues that are related to actuaries' work but which are not strictly actuarial in nature. A recent example of the Academy addressing such an issue is the *amicus curiae* brief filed with the Supreme Court of Florida, contesting a proposed rule regarding the unlicensed practice of law by, among others, pension actuaries. The court's final ruling is pending.

### Women's Life Expectancy

Women in Canada will also require special attention—not only because they tend to be the ones who provide the majority of elder care and child care, but also because elderly women outnumber elderly men in most countries of the world. According to a 1987 U.S. Department of Commerce study, "not only do women have higher life expectancies at birth, but female death rates are lower than male death rates at all ages in virtually all countries. Consequently, as a population ages, the percentage of women in each age cohort steadily increases."

Female life expectancy in Canada exceeds male life expectancy at all ages. This exacerbates several policy dilemmas, including inflation protection for pensions to offset the decreasing purchasing power of a woman's income, and the likelihood that women are more apt to live alone or to be widowed, which then makes them dependent on government-sponsored support systems.

The burden placed on the Canadian government and private industry to care for the aging population, whether male or female, can be expected to intensify over the next few decades, and creative new approaches will be needed to address these demands on Canadian society. Employers, for example, may begin to look for alternatives, such as delayed retirement, to achieve required labor-force levels.

As workforce shortages appear in various areas, many actuaries believe that these work patterns will encourage an extended and flexible retirement age.

### Generational Equity

The issue of "generational equity" concerns the nation's long-term ability to provide for retirees without placing an unfair financial burden on the working population. Part of achieving generational equity is ensuring that the young are adequately preparing for retirement through accumulated wealth.

At present, the Canada/Quebec Pension Plan has a surplus of \$38 billion, but a significant rise in the number of retired beneficiaries over the next forty years will make the payment of future benefits more expensive for future contributors. Thus, a shift to more individual responsibility may be necessary.

The actuarial profession has an obvious role to play in the environment created by an aging population. By thinking about these trends in advance, we, as a profession, will be better prepared to address the challenges that will assuredly arise.

*Brown is president of the Canadian Institute of Actuaries and an associate professor of Statistics and Actuarial Science at the University of Waterloo.*