

ACTUARIAL

Committee on Qualifications

PROFESSIONALISM

Actuarial Standards Board

ANNUAL

Actuarial Board for Counseling and Discipline

REPORTS

1998

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Preface

To Members
of All Organizations
Representing Actuaries
in the United States

This is the third combined annual report of the Actuarial Board for Counseling and Discipline, the Actuarial Standards Board and the American Academy of Actuaries Committee on Qualifications. Its purpose is to acquaint the members of the five U.S.-based organizations representing actuaries (American Academy of Actuaries, American Society of Pension Actuaries, Casualty Actuarial Society, Conference of Consulting Actuaries and Society of Actuaries) with the activities of these groups and their importance to actuarial professionalism.

The U.S.-based organizations have agreed to maintain a common Code of Professional Conduct, including reference to appropriate qualification standards and standards of practice, and a common set of counseling and disciplinary practices designed to be uniform.

In the United States, the Actuarial Standards Board and the Actuarial Board for Counseling and Discipline have been established as independent organizations to serve the actuarial profession in the areas of standard-setting and investigation, counseling and discipline. They are responsible to the five U.S.-based organizations representing actuaries. Each of these boards receives administrative support from the staff of the American Academy of Actuaries, the cost of which is covered by American Academy of Actuaries dues plus additional support from the other U.S.-based organizations representing actuaries to cover the cost of their members who are not members of the American Academy of Actuaries.

The actuarial profession in the United States has delegated to the Academy, through the Academy Committee on Qualifications, responsibility for developing and maintaining standards of qualification to practice as an actuary.

The activities of the Actuarial Board for Counseling and Discipline, Actuarial Standards Board and Committee on Qualifications are coordinated through the Academy's Council on Professionalism, which is dedicated to encouraging the members of

all U.S.-based actuarial organizations to achieve and maintain a high level of professionalism in their ongoing practice.

There are also committees that address professionalism issues within each of the organizations representing actuaries in the United States. The work of these groups supports the Actuarial Board for Counseling and Discipline, Actuarial Standards Board and the Academy's Committee on Qualifications and strengthens actuarial professionalism for all actuaries.

Letter from the
American Academy
of Actuaries
Vice President
for Professionalism



Daniel J. McCarthy

It is my pleasure to provide to you the 1998 Annual Reports on actuarial professionalism. As the Preface indicates, the scope of the professionalism activities of the U.S. actuarial organizations is very broad. This is appropriate, because if we do not operate as professionals, we will not be recognized as professionals by our key audiences; absent that recognition, formal or informal, we would not be nearly as proud to be actuaries as we are — or, at least, should be — today.

I encourage you to take a few minutes to look through this report to inform yourselves as to the 1998 activities of the Actuarial Standards Board, the Actuarial Board for Counseling and Discipline and the Academy's Committee on Qualifications. Nineteen ninety-eight was a busy and productive year for all three groups, and the fruits of their work improve our ability to function as, and to be recognized as, professionals of high caliber.

Let me also call to your attention two other current matters related to professionalism. First, the Joint Committee on the Code of Professional Conduct worked in 1998 to complete its proposed revision of the Code, which has now been approved for exposure to each of you. Please give it your attention.

Second, the Academy's Committee on Professional Responsibility has sent you a survey soliciting your input on matters related to professionalism. Your responses will tell the applicable committees where to concentrate their efforts.

Finally, the professionalism of the actuarial community depends on each of us. We enhance that professionalism if we understand and comply with the applicable standards. We also enhance professionalism if we speak up when we see opportunities for improvement in the structure of our standards and processes. Most of all, we enhance professionalism if we do the work necessary to maintain it. The people who work on the various boards and committees deserve our thanks for their time, talent and hard work.

A handwritten signature in dark ink, appearing to read "Dan McCarthy". The signature is written in a cursive, flowing style.

Daniel J. McCarthy

*American Academy of Actuaries Vice President and
Chairperson of the Academy's Council on Professionalism*

Charge

The Committee on Qualifications of the American Academy of Actuaries drafts and recommends standards of basic education, experience and continuing education for actuaries practicing in the United States. Once approved by the Academy Board of Directors, these standards are codified as Qualification Standards for Prescribed Statements of Actuarial Opinion.

The scope of qualification standards is not limited to members of the Academy. Under Precept 3 of the actuarial profession's Code of Professional Conduct, all actuaries who are members of a U.S.-based organization representing actuaries — the Academy, American Society of Pension Actuaries, Casualty Actuarial Society, Conference of Consulting Actuaries or Society of Actuaries — must meet the qualification standards when practicing in the United States. Thus, the work of the Committee on Qualifications is important to members of the profession nationwide.

The Committee on Qualifications also is charged to provide members with confidential guidance on meeting the qualification standards. The committee receives dozens of inquiries each year from actuaries who have questions about the application of qualification standards to their own practice. Most inquiries concern continuing education requirements and typically are resolved informally through telephone conversations with the inquiring actuaries. However, in some instances the entire committee meets to discuss an inquiry and prepare a written reply.

The Committee on Qualifications is composed of nine members, at least two of whom are active practitioners in each of the profession's traditional practice areas — casualty, health, life and pension.

Committee on Qualifications

Letter from the 1999 Chairperson



Charles L. McClenahan

1998 Committee Members

Robert B. Likins,
Chairperson

Charles L. McClenahan,
Vice Chairperson

William J. Bugg Jr.

James L. Lewis Jr.

Daniel J. McCarthy

Terrence M. O'Brien

Adam J. Reese

Carl Shalit

Qualification standards are imposed by a profession upon itself in order to provide some level of assurance that members of that profession possess the education and experience necessary to practice. Precept 3 of the actuarial Code of Professional Conduct requires that an actuary perform professional services only when qualified to do so. While this requirement benefits those who rely upon actuarial recommendations and opinions, it also benefits the actuarial profession by helping to maintain and strengthen our well-earned reputation for competence.

In addition to the general guidance provided by the Code of Professional Conduct, actuaries who issue Prescribed Statements of Actuarial Opinion (PSAOs) are required to meet the educational, experience and continuing education requirements contained in the recently revised Qualification Standards for Prescribed Statements of Actuarial Opinion. This revision, which was adopted by the American Academy of Actuaries Board on October 1, 1998, resulted from over four years of work by the Committee on Qualifications under the leadership of my predecessor, Bob Likins.

The revised Qualification Standards were designed to clarify the requirements and increase the awareness among actuaries of their obligations. Based upon the increase in the level of inquiries to, and requests for guidance from, the Committee on Qualifications regarding the revised standards, I believe we have been successful. But there are actuaries who remain unaware of the standards. For the good of the profession I encourage you to spread the word whenever you have the opportunity, keep records of your continuing education and make certain that you are qualified whenever you perform actuarial work.

Charles L. McClenahan
1999 Chairperson, Committee on Qualifications

Committee on Qualifications Annual Report

The past year was a busy and productive one for the Committee on Qualifications. Most of the Committee's time in 1998 was devoted to completion of the newly revised *Qualification Standards for Prescribed Statements of Actuarial Opinion* (Qualification Standards). While the previous version of the Qualification Standards had been amended most recently by the American Academy of Actuaries Board of Directors on January 19, 1993, the committee continued to receive numerous questions about the standards from members, particularly with regard to continuing education. The volume of inquiries suggested to the Committee that some actuaries might not fully understand their obligations under the Qualification Standards, and that the Standards might not be sufficiently clear.

Therefore, the Committee on Qualifications developed a first exposure draft of revisions to the Qualification Standards, that was intended to clarify the Standards and make them easier to use. This first draft was approved for exposure by the Academy's Board of Directors in June 1996 and comments on the exposure draft were accepted through October of that year.

The committee devoted most of its time in 1997 to revising the first exposure draft to incorporate or otherwise address comments received from the membership. When that process was completed, the committee concluded that it had made sufficient substantive changes to the exposure draft to warrant a second exposure. The Academy Board of Directors voted to approve release of the second exposure draft in September 1997, and comments on the draft were accepted through February 1998.

The committee again spent most of its time in 1998 revising the second exposure draft to reflect or otherwise respond to members' comments. Every effort was made to produce final Qualification Standards that would be clear and easy for members to use. The final revised Qualification Standards were presented to and approved by the Academy Board of Directors in October 1998 and took effect January 1, 1999.

Most of the changes reflected in the revised Qualification Standards were editorial in nature and were intended to clarify rather than to modify the qualification require-



Committee
on Qualifications
member Adam Reese

ments that members must satisfy. However, the committee determined through the exposure process that some more substantive changes were also warranted:

- The term for actuarial statements of opinion covered by the Qualification Standards has been changed from “Public Statements of Actuarial Opinion” to “Prescribed Statements of Actuarial Opinion” (PSAO). The committee felt that this term more precisely describes the statements of actuarial opinion that are covered by the Qualification Standards. Additionally, an extensive list of actuarial work products was incorporated into the Qualification Standards to provide illustrative guidance as to what constitutes a PSAO.

- The revised Qualification Standards now include within the definition of a PSAO statements of actuarial opinion that are “issued for purposes of compliance with” (rather than “called for by”) law, regulation or actuarial standards of practice. The committee concluded that this definition, which is slightly more inclusive than that of the previous Qualification Standards, better defines members’ qualification obligations.

- The revised Qualification Standards now highlight the importance of Precept 3 of the Code of Professional Conduct, which requires all members to perform work only when they are qualified to do so and meet applicable qualification standards. The Committee felt that this requirement is sufficiently important to warrant particular emphasis in the Qualification Standards.

- In response to several comments, the committee developed clarifying guidance on how to apply the Qualification Standards in areas outside the four traditional areas of actuarial practice (casualty, health, life and pension). More specific guidance was also provided on how to apply the Qualification Standards to PSAOs involving more than one practice area, or when actuaries change practice areas or enter new areas of practice.

- The basic education, experience and continuing education requirements were all stated more clearly. The continuing education requirement, in particular, was more clearly linked to broad actuarial practice areas (casualty, health, life or pension), rather than to sub-areas within each area, to eliminate some members’ perception that more specialized continuing education is required.

- The application of the Qualification Standards to Enrolled Actuaries was clarified. It was made clear that Enrolled Actuaries who obtain the continuing education required for ERISA-related practice and have satisfied the continuing education requirements of the



Committee
on Qualifications
member James Lewis Jr.

Joint Board for the Enrollment of Actuaries will also satisfy the Qualification Standards. Some commentators also expressed concern that the second exposure draft called into question Enrolled Actuaries' qualifications to perform work other than the most traditional ERISA work. The committee emphasized its belief that most Enrolled Actuaries' basic education, experience and continuing education are likely to be sufficient to issue PSAOs in the pension area even if the task at issue does not involve an ERISA plan.

- The application of the Qualification Standards to public sector actuaries was also clarified. It has been clear to the committee for some time that actuaries working in government are not always aware that they have a professional obligation to comply with the Qualification Standards and that government employers are not always fully supportive of that obligation. The committee added to the Qualification Standards an appendix specifically addressing the obligations of public sector actuaries. That appendix includes an illustrative list (compiled with assistance from the National Association of Insurance Commissioners) of work assignments typically performed by public sector actuaries indicating which of those assignments are PSAOs.

- The revised Qualification Standards now make provision for advance recognition of "approved providers" of continuing education offerings and of specific continuing education activities. This is intended to give members added comfort that the continuing education activities in which they participate qualify as "organized activities" under the Qualification Standards. Additionally, the Qualification Standards now include forms that members can use to maintain records of their continuing education.

The committee is pleased to have finished the revised Qualification Standards and believes they will be considerably easier for members to understand and use. The committee particularly wishes to thank its former chairperson, Robert Likins, whose stewardship through 1998 was crucial to the successful completion of the amended Qualification Standards.

Drafting standards is not the committee's only responsibility. In 1998, the committee began to develop a process for advance recognition of approved providers and continuing education activities. The committee also responded to numerous confidential requests from members for guidance concerning compliance with the Qualification Standards. Additionally, committee representatives participated in continuing education



Committee on
Qualifications
member Carl Shalit



Committee on
Qualifications member
William J. Bugg Jr.

sessions and meetings with the National Association of Insurance Commissioners to emphasize the importance of qualification issues to all practitioners.

The Committee drew attention to the importance of the Qualification Standards through a series of articles published in the *Actuarial Update*.

The Year Ahead

The committee anticipates a busy year in 1999. Its first task will be to finalize and implement the application process for advance recognition of approved providers and continuing education activities. There have already been many expressions of interest from providers of continuing education and the committee expects to devote a significant portion of its time to reviewing and acting upon applications for advance recognition.

Another important issue for the committee in 1999 will be the consideration of how upcoming changes in basic education offered to actuaries will impact the Qualification Standards. The Society of Actuaries (SOA) has proposed a new examination syllabus to take effect January 1, 2000; the new syllabus will eliminate much of the U.S.-specific material that is currently included in the examination process. The committee is working with a liaison to the SOA to review the new syllabus and determine what actions will be required to ensure that actuaries who complete their education in the United States will be appropriately qualified to issue PSAOs. The committee will also consider the application of the Qualification Standards to actuaries educated outside the United States.

Another issue that arose in 1998 was the structure of the committee itself. Under the Code of Professional Conduct, members of all five of the U.S.-based organizations representing actuaries are required to meet the Qualification Standards. It is therefore important for the Committee to be responsive to all those organizations. The committee has compiled some thoughts on its structure and will work with the Academy's Council on Professionalism and Board of Directors to ensure that its structure permits appropriate involvement with all the U.S.-based organizations and with the Actuarial Standards Board.

The committee also expects to continue to respond to confidential requests for guidance from members concerning the Qualification Standards to their individual circumstances and will work with the Academy's Committee on Actuaries in Public Service to

assist public sector actuaries with compliance. Finally, the committee will continue its efforts to communicate the importance of the Qualification Standards to the membership through public speaking and publication of articles in the *Actuarial Update*. The committee looks forward to a productive year as it continues to encourage members to be sensitive to qualification issues as part of maintaining a high level of professionalism in their daily practice.

Members of the Committee on Qualifications

Standing left to right:
William J. Bugg Jr., Adam J. Reese,
Carl Shalit and James L. Lewis Jr.

Seated left to right:
Daniel J. McCarthy
and Robert B. Likins

Not pictured:
Charles L. McClenahan
and Terrence M. O'Brien



Charge The Actuarial Standards Board (ASB) was established in 1988 as an independent entity managed with staff support of the American Academy of Actuaries. Its purpose is to direct and manage the development of actuarial standards of practice, to expose and promulgate actuarial standards of practice in all areas of actuarial practice and to provide continuous review of existing standards of practice, determining whether there is need for amendment, alteration, expansion or elimination.

The ASB has the authority to prescribe its own operating procedures and to establish and appoint individuals to committees, subcommittees and task forces it may deem necessary in carrying out its assigned functions.

Actuarial Standards Board

Letter from the Chairperson



David G. Hartman

1998 Board Members

Daniel J. McCarthy,
Vice Chairperson

James R. Swenson,
Vice Chairperson

Phillip N. Ben-Zvi

Heidi R. Dexter

Frank S. Irish

Roland E. (Guy) King

William C. Koenig

Alan J. Stonewall

As anyone involved with financial reporting knows, an annual report is a yearly summary — much of it in numbers — that measures an organization's success. Of course, there's always a story behind the numbers, and, in this respect, the 1998 report of the Actuarial Standards Board (ASB) is no different.

The numbers? During the five meetings of the ASB this year, one actuarial standard of practice (ASOP) was adopted; nine proposed ASOPs were sent out for exposure, which produced over 150 comment letters through December (some of the exposure drafts have comment deadlines in 1999); and six proposals to revise current ASOPs were approved. But what's the story behind the numbers?

It's the volunteers who make it all happen. Beyond the discussions that take place at ASB meetings, it's the ASB committees, subcommittees and task forces that work to codify existing actuarial practice into written standards for the profession. Whether these volunteers meet in person or by phone or through electronic communication, the level of discussion and participation is, in the words of one committee member, "intense." It's why the work is challenging, but also why it's so rewarding. And when actuaries respond to the various proposed standards with comment letters, there's no question that they appreciate these efforts as much as does the Board.

The volunteers are able to accomplish as much as they do because of the great support they receive from the ASB staff — Mary Cadette, Anne Kotchek and Caren Clark. Hats off to them as well.

It's hard to imagine that the coming year might produce higher numbers than last, but one thing is certain: the story behind the numbers keeps getting better.

One final note — the year 1998 closed with a fond farewell to Daniel J. McCarthy, who had been a member since 1993. Ken W. Hartwell joined to fill Dan's slot, and began his term in January 1999.

David G. Hartman
Chairperson, Actuarial Standards Board

Actuarial Standards Board Annual Report

The Actuarial Standards Board adopted one standard this year: ASOP No. 32, *Social Insurance*. After working on the project off and on for 10 years and developing three exposure drafts, the Committee on Social Insurance of the American Academy of Actuaries was thrilled to see its text adopted by the Actuarial Standards Board. The standard applies to the actuarial analysis of social insurance programs, as defined in section 1.2 of the ASOP.

The other ASB projects completed during 1998 are listed below by Operating Committee or Task Force.

Casualty Committee

The Casualty Committee oversees two subcommittees and one task force, reviewing the work of these subgroups and making changes to texts as necessary before submitting proposed standards to the Board. During 1998, this committee finalized three exposure drafts, as noted below.

The Subcommittee on Reserving developed a first exposure draft (in January) and a second exposure draft (in December) of a revised version of Financial Reporting Recommendation 8, *Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves*. The subcommittee has worked hard in trying to develop effective guidance for actuaries who issue written statements of actuarial opinion.

The Subcommittee on Ratemaking began its work on a proposed standard on the treatment of catastrophe losses in property/casualty insurance and sent a draft to the ASB in October, but the text was sent back to the subcommittee for further work.

Finally, the Task Force on Complex Models developed an exposure draft that the Board approved in April, *The Use of Models With Nonactuarial Components*.

General Committee

The General Committee spent 1998 revising two Interpretative Opinions into ASOPs. The first is a proposed revision of Interpretative Opinion 4, *Actuarial Principles and Practices*.



ASB Vice Chairperson
James R. Swenson



ASB Vice Chairperson
Daniel J. McCarthy

The committee modified the title of this proposed ASOP to *Utilization of Generally Accepted Actuarial Principles and Practices*; it will apply to all actuarial work, including health, life and property/casualty insurance; employee benefits; and social insurance.

The committee also developed a proposed revision to Interpretative Opinion 3, *Professional Communications of Actuaries*. The title of this text was also modified in the proposed ASOP, to *Actuarial Communications*. These two proposed ASOPs were approved by the Board for exposure in July and October, respectively.

Health Committee

After a year in which two health-related standards were adopted (ASOP Nos. 28 and 31), the Health Committee focused its attention in 1998 to previously adopted ASOPs, namely, whether any of them were in need of revision. In April, the Board approved a proposal to revise ASOP No. 5, *Incurred Health Claim Liabilities*. The committee determined that the standard needs to be revised to clarify the treatment of a number of issues, including the exclusion of active life reserves, reinsurance, coordination of benefits, follow-up studies and “long-tail” products.

Life Committee

The Life Committee was also busy proposing revisions to existing ASOPs, in this case ASOP Nos. 1, 7 and 10 (the latter of which would be given a new title). Further, the committee also began work, through a task force under it, on the development of a standard on the allocation of policyholder consideration in mutual life insurance company demutualizations.

Finally, the committee also was responsible for drafting a proposed ASOP, *Actuarial Responsibilities With Respect to Closed Blocks in Mutual Life Insurance Company Reorganizations*, which was approved for exposure by the Board in April.

Pension Committee

Keeping up its usual busy pace, in 1998 the Pension Committee developed a second exposure draft, *Actuarial Practice Concerning Retirement Plan Benefits in Domestic Relations*



ASB member
Heidi R. Dexter



ASB member
Frank S. Irish

Actions, and a first exposure draft, *Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations*, which were approved by the Board in October and December, respectively. The latter text would be the second standard under the umbrella of ASOP No. 4, *Measuring Pension Obligations* (the first being ASOP No. 27). The committee also began work on another proposed ASOP, *Actuarial Value of Assets for Pension Valuation Purposes*.

Task Force on Long-term Care

In April, the ASB approved for exposure a proposed revision to ASOP No. 18, *Long-term Care Insurance*. The standard is being revised to address new developments in the field, including new financing mechanisms, expansion of covered services in LTC insurance policies, the emergence of additional experience information and changes in the regulatory environment.

Retiree Group Benefits Task Force

Initially charged with examining ASOP Nos. 6, 27, 31, and Actuarial Compliance Guideline (ACG) No. 3 for consistency with current actuarial practice in the area of post-retirement benefits other than pensions, this task force made a recommendation to the Board to revise ASOP No. 6 and ACG No. 3, possibly into one actuarial standard of practice, to eliminate inconsistencies and update these texts. That group, having completed its work, was disbanded with thanks, and a new task force is being formed to implement the recommendation.

Finally, after several years of work on projects such as the Glossary and the Applicability Guidelines, the Editorial Advisory Committee was officially disbanded. The committee's contributions in reviewing proposed standards and making recommendations concerning prescribed statements of actuarial opinion have been appreciated.



ASB member
William C. Koenig



ASB member Guy King



ASB member
Alan J. Stonewall

ASB Members

The nine-person Actuarial Standards Board broadly represents the various practice areas within the actuarial profession. ASB members are appointed to three-year terms by a selection committee comprising the presidents and presidents-elect of the American Academy of Actuaries, American Society of Pension Actuaries, Casualty Actuarial Society, Conference of Consulting Actuaries and Society of Actuaries.

The selection committee, which annually appoints the chairperson of the ASB, named David G. Hartman to serve a second year as chairperson for 1999. Mr. Hartman will also be starting his second term on the Board in 1999, as will James R. Swenson. The term of Daniel J. McCarthy expired at the end of 1998. Mr. McCarthy was replaced by Ken W. Hartwell.



ASB member
Phillip N. Ben-Zvi

Phillip N. Ben-Zvi	2000*
Heidi R. Dexter	2000
David G. Hartman, chairperson	2001*
Frank S. Irish	1999*
Roland E. (Guy) King	1999
William C. Koenig	2000
Daniel J. McCarthy, vice chairperson	1998*
Alan J. Stonewall	1999
James R. Swenson, vice chairperson	2001*

Terms expire on December 31 of the year indicated. An asterisk indicates a member who is serving a second term.

Members of the Actuarial Standards Board



Standing left to right: Phillip N. Ben-Zvi, Frank S. Irish,
Heidi R. Dexter, Roland E. (Guy) King, William C. Koenig
and Alan J. Stonewall

Seated left to right:
James R. Swenson, David G. Hartman and Daniel J. McCarthy

Financial Summary

Financial activities pertaining to the Actuarial Standards Board are accounted for separately within the American Academy of Actuaries system of accounts. The ASB submits a budget request to the Academy secretary/treasurer, listing all planned income sources and potential expenses. The Academy Board of Directors considers this request when adopting the Academy's annual budget and makes provision within the budget for ASB operating expenses.

The ASB has discretion with regard to the expenditure of all funds allocated to it, subject only to accounting and audit requirements mutually determined by the treasurer and the ASB.

Actuarial Standards Board Statement of Revenue and Expenses Year Ended December 31, 1998¹

Revenue	
Standards Handbooks	\$ 1,310
Service Fees ²	80,302
Total Revenue	81,612
Expenses	
Salaries ³	\$123,589
Benefits	22,246
Office Operating Costs	44,492
Printing	99,437
Postage	31,389
Staff Travel	13,490
Committee Meetings	25,298
Travel Reimbursement for ASB Members	39,289
Standards Handbooks	2,814
Miscellaneous	9,761
Total Expenses	\$411,805

¹ These figures represent the unaudited financial results as of December 31, 1998. Many members of the actuarial profession have contributed significant amounts of time to the activities of the Actuarial Standards Board without compensation. The financial statement does not reflect the value of these contributed services.

² In addition to funding from the Academy, operating costs for the ASB are supported in part by payments from the American Society of Pension Actuaries, Casualty Actuarial Society, Conference of Consulting Actuaries and Society of Actuaries.

³ Includes salaries of three full-time staff members and charges for actual time spent on the standards program by other Academy employees.

Mission The Actuarial Board for Counseling and Discipline was established in 1992 by the organizations representing actuaries in the United States. Its threefold mission is to: provide counsel and respond to requests for guidance from actuaries about issues they encounter in day-to-day practice; consider alleged violations of the actuarial profession's Code of Professional Conduct, offer remedial counseling, and, when necessary, recommend disciplinary measures to the member organizations; and serve as ombudsman in the resolution of disputes involving actuaries.

Actuarial Board for Counseling and Discipline

Letter from the Chairperson



Henry K. Knowlton

Joseph J. Leube,
Vice Chairperson

Jerome A. Scheibl,
Vice Chairperson

Daphne D. Bartlett

John M. Bertko

William J. Bugg Jr.

Ruth F. Frew

Kenneth W. Porter

Robert W. Sturgis

Most actuaries have no direct contact with the Actuarial Board for Counseling and Discipline (ABCD). Only a very small percentage of the membership of our sponsoring organizations have any contact with us, as the subject of complaints about their professional conduct, as complainants, as ABCD investigators or mediators, or as professionals requesting guidance in difficult ethical situations.

As a consequence, it is unlikely that the ABCD is in the forefront of the thoughts of most members of the profession. Yet the existence of a code of conduct and disciplinary process are hallmarks of a true profession. The ABCD and the disciplinary functions of the sponsoring organizations are very important to all actuaries and to the publics they serve. During the short life of the ABCD, which was established in 1992, we have attempted to communicate to actuaries what we do and how we do it, through articles in newsletters, discussions at actuarial clubs and sessions at professional meetings. But actuaries are busy people and don't always have time to read everything that crosses their desks, or to attend meetings that don't cover their special areas of interest. As a result, we suspect that there are some misunderstandings about what the ABCD is and concerns about how we function.

Our Annual Report this year reviews the background underlying the establishment of the ABCD and describes its procedures. We hope you will take the time to read it, so that any misunderstandings and concerns you may have are addressed. If you have questions, please refer to our new Web site at www.abcdboard.org or contact us directly. We urge you to utilize our services by contacting us whenever you are in need of guidance on ethical matters. We also ask that you contact us if you become aware of professional conduct on the part of another actuary that appears to be in violation of the Code of Professional Conduct.

My term as chairperson of the ABCD ended at the close of 1998, although I will continue as a member of the Board for one more year. It has been a privilege to serve the profession in this way, and I am grateful to all the Board members who have worked with me for their valuable assistance. My special thanks to the three members who left the Board

in 1998: Joe Leube and Jerry Scheibl were original Board members, and Daphne Bartlett began her tenure on the Board after its inception in its first year. I thank all three for their long period of service and contributions to the profession. Finally, I wish Ken Porter the very best as he assumes the duties of chairperson.

sig here

Henry K. Knowlton

Chairperson, Actuarial Board for Counseling and Discipline

Actuarial Board for Counseling and Discipline Annual Report



ABCD Vice Chairperson
Joseph J. Leube



ABCD Vice Chairperson
Jerome A. Scheibl

The year 1998 represented the end of an era for the Actuarial Board for Counseling and Discipline (ABCD). In December, the last three of the Board's original members completed their terms. The ABCD is now well established. It seems appropriate, therefore, to use this opportunity to remind members of the actuarial profession of what the ABCD is, why it was established, its activities, and the efforts that it undertakes to protect the rights of any actuary accused of professional misconduct.

What Is the ABCD?

The ABCD is an independent body, established by the five organizations representing actuaries in the United States (American Academy of Actuaries, American Society of Pension Actuaries, Casualty Actuarial Society, Conference of Consulting Actuaries and Society of Actuaries). Although the ABCD is administered with staff support of the American Academy of Actuaries, its authority is provided through the bylaws of the participating organizations, its funding is provided by members of those organizations, and it considers itself accountable to each of them and the profession as a whole. The ABCD handles matters related to practice in the United States by U.S. and Canadian actuaries and work outside the United States (excluding Canada) by members of the participating organizations.

The members of the ABCD, selected by the leadership of the five organizations, represent the major practice areas (life, casualty, health and pension). If additional expertise is needed for a particular case, other actuaries may act as consultants to the Board.

A primary function of the ABCD is providing guidance to members who are faced with ethical dilemmas. Another, equally important, function involves reviewing the circumstances in which professional misconduct is alleged against other actuaries. In such situations, the ABCD has the authority to consider and investigate the matter, and to:

- determine whether the matter should be dismissed
- serve as a mediator between the parties involved

- provide guidance to, or counseling for, an accused actuary
- recommend discipline to the appropriate membership organizations, which have the responsibility to determine whether such action should be taken.

In all such matters, confidentiality is preserved, and every effort is made to protect the due process rights of any actuary whose conduct is being questioned.

Why Was the ABCD Established?

Before the establishment of the ABCD, the discipline process was handled entirely by each of the organizations separately, without significant staff or legal support. As a result, because of confidentiality, a case involving an actuary who was a member of more than one organization might be investigated more than once, or only by a single organization. The result in some cases was significant duplication of effort, and, more important, inconsistency of any resulting discipline imposed. In addition, because of the limited number of cases involving any one organization, and turnover in the leadership of the disciplinary process, there was little or no institutional memory to allow for congruent disposition of similar cases or of repeat offenders.

The ABCD was established in recognition of the need for the existing organizations to work together cooperatively whenever it was appropriate. However, the ABCD was not given authority to impose discipline, only to recommend it when appropriate.

The ABCD Process

A special effort has been made to ensure that due process is accorded each and every actuary whose work or conduct becomes the subject of an ABCD inquiry. Article X of the Bylaws of the American Academy of Actuaries and the ABCD Rules of Procedure clearly articulate due process rights.

Each case received by the ABCD is initially reviewed by staff counsel. Occasionally, a matter is referred directly to the chairperson or vice chairperson, at which time a case may be dismissed or mediation may be considered. Otherwise, the situation will be communicated to the actuary under investigation, who has the right to respond. At that time, the chairperson and vice chairpersons will consider the situation, and determine



ABCD member
William J. Bugg Jr.



ABCD member
Robert W. Sturgis



ABCD members
Daphne D. Bartlett
and Joseph J. Leube



ABCD member
Kenneth W. Porter

whether to:

- dismiss the matter; or
- appoint a mediator to attempt to resolve the issues; or
- appoint one or more investigators to study the matter and report to the ABCD.

After the ABCD receives an investigative report, the actuary is given an opportunity to respond, and the entire file is considered by the full ABCD at its next quarterly meeting. The ABCD can decide to:

- dismiss; or
- counsel the actuary; or
- schedule a fact-finding hearing into the matter.

If a hearing is scheduled, the actuary is given 45 days' notice, and the information that will be considered by the ABCD is provided in advance. Following the hearing, the ABCD deliberates, and can decide to:

- dismiss; or
- counsel the actuary; or
- recommend public discipline in one of the following forms:
 - a. public or private reprimand
 - b. suspension of membership for a prescribed period
 - c. expulsion.

If the decision is made to publicly discipline the actuary, the recommendation is sent to each organization of which the actuary is a member, with the complete file, at which time that organization's discipline process commences. Throughout this process, which may be lengthy, the actuary is kept informed of the status and progress of the case. The ABCD processes are prolonged by the due process requirements that are followed throughout all cases.

Activities During 1998

As a result of its experience to date, the ABCD proposed several revisions (including some minor editorial changes) to its guiding documents, Article X of the Bylaws of the American Academy of Actuaries and the ABCD Rules of Procedure. Article X was exposed to the

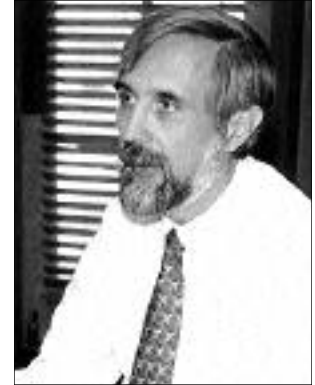
profession in 1997 and 1998, and submitted to a vote of the membership of the Academy during 1998. The changes to Article X were adopted, effective November 25, 1998. The Rules of Procedure were exposed to the actuarial profession for comment in 1998. The revised Rules of Procedure became effective January 1, 1999.

The major changes are:

- Clarifying the role of investigators to eliminate the requirement to make a recommendation regarding the disposition of any apparent code violations. The rationale for this change was that an investigator typically has not been exposed to any other case, and therefore lacks perspective on which to base a recommendation.
- Clarifying and limiting the roles of counsel for both the actuary under investigation and for the ABCD. The proposal limits the role of counsel for both parties to that of providing legal advice and articulating appropriate legal objections.
- Creating a new category of discipline, "private reprimand," which, if an organization's bylaws permit, could be recommended by the ABCD.

Also during 1998, the Casualty Actuarial Society (CAS) conducted a review of the ABCD and its procedures, in order to satisfy itself that the members of its organization were being treated fairly and appropriately. As a result of this investigation, it was recommended that the CAS continue to delegate to the ABCD the role of investigating and evaluating possible violations of the Code of Professional Conduct by members of the CAS in all countries except Canada, with another review to be conducted in five years. A similar review will be undertaken by the Society of Actuaries during 1999.

Finally, the ABCD thanks the many ombudsmen and investigators, who have generously volunteered their time and diligently accepted their responsibilities. Their work has bolstered that of the ABCD to the betterment of the entire actuarial profession.



ABCD member
John M. Bertko



ABCD member
Ruth F. Frew

Members of the Actuarial Board for Counseling and Discipline



Standing left to right:

Kenneth W. Porter, William J. Bugg Jr., Ruth F. Frew, John M. Bertko,
Daphne D. Bartlett and Robert W. Sturgis

Seated left to right:

Joseph J. Leube, Henry K. Knowlton and Jerome A. Scheibl

Cases Considered During 1998

Type of Case	Pending from 1998 and Earlier	Received in 1998	Total
Conduct	10	16	26
Practice	3	7	10
Conduct and Practice	7	8	15
Requests for Guidance	2	22	24
Total	22	53	75

Cases by Practice Area	Pending from 1997 and Earlier	Received in 1998	Total
Casualty	2	10	12
Health	6	11	17
Life	2	12	14
Pension	12	19	31
Non-traditional	0	1	1
Total	22	53	75

Disposition by Chairperson and Vice Chairpersons (or Other Member[s] — Requests for Guidance)

Dismissed	12
Dismissed with guidance	5
Referred to investigator	10
Held pending receipt of more information	17
Held pending resolution of litigation or other external process	2
Replied to requests for guidance	22

Disposition by Whole ABCD

Dismissed	1
Counseled	5
Recommended public disciplinary action	1
Pending hearing in 1999	0
Total Cases Pending and in Progress January 1, 1999	29

Since its inception in 1992, the ABCD has completed its cases as follows:

Dispositions	1992	1993	1994	1995	1996	1997	1998	Total
Dismissed	12	24	9	11	8	11	13	88
Dismissed with guidance	6	10	3	—	5	1	5	30
Counseled	—	2	8	1	6	2	5	24
Referred to ombudsman	3	1	1	—	—	—	—	5
Recommended public discipline	—	1	2	—	3	—	1	6
Replied to requests for guidance	8	8	8	10	28	31	22	115
Total	29	46	31	22	50	45	46	269

Financial Summary

Year Ended December 31, 1998

Staff Salaries	\$72,219
Staff Benefits	13,000
Office Operating Costs	26,000
Printing	14,342
Postage and Delivery Services	7,860
Staff Travel	4,923
Committee Meetings	23,785
ABCD Travel Reimbursement	40,150
Other	8,080
Total	\$210,359

The above figures are unaudited costs associated with the ABCD. Copies of the audited financial statements of the American Academy of Actuaries will be available upon request from the Academy's office in Washington, D.C., in May 1999. Many members of the actuarial profession have contributed significant amounts of volunteer time to the activities of the ABCD. This financial summary does not reflect the value of those contributed services. Operating costs of the ABCD are supported in part by payments from the American Society of Pension Actuaries, Casualty Actuarial Society, Conference of Consulting Actuaries and Society of Actuaries.

Preamble The Precepts of this Code of Professional Conduct identify the professional and ethical standards with which an actuary must comply. The Annotations provide additional explanatory, educational and advisory material to members of the actuarial profession on how the Precepts are to be interpreted and applied. An actuary must be familiar with, and keep current with revisions to, the Code of Professional Conduct and its Precepts and Annotations.

Code of Professional Conduct

Each of the U.S. organizations representing actuaries has adopted a Code of Professional Conduct. The Code of Professional Conduct developed through and adopted by the American Academy of Actuaries is reprinted here. The footnotes annotate variations in this code made by each of the organizations (American Society of Pension Actuaries [ASPA], Casualty Actuarial Society [CAS], Conference of Consulting Actuaries [CCA] and Society of Actuaries [SOA]).

Preamble

The Precepts of this Code of Professional Conduct identify the professional and ethical standards with which an actuary must comply. The Annotations provide additional explanatory, educational, and advisory material to members of the actuarial profession on how the Precepts are to be interpreted and applied. An actuary must be familiar with, and keep current with revisions to, the Code of Professional Conduct and its Precepts and Annotations.

Professional Integrity

PRECEPT 1. An actuary shall act honestly and in a manner to uphold the reputation of the actuarial profession and to fulfill the profession's responsibility to the public.

ANNOTATION 1-1. An actuary fulfills the profession's responsibility to the public through compliance with this Code, and by offering actuarial advice, recommendations, and opinions that are the product of the actuary's exercise of professional judgment.

ANNOTATION 1-2. An actuary who pleads guilty to or is found guilty of any misdemeanor related to financial matters or any felony shall be presumed to have contravened Precept 1 of this Code, and shall be subject to the profession's counseling and discipline procedures.

ANNOTATION 1-3. An actuary shall not use a relationship with a third party to attempt to obtain illegal or materially improper treatment from such third party on behalf of a principal (i.e., present or prospective client or employer).

PRECEPT 2. An actuary shall perform professional services with integrity, skill, and care.

ANNOTATION 2-1. "Professional services" refers to the rendering of advice, recommendations, or opinions based upon actuarial considerations, and also includes other services provided to a principal (i.e., present or prospective client or employer) by one acting as an actuary.

Qualification Standards

PRECEPT 3. An actuary shall perform professional services only when the actuary is qualified to do so and meets applicable qualification standards.

ANNOTATION 3-1. It is the professional responsibility of the actuary to observe applicable qualification standards in the jurisdiction in which the actuary renders professional services, and to keep current regarding changes in these standards. For example, for practice in the United States, the Qualification Standards promulgated by the American Academy of Actuaries apply; for practice in Canada, the eligibility conditions promulgated by the Canadian Institute of Actuaries as set out in the Canadian Institute of Actuaries' bylaws apply.

Amended by the Board of Directors of the American Academy of Actuaries in January 1995.

Standards of Practice

PRECEPT 4. An actuary shall ensure that professional services performed by or under the direction of the actuary meet applicable standards of practice.

ANNOTATION 4-1. It is the professional responsibility of the actuary to observe applicable standards of practice in the jurisdiction in which the actuary renders professional services, and to keep current regarding changes in these standards. For example, for practice in the United States, the Standards of Practice promulgated by the Actuarial Standards Board apply; for practice in Canada, the Standards of Practice promulgated by the Canadian Institute of Actuaries apply.

ANNOTATION 4-2. Where there is a question regarding the applicability of a standard of practice, the professional judgment of the actuary, taking into account the applicable accepted principles of actuarial practice, shall prevail.

Disclosure

PRECEPT 5. An actuary shall, in communicating professional findings, indicate clearly that the actuary is responsible for the findings.

ANNOTATION 5-1. An actuary who makes an actuarial communication should indicate clearly the extent to which the actuary or other source(s) are available to provide supplementary information and explanation.

ANNOTATION 5-2. An actuary who makes an actuarial communication assumes responsibility for it except to the extent the actuary disclaims responsibility by stating reliance on other sources. Reliance on other sources means making use of those sources without assuming responsibility therefor. A communication making use of such reliance should define the extent of reliance. An actuary may rely upon other sources for information except where limited or prohibited by applicable standards of practice.

ANNOTATION 5-3. Any written communication of professional findings must be signed with the name of the actuary who is responsible for it. The name of an organization with which the actuary is affiliated may be incorporated into the signature, but the actuary's responsibilities and those of the organization are not affected by the form of the signature.

PRECEPT 6. An actuary shall, in communicating professional findings, identify the principal(s) (i.e., the client[s] or employer[s]) for whom such findings are made and shall describe the capacity in which the actuary serves.

PRECEPT 7. An actuary shall make full and timely disclosure to a principal (i.e., present or prospective client or employer) of the sources of all direct and indirect compensation that the actuary or the actuary's firm may receive in relation to an assignment for which the actuary provides professional services for that principal.

ANNOTATION 7-1. An actuary who is not financially and organizationally independent concerning any matter related to the subject of an actuarial communication should disclose to the principal any pertinent relationship that is not apparent.

ANNOTATION 7-2. “Indirect compensation” is any material consideration received from any source in relation to an assignment for which the actuary provides professional services, other than direct remuneration for those services.

ANNOTATION 7-3. Actuaries employed by firms that operate in multiple sites are subject to the requirement of disclosure of sources of compensation that the actuary’s firm may receive in relation to professional services with respect to a specific assignment for that principal, regardless of the location in which such compensation is received.

Conflict of Interest

PRECEPT 8. An actuary shall not perform professional services involving an actual or potential conflict of interest unless:

- (a) the actuary’s ability to act fairly is unimpaired; and
- (b) there has been disclosure of the conflict to all known direct users whose interests would be affected by the conflict; and
- (c) all such known direct users have expressly agreed to the performance of the services by the actuary.

ANNOTATION 8-1. A “direct user” of an actuary’s services is a principal (i.e., present or prospective client or employer) having the opportunity to select the actuary and able to communicate directly with the actuary about qualifications, work, and recommendations.

ANNOTATION 8-2. If the actuary is aware of any significant conflict between the interests of the direct user and the interests of another party relative to the actuary’s work, the actuary should advise the direct user of the conflict. The actuary should also include appropriate qualifications or disclosures in any related actuarial communication.

Control of Work Product

PRECEPT 9. An actuary shall not perform professional services when the actuary has reason to believe that they may be used to mislead or to violate or evade the law.

ANNOTATION 9-1. Material prepared by an actuary may be used by another party in a way that may influence the actions of a third party. The actuary should recognize the risks of misquotation, misinterpretation, or other misuse of such material and should take reasonable steps to ensure that the material is clear and presented fairly and that the actuary is identified as responsible for the material as required by Precept 5 of this Code.

Confidentiality

PRECEPT 10. An actuary shall not disclose to another party any confidential information obtained through professional services performed for a principal (i.e., client or employer) unless authorized to do so by the principal or required to do so by law.

ANNOTATION 10-1. “Confidential information” refers to information not in the public domain of which the actuary becomes aware in conjunction with the rendering of professional services to a

principal. It may include information of a proprietary nature, information that is legally restricted from circulation, or information that the actuary has reason to believe the principal would not wish to be divulged.

Courtesy and Cooperation

PRECEPT 11. An actuary shall perform professional services with courtesy and shall cooperate with others in the principal's (i.e., client's or employer's) interest.

ANNOTATION 11-1. Differences of opinion among actuaries may arise, particularly in choices of assumptions and methods. Discussions of such differences, whether directly between actuaries or in observations made to a principal by one actuary on the work of another, should be conducted objectively and with courtesy.

ANNOTATION 11-2. An actuary in the course of an engagement or employment may encounter a situation such that the best interest of the principal would be served by the actuary's setting out an alternative opinion to one expressed by another actuary together with an explanation of the factors that lend support to the alternative opinion. Nothing in this Code should be construed as preventing the actuary from expressing such an alternative opinion to the principal.

ANNOTATION 11-3. A principal has an indisputable right to choose a professional advisor. An actuary may provide service to any principal who requests it, even though such principal is being or has been served by another actuary in the same matter.

If an actuary is invited to advise a principal for whom the actuary knows or has reasonable grounds to believe that another actuary is already acting in a professional capacity with respect to the same matter or has recently so acted, it may be prudent to consult with the other actuary both to prepare adequately for the assignment and to make an informed judgment whether there are circumstances involving a potential violation of this Code that might affect acceptance of the assignment.

The prospective new or additional actuary should request the principal's consent to such consultation. When the principal has given consent, the original actuary may require reasonable compensation for the work required to assemble and transmit the relevant information such as pertinent data, work papers,³¹ and documents. The actuary need not provide any items of a proprietary nature, such as computer programs.

Advertising

PRECEPT 12. An actuary shall not engage in any advertising or business solicitation activities with respect to professional services that the actuary knows or should know are false or misleading.

ANNOTATION 12-1. "Advertising" encompasses all communications by whatever medium, including oral communications, that may directly or indirectly influence any person or organization to decide whether there is a need for actuarial services or to select a specific person or firm to perform actuarial services.

Titles and Designations

PRECEPT 13. An actuary shall make use of membership titles and designations of an actuarial organization only in a manner that conforms to the practices authorized by that organization.

ANNOTATION 13-1. "Title" means any title conferred by an actuarial organization related to a specific position within that organization. "Designation" means a specific reference to membership status within an actuarial organization.

Collateral Obligations

PRECEPT 14. 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.

ANNOTATION 14-1. A material violation of this Code is 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.

ANNOTATION 14-2. Except when an actuary is prohibited by law or while the actuary is acting in an adversarial environment involving another actuary or actuaries, when the actuary becomes aware of an apparent material violation of this Code, the actuary is required to undertake promptly the following course of action:

(a) 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;

(b) If (a) is not appropriate or is not successful, bring the apparent violation to the attention of the appropriate investigatory body. For example, for violations of this Code arising out of practice in the United States, the actuary should refer the matter to the Actuarial Board for Counseling and Discipline; for violations of this Code arising out of practice in Canada, the actuary should follow procedures established by the Canadian Institute of Actuaries.

PRECEPT 15. An actuary or the actuary's representative shall respond promptly in writing to any letter received from a person duly authorized by the appropriate counseling and disciplinary body of the profession to obtain information or assistance regarding possible violations of this Code.

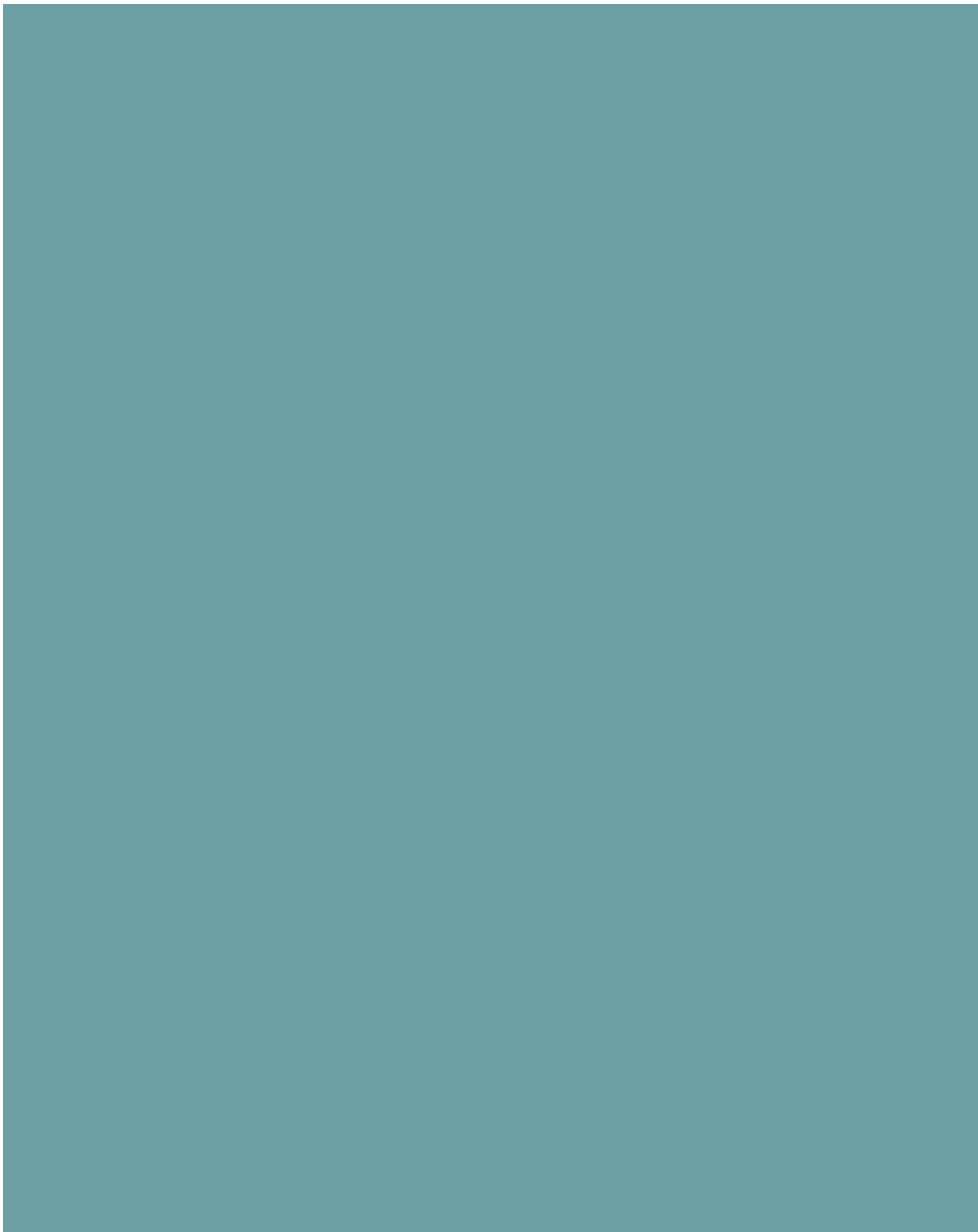
PRECEPT 16. An actuary shall abide by this Code of Professional Conduct whenever providing professional services.

ANNOTATION 16-1. Laws and regulations may impose obligations upon the actuary. Where the requirements of law or regulation conflict with this Code, the requirements of law or regulation shall take precedence.

ANNOTATION 16-2. For professional services rendered in Canada, the rules of the Canadian Institute of Actuaries apply.

ANNOTATION 16-3. For professional services rendered in Mexico, the rules of the Colegio Nacional de Actuarios apply.





Committee on Qualifications

Actuarial Standards Board

Actuarial Board for Counseling and Discipline

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