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# The Year in Focus

**O**n the record, October 2002 to October 2003 was a great period for the Academy. Off the record, it looks even better. So much work was accomplished, so many projects finished, and so many new initiatives launched that it is very hard to condense these accomplishments to the eight pages of this inaugural annual report to Academy members.

Numbers tell part of the story. In the space of just 12 months, Academy members were called upon seven times to testify at congressional hearings. James Hurley, chairperson of the Medical Malpractice Subcommittee, testified three times in February on medical malpractice reform before various House and Senate committees. In June, he repeated his testimony before the Ohio Medical Malpractice Commission. Ron Gebhardtshauer, the Academy's senior pension fellow, testified before congressional committees in March, April, and June on aspects of pension reform, and John Parks, the Academy's vice president for pension issues, testified in September on the same topic.



Making Hill visits in March were, from left, Rich Hofmann, Jennifer Biggs, Jan Lommele, Henry Siegel, and Carol Salomone.

But there's more. In March, Gebhardtshauer and Bruce Schobel, then chairperson of the Social Insurance Committee, spoke to the 2003 Social Security Technical Panel on aspects of the 2003 trustees report. In April, Carolyn Zimmerman, vice chairperson of the Pension Committee,

testified at an IRS hearing on proposed age discrimination regulations relating to cash balance and other pension plans. Pension Accounting Committee member Norm Losk and Retiree Health Work Group Chairperson Jeff Petertil testified in May at a GASB hearing on other post-employment benefits. And two Academy members gave presentations at NCOIL's summer meeting: Jennifer Biggs, chairperson of the Mass Torts Subcommittee, spoke on asbestos issues and Donna Novak, chairperson of the Mental Health Parity Work Group, spoke on association health plans.



Ron Gebhardtshauer, left, confers privately with Sen. Charles Grassley (R-Iowa) before the start of a Senate hearing on the future of defined benefit pension plans.

During the same period, the Academy held five Capitol Hill briefings for congressional staff and other policy-makers on pension accounting and pension funding issues, optional federal charters, and various aspects of Medicare reform. In February, March, and April, more than 30 Academy members joined with Academy staff for annual visits with congressional staff and policy-makers. For the first time ever, these visits extended to meetings with White House officials.

Work for the NAIC also continued apace, with the Academy issuing more than 40 reports and comments to regulators on NAIC-related projects over the course of the year. A highlight was the completion of the CSO mortality tables, which were developed by the CSO Task Force using a basic valuation table created by the SOA. Several years in the making, the tables were formally adopted by the NAIC at its winter 2002 meeting and are already in widespread use in the industry. Also at the fall 2003 meeting, the Academy helped host several educational sessions for regulators and others on reserve opinions and on actuarial professionalism.

## While busy in its dealings with the wider world, the Academy also continued to provide information and leadership within the profession.

As a result of all this activity, the Academy's media profile has surged. The Academy had significant placements in national outlets such as the *Wall Street Journal*, *New York Times*, and *Los Angeles Times*. The Academy broke into the weekly news magazine market with a citation in a *U.S. News & World Report* article on medical malpractice. Academy members were also quoted in important trade publications, such as *National Underwriter*, *Institutional Investor*, and *Risk & Insurance* magazine. In June, Gebhardt Bauer was interviewed on CNN's "Lou Dobbs Moneyline" about problems facing defined benefit pension plans and was quoted on the same topic in a major article in the *New York Times* and in two *Congressional Quarterly* articles. And the adoption of the new CSO mortality tables spawned references to the Academy in a number of newspapers, including the *Wall Street Journal*, *Sacramento Bee*, *Chicago Sun-Times*, and *Houston Chronicle*, as well as on CNN's "Smart Assets."

As a sidelight, the Academy's website and the *Actuarial Update* were singled out in June by the Society of National Association Publications, with the website winning a silver award for best web design and the *Update* garnering a gold award for news writing. And a number of Academy publications — including *Contingencies*, the *Update*, and the *Yearbook* — had cameo roles in the Oscar-nominated film *About Schmidt*.

In response to the media's growing demand for an actuarial perspective on current issues, the Academy's public affairs staff last fall developed a media training program for Academy leaders. In December, May, and August, 13 Academy volunteers faced the

camera and fielded questions, absorbed interview techniques, and learned more about themselves — how facial animation and vocal rhythms, for instance, can help them deliver their message. As a companion project, the Academy published *Winning in the Public Eye*, a media relations and speaker's handbook that was distributed to Academy volunteers in January.



Chatting at the Academy's Washington Forum were (from left) Thomas Kahn, minority staff director of the House Budget Committee, Academy President Bob Anker, Hazen Marshall, majority staff director of the Senate Budget Committee, and Academy Executive Director Rick Lawson.

While busy in its dealings with the wider world, the Academy also continued to provide information and leadership within the profession. In addition to co-sponsoring the 28th annual Enrolled Actuaries meeting in March, the Academy held its own educational Washington Forum on public policy, politics, and professionalism in May and in November offered the Life and Health Qualifications Seminar, which for the first time was made available to regulators by simultaneous webcast. In December and again in August, a group of Academy leaders gathered in leadership meetings to carve out a clearer definition of the Academy's role in public policy and to develop strategic directions for the future in the Academy's three major functional areas: public policy, professionalism, and communications.

At the same time, Academy members participated in a number of presentations on professionalism for actuarial groups and others, including an April session for the Casualty Actuaries of the Southeast, sessions in May and June at the SOA's spring meetings, sessions on professionalism and the ABCD process at the fall 2003 NAIC meeting, and a September session on litigation issues for the Actuarial Society of Greater New York.

As part of an increasingly proactive stance on the issue of malpractice litigation, the Academy in January submitted an *amicus curiae* brief to the Court of Appeals for the State of Arizona in *Cohen v. J. Huell Briscoe & Associates Inc.*, clarifying the role of the valuation actuary as an expert who works as part of a team (including accountants, attorneys, and auditors) to advise the company's management.

In sum, it was a year of change and a year of growth for the Academy. But some things don't change. As it has for a number of years, the Academy again honored individual actuaries who have made contributions to the common good through service to the government (the Robert J. Myers Public Service Award) and to the profession (the Jarvis Farley Service Award). Larry Gorski, a career insurance regulator for the state of Illinois, was the 2003 recipient of the Myers Award, which was presented to him at the Academy's Washington Forum. Burt Jay, who has worked on more than 90 Academy work projects and committees since he joined the Academy in 1967, was the 2002 recipient of the Farley Award, presented to him at the Academy's 2002 annual meeting in October.

By the way, both awards are on the record.

Oct. 2002-Oct. 2003

Media Relations

Placements ..... 197  
Interviews ..... 100  
Media inquiries ..... 43

Media Outlet Placements

Daily newspapers ..... 95  
Trade media ..... 20  
Magazines ..... 9  
Web ..... 67  
Television ..... 5  
Radio ..... 1

Total Media Impressions  
81,473,951



Jennifer Biggs (left) addresses a meeting of NCOIL as NAIC President Mike Pickens listens.

### 2002-2003

#### Academy Officers

President

Robert Anker

President-Elect

Barbara Lautzenheiser

Secretary-Treasurer

Peter Perkins

Vice Presidents

Jan Carstens

Jan Lommele

John Parks

Stephen Preston

Robert Rietz

Patricia Teufel

Always a player on the state level, the Casualty Practice Council began in the past year to cast a bigger shadow in the federal arena as well. Increasingly, federal policy-makers are seeking out council expertise on issues such as medical malpractice litigation, terrorism insurance, and asbestos.



James Hurley, chairperson of the Medical Malpractice Subcommittee, testifies before Congress.

During February and March, Medical Malpractice Subcommittee Chairperson James Hurley testified on medical malpractice reform at a Pennsylvania field hearing of the House Energy and Commerce Oversight and Investigations Subcommittee, a hearing of the Senate Appropriations Health and Human Services Subcommittee hearing, and a hearing of the House Energy and Commerce Health Subcommittee. Hurley was also asked to speak on the topic to the Ohio Medical Malpractice Commission in June.

On asbestos issues, the council submitted written testimony to the Senate Judiciary Committee in September, October, and early March, and Mass Torts Subcommittee Chairperson Jennifer Biggs discussed the topic at a National Conference of Insurance Legislators (NCOIL) conference in July.

The council commented in October to a House-Senate conference committee considering a federal backstop for potential terrorism-related workers' comp losses in what eventually became the Terrorism Risk Insurance Act (TRIA). In March, the P/C Extreme Events Committee reported to the NAIC on rate-making issues in the act, and in May the Workers' Compensation Subcommittee wrote the Treasury

Department about draft regulations for TRIA.

Finally, a council report on the use of credit history for personal lines insurance, presented originally to the NAIC and to NCOIL, became the basis of written testimony submitted for a House Financial Services Subcommittee hearing in June on the Fair Credit Reporting Act.

Maintaining a higher federal profile has not kept the council from continuing to work closely with the NAIC and NCOIL on a number of projects, including studies of risk-based capital (RBC) treatment of reinsurance A & C and of RBC treatment of retroactive reinsurance.

In conjunction with the Casualty Actuarial Society and the NAIC, the council co-sponsored two opinion readers' and writers' symposia on the P/C statement of actuarial opinion at the fall 2003 NAIC meeting. They were moderated by Andrea Sweeny, chairperson of the Committee on Property and Liability Financial Reporting (COPLFR). COPLFR earlier submitted reports to the NAIC's Casualty Actuarial Task Force on its work developing a model actuarial opinion summary, and it offered technical improvements to draft annual statement instructions for a proposed actuarial opinion model law.

In the past year, Medical Malpractice Subcommittee Chairperson James Hurley testified on medical malpractice reform before the House Energy and Commerce Oversight and Investigations Subcommittee, the Senate Appropriations Health and Human Services Subcommittee, and the House Energy and Commerce Health Subcommittee.

- 10/02 supplemental testimony for a Senate hearing on asbestos litigation
- 10/02 comments to the IAA on proposed social security practice guidelines
- 10/02 letter to House-Senate conferees about a backstop for potential terrorism-related workers' comp losses
- 11/02 comments to the CAS on a proposed update of the statement of principles on P/C loss and loss adjustment
- 11/02 report to the NAIC on credit scoring for personal lines
- 12/02 practice note on statements of actuarial opinion on P/C loss reserves
- 02/03 testimony for a House hearing on medical malpractice insurance
- 02/03 statement for a Senate hearing on medical malpractice insurance
- 02/03 testimony for a House hearing on medical malpractice insurance
- 03/03 testimony to the Senate Judiciary Committee on asbestos litigation issues
- 03/03 testimony for a Senate hearing on medical malpractice insurance
- 03/03 report to the NAIC on TRIA rate-making issues
- 04/03 comments to the NAIC about annual statement instructions for a proposed model law on P/C actuarial opinions
- 05/03 comment letter to the Treasury Department on TRIA draft implementation guidelines
- 06/03 credit scoring testimony for a House hearing on the Fair Credit Reporting Act
- 06/03 statement to the Ohio Medical Malpractice Commission about industry financial results, rate-making, and tort reform
- 06/03 comments to the NAIC on RBC treatment of reinsurance A&C
- 06/03 comments to the NAIC on RBC treatment of retroactive reinsurance
- 06/03 comments to the NAIC about a draft model law for the P/C statement of actuarial opinion
- 07/03 testimony for an NCOIL hearing on asbestos litigation reform

## Events

- 03/03 — Capitol Hill visits to congressional offices, the GAO, and the Treasury Department
- 07/03 — Presentation to NCOIL on asbestos

For more information, visit [www.actuary.org/casual.htm](http://www.actuary.org/casual.htm).  
Underlined documents are on the Academy website.

The Financial Reporting Council coordinated the Academy's response to the Sarbanes-Oxley Act, one of the most influential legislative initiatives affecting actuaries.

Oct. 2002-Oct. 2003

## Public Statements

- 11/02 letter to the SEC on proposed Sarbanes-Oxley disclosure rules
- 12/02 letter to GASB on a proposed accounting standard for post-retirement benefit plans
- 01/03 comments to the SEC from Academy President Bob Anker on proposed Sarbanes-Oxley auditor independence rules
- 03/03 supplement to a February 2002 comparison of the three NAIC RBC formulas
- 04/03 monograph, *Role of the Actuary Under Federal Insurance Regulation*
- 09/03 letter accepting an NAIC request to make recommendations on possible trend tests for P/C and health RBC

## Events

- 03/03 — Capitol Hill visits to congressional offices, the General Accounting Office, and the Treasury Department
- 06/03 — Capitol Hill briefing on the future of insurance regulation

For more information, visit [www.actuary.org/financial.htm](http://www.actuary.org/financial.htm).

Underlined documents are on the Academy website.

The Financial Reporting Council is the Academy's point guard when it comes to issues of financial accounting—both in this country with the SEC, the NAIC, and FASB, and abroad with groups such as the IAA and the IASB.

Perhaps the best example of this has been the council's role in coordinating the Academy's response to the Sarbanes-Oxley Act, one of the most influential legislative initiatives affecting financial reporting and one of only a handful that directly address the actuary's role. Working closely with the Council on Professionalism and Academy leadership as the legislation moved through Congress, the Financial Reporting Council recommended that the terms "actuarial services" and "appraisal or valuation services" be better defined within the act. The council also recommended expanding the role of the audit committee "financial expert," recognizing that certain actuaries would be well qualified to assume such a role. And as SEC rules implementing the new law were being developed, Academy President Bob Anker at the council's behest sent a letter to the SEC late last year arguing that the rules' proposed definition of "financial expert" was too narrowly focused on individuals with accounting backgrounds, thereby preventing other qualified individuals, such as actuaries, from serving as financial experts on audit committees. Anker sent another letter to

the SEC in January on rules regarding auditor independence.

With significant input from other practice councils, the council completed a monograph, *Role of the Actuary Under Federal Insurance Regulation*, in April. In June, the council hosted a well-attended Capitol Hill briefing for congressional



After the Capitol Hill briefing on federal charters, Academy Policy Analyst Ethan Sonnichsen greets panelists (from left) Tim Tongson, chairperson of the Academy's Banking and Financial Services Task Force, the NAIC's David Wetmore, and ACLI's Allen Caskie.

staffers and other policy-makers on optional federal charters, featuring speakers from the NAIC and the ACLI. The Academy does not take a position for or against optional federal charters, but would like any federal charter legislation to recognize the role actuaries play in insurance regulation.

Working with the NAIC, the council in March updated an earlier comparison of the three NAIC risk-based capital (RBC) formulas, and it agreed in September to make recommendations on possible trend tests for P/C and health RBC.

In April, council members met with representatives of the AICPA to discuss Academy projects that address purchase accounting issues and best estimates of claim reserves; the council members also offered the Academy as a resource. The council held a similar meeting earlier with members of FASB. The council is also currently coordinating the response of the North American actuarial profession to an enterprise risk management framework proposed by the Committee of Sponsoring Organizations of the Treadway Commission, an organization representing most of the accounting profession in this country.



After years of lurking in the wings, the debate on adding a prescription drug benefit to Medicare has burst onto center stage.

Keeping pace with the debate, the Health Practice Council in September 2002 published a report, *Medicare Prescription Drug Plans: The Devil Is in the Details*, by Cori Uccello, the Academy's senior health fellow, and John Bertko, an Academy member who is chief actuary for Humana. Based on information in the report, Uccello and Bertko were asked to submit testimony for an April House Ways and Means Committee hearing on the issue. In May, the Academy sponsored a briefing for congressional staff and policy-makers on whether a Medicare drug benefit should be administered through the public or private sector, and in July sponsored another Capitol Hill briefing on how actuarial equivalence applied to competing House and Senate Medicare drug benefit proposals.

As the bills progressed, the Academy was in touch on several key issues. Shortly before the House and Senate each passed their own versions of the legislation in June, Jan Carstens, the Academy's vice president for health issues, wrote to congressional leaders requesting that any final legislation specify that actuarial activities required by the bill be performed only by a qualified actuary who is a member of the Academy. In July, Carstens sent a letter to House-Senate conferees stating that risk-sharing provisions in the House version

two bills or other proposed changes to the Medicare program.

While all this activity continued on one front, the Health Practice Council was also working in a number of other areas. In February, 13 council members traveled to Capitol Hill for annual visits with congressional staff and policy-makers at the Department of Labor, the General Accounting Office, and the Congressional Budget Office. This year, for the first time, council members were also invited to meet with Doug Badger, a special assistant to President Bush for economic policy.

### Carstens sent a letter to House-Senate conferees stating that risk-sharing provisions in the House version of Medicare reform legislation were less desirable than those in the Senate version.

In December, the council published a monograph on group and health coverage in the wake of Sept. 11. In February, the Medicare Supplement Work Group published a report on the Medicare supplement experience from 1996 to 2000. In May, the Long-Term Care (LTC) Work Group completed a practice note on LTC insurance pricing. And before the end of October, the Uninsured Work Group will publish an issue brief outlining who has health insurance coverage and discussing the reasons why people are uninsured.

On the state level, the Academy hosted two webcasts for NAIC regulators and Academy members on the Health Rate Filing Task Force's individual health insurance market model. In November, John Saari gave a presentation to the National Conference of Insurance Legislators (NCOIL) on patients' bill of rights and prescription drug issues. And Donna Novak represented the Academy in a July presentation to NCOIL on association health plans. Earlier in the year, the Association Health Plan Work Group commented to Congress on legislation that would amend ERISA to allow trade, industry, professional, and similar associations to sponsor health insurance plans for their members.



From left, John Schubert, Cori Uccello, Jan Carstens, Holly Kwiatkowski, Al Bingham, and Rick Lawson after meeting with a special assistant to President Bush

were less desirable from an actuarial perspective than those in the Senate version. And in September, Carstens wrote to the conferees offering the Academy's help in assessing the financial implications of the

- 10/02 letter to the EEOC on methods for addressing the Erie County ruling
- 12/02 monograph, *Group and Health Coverage in the Wake of September 11*
- 12/02 report to the NAIC on the individual health insurance market
- 12/02 report to the NAIC on long-term care RBC
- 12/02 report to the NAIC on pricing long-term care insurance
- 12/02 report to the NAIC on health organization liquidity
- 12/02 letter to GASB on a proposed accounting standard for post-retirement benefit plans
- 02/03 report to the NAIC on Medicare supplement experience, 1996-2000
- 03/03 letter to the NAIC outlining the objectives of the Long-Term Care Reserve Work Group
- 04/03 updated paper, *Medicare Prescription Drug Plans: The Devil Is in the Details* (updated from September 2002)
- 04/03 statement for a House Ways and Means Committee hearing on Medicare prescription drug coverage
- 04/03 letter to members of Congress on AHP legislation
- 05/03 practice note on long-term care insurance compliance with the NAIC LTCI model regulation
- 05/03 letter to GASB about the actuarial measurement of retiree health benefits
- 05/03 letter to Congress about the use of genetic information
- 06/03 comments to the NAIC on Medicare supplement refund formula issues
- 06/03 status report to the NAIC from the Health Liquidity Work Group
- 06/03 progress report to the NAIC from the Long-Term Care Reserving Work Group
- 06/03 interim report to the NAIC from the Long-Term Care RBC Work Group
- 06/03 letter to Congress on requiring Academy membership for actuarial work under Medicare prescription drug legislation
- 07/03 letter to House-Senate conferees on Medicare prescription drug legislation
- 08/03 letter to the NAIC on composite loss ratio curves
- 09/03 letter to the NAIC comparing gross premium valuations and premium deficiency reserves
- 09/03 letter to the NAIC responding to comments on a Long-Term Care RBC Work Group report
- 09/03 letter to the NAIC on a proposed model valuation regulation for long-term care insurance
- 09/03 letter to the EEOC about a proposed retiree health benefit rule
- 09/03 letter to House-Senate conferees offering to assess the financial implications of Medicare prescription drug bills or other proposed changes to the Medicare program

## Events

- 11/02 — Presentation to NCOIL on patients' bill of rights and prescription drug issues
- 12/02 — New York public policy trip for congressional staff
- 02/03 — Capitol Hill visits to congressional offices, the GAO, the CBO, and the Labor Department, and a meeting with an assistant to President Bush
- 05/03 — Capitol Hill briefing on adding a prescription drug benefit to Medicare
- 07/03 — Presentation to NCOIL on association health plans
- 07/03 — Webcast on health insurance market model
- 07/03 — Capitol Hill briefing on the actuarial equivalence of House and Senate Medicare drug proposals
- 09/03 — Webcast on health insurance market model

For more information, visit [www.actuary.org/health.htm](http://www.actuary.org/health.htm).

Underlined documents are on the Academy website.

10/02 **letter** to the AICPA on a draft statement of position concerning separate accounts and some nontraditional long-duration contracts

12/02 **report** to the NAIC on low interest rates and standard nonforfeiture law for individual deferred annuities

12/02 **proposal** on workers' comp carve-out

12/02 **report** to NAIC on implementing C-3 phase 2

12/02 **report** to the NAIC on the RBC impact of reinsurance cessions to unauthorized reinsurers

12/02 **report** to the NAIC on life insurers' deferred tax assets

12/02 follow-up **report** to the NAIC on an RBC method for indexed separate accounts

12/02 **report** to the NAIC on revisions to the Actuarial Opinion and Memorandum Regulation

12/02 **practice note** for applying Actuarial Guideline 39

01/03 final **report** to the NAIC on total adjusted capital for modified coinsurance reinsurance

01/03 **comments** to the Treasury Department on the group life study mandate of the Terrorism Risk Insurance Act

01/03 **report** to the NAIC on offset options for equity indexed annuities in a proposed annuity nonforfeiture law

03/03 **report** on reserve methodology and the C-3 Phase 2 approach

05/03 **comments** to the AICPA on a proposed statement of opinion for deferred acquisition costs on internal replacements

06/03 **report** to the NAIC on modified coinsurance and reinsurance RBC issues

06/03 **report** to the NAIC on a proposed RBC method for indexed separate accounts

06/03 **report** to the NAIC about a reserve methodology using C-3 Phase 2 principles

06/03 **progress report** to the NAIC on C-3 Phase 2

06/03 **report** to the NAIC on revising standard nonforfeiture laws

06/03 **comments** to the NAIC on a new model nonforfeiture law for deferred annuities

06/03 **comments** on mortality assumptions used in life insurance illustrations

09/03 **report** to the NAIC on variable annuity guaranteed minimum death benefit reserves

09/03 **report** to the NAIC on progress developing a variable annuity reserve methodology

09/03 **recommendations** to the NAIC for setting regulatory RBC requirements for variable products with guarantees

# Life Council

American Academy of Actuaries

This year marked the successful culmination of several long-range, highly visible projects undertaken by the 164 people who serve on the committees, work groups, and task forces of the Academy's Life Practice Council.

At its winter 2002 meeting, the NAIC formally adopted the 2001 CSO mortality tables developed by the CSO Task Force using a basic valuation table created by the SOA. Several years in the making, the tables are already in widespread use in the industry.

Another lengthy project nearing completion is the work of the Life Capital Adequacy Subcommittee on risk-based capital (RBC) C-3 Phase 2. At its fall 2003 meeting, the NAIC agreed to expose for comment the subcommittee's recommendation to implement Phase 2 to address both the equity risk and the interest rate risk associated with variable annuities, with group annuities that contain death benefit or living benefit guarantees for their equity funds, and for insurance contracts that provide death benefit floors for equity fund performance. If adopted by the NAIC at its winter 2003 meeting, the recommendation could be effective by the end of 2004.

At its winter 2002 meeting, the NAIC adopted Actuarial Guideline 39, which was largely the work of the Life Valuation Subcommittee. The guideline provides an interpretation of the NAIC's model standard valuation law for variable annuities with guaranteed living benefits. After the guideline was adopted, the subcommittee turned its attention toward the development of a practice note explaining its applications. The practice note was published in December 2002.

Although in a less visible role, the Life Financial Reporting Committee was a key player in helping to shape two accounting statements of position under consideration by the AICPA. One, on accounting and reporting by insurance



Attending a dinner celebrating the completion of the CSO table project at the NAIC's fall 2002 meeting were, clockwise from top left, Tom Campbell, William Carroll, Norm Hill, Faye Albert, Robert Wilcox, Andrew Erman, David Sandberg, Steve English, Academy President-Elect Barbara Lautzenheiser, Mike Batte, and Tom Rhodes.

enterprises for certain nontraditional, long-duration contracts and for separate accounts, has already been adopted by the AICPA. The other, on accounting by insurance enterprises for deferred acquisition costs on internal replacements other than those specifically described in FASB Statement No. 97, is currently in the process of being adopted.

Similarly, the Life Financial Soundness/Risk Management Committee worked behind the scenes to analyze a provision on group life insurance in the Terrorism Risk Insurance Act of 2002. In response to a request from the

Treasury Department, the committee studied whether the act should include coverage of group life insurance. The committee's analysis was a factor in Treasury's eventual decision.

Joining with members of the Casualty Practice and Financial Reporting councils, members of the Life Practice Council visited 15 Capitol Hill offices in March to meet with congressional staff and policy-makers. A big topic of interest was the Academy's monograph on the role of the actuary under federal insurance regulation. Members of the Life Federal Charters Work Group worked with the Financial Reporting Council to produce the monograph, which was published in April.

The Life Financial Reporting Committee was a key player in helping to shape two accounting statements of position under consideration by the AICPA.

## Events

12/02 — New York policy sessions trip for congressional staff

03/03 — Capitol Hill visits to congressional offices, the GAO, and the Treasury Department

For more information, visit [www.actuary.org/life.htm](http://www.actuary.org/life.htm). Underlined documents are on the Academy website.

This year, thanks in part to the work of the Pension Practice Council, policy-makers sat up and took notice of the funding crisis for defined benefit (DB) pension plans in this country.

At the request of Congress, and about a year after the council first warned that sagging 30-year Treasury rates were adversely affecting current DB pension plans and discouraging the formation of new plans, the council issued a white paper in July 2002 suggesting several long-term alternatives. In ensuing months, Senior Pension Fellow Ron Gebhardtsbauer followed up with testimony before various House and Senate committees on funding rules for DB plans, pension funding problems, and pension security. John Parks, the Academy's vice president for pensions, testified before a Senate committee in September 2003 on simplifying pension funding rules.

Earlier this year, Gebhardtsbauer met with Steven Kandarian, executive director of the PBGC, to discuss PBGC's financial situation, and with Rep. Rob Portman (R-Ohio) to discuss suggested pension discount rate alternatives. The topic arose frequently when the council went to Capitol Hill in April to visit congressional staff and representatives of the IRS and the Treasury Department, and to the White House for a special meeting with Charles Blahous, President Bush's special assistant for economic policy. The council also held two well-attended Capitol Hill briefings on pension reform for congressional staff, other policy-makers, and journalists. The May briefing was on pension funding and accounting, and the September briefing covered alternative pension funding rules.

While pension reform has claimed a large portion of the council's attention

### Senior Pension Fellow Ron Gebhardtsbauer testified before various House and Senate committees on funding rules for DB plans, pension funding problems, and pension security.

over the past year, there have been other challenges as well. The Pension Committee sent two comment letters to the IRS in March on proposed age discrimination regulations relating to cash balance and other plans. As a result of the letters, Carolyn Zimmerman, committee vice chairperson, testified in April at an IRS hearing on the proposed regulations.

Gebhardtsbauer and Bruce Schobel, then chairperson of the Committee on Social Insurance, appeared in March before the 2003 Social Security Technical Panel to speak on aspects of the 2003 trustees report.

Finally, Pension Accounting Committee member Norm Losk and Jeff Petertil, chairperson of the Retiree Health Work Group, testified in May at a GASB hearing on other postemployment benefits (OPEBs). Losk and Petertil discussed comment letters from the committee and the work group on GASB's exposure draft on OPEBs, focusing specifically on the proposed alternative method for actuarial valuations for small plans and the exemption for liabilities from implicit rate subsidy situations. Academy members assisted GASB staff in the early stages of the development of an alternative method to be used by very small employers.

On a more personal level, some pension actuaries volunteered their time and talents to the Academy's pension assistance list (PAL) program, which helps consumers who have questions about their pension plans. A feature on the PAL program in the September 2002 issue of AARP's *Modern Maturity* yielded a record 310 requests for assistance. There are currently 30 pension actuaries who actively volunteer in the PAL program.

10/02 **updated issue brief**, *Social Security Benefits: Changes to the Benefit Formula and Taxation*

10/02 **updated issue brief**, *Raising the Retirement Age for Social Security*

10/02 **testimony** by Larry Johansen before the IRS on a temporary regulation regarding treatment of COLAs and optional forms of benefits

10/02 **letter** to the IRS on proposed rules to eliminate certain optional forms of benefit payments from DB plans

12/02 **letter** to IRS on phased retirement

01/03 **issue brief**, *DB-K Plus: A Defined Benefit Plan With 401(k) Features*

01/03 **letter** to the IRS on alternative funding relief provisions for multi-employer plans

02/03 **issue brief**, *What's Whipsaw? Why Is It a Problem?*

03/03 **testimony** for a Senate Finance Committee hearing on funding challenges for DB plans

03/03 **comment letter** to the PBGC on calculating withdrawal liability for multiemployer DB plans

03/03 **comment letter** to the IRS on proposed age discrimination regulations for non-cash-balance plans

03/03 **comment letter** to the IRS on proposed age discrimination regulations for cash balance plans

04/03 **issue brief**, *An Actuarial Perspective on the 2003 Social Security Trustees Report*

04/03 **memo** to the North Carolina State Bar Association about allegations of unauthorized practice of law by retirement plan professionals

04/03 **testimony** for a House Ways and Means subcommittee hearing on pension funding problems

05/03 **comment letter** to GASB about financial reporting for retiree health plans and other non-pension benefits

05/03 **testimony** before GASB on financial reporting for retiree health plans and other non-pension benefits

05/03 **letter** to FASB about cash balance accounting issues

06/03 **testimony** for a House Education and Workforce subcommittee hearing on pension security

06/03 **analysis** of proposals to change the discount rate used to determine lump-sum pension benefits

07/03 **letter** to the IRS about concerns over "good faith compliance" for qualified plans

07/03 **statement** to the ERISA Advisory Council on funding problems facing the pension system

08/03 **analysis** of a Bush administration plan to create three new types of savings accounts

08/03 **comments** to the IRS about a revenue ruling on entry age funding methods

10/03 **comments** to Sen. Evan Bayh (D-Ind.) on legislation affecting multiemployer plans

10/03 **updated issue brief**, *Social Security Individual Accounts: Design Questions*



John Parks (left) enjoys a joke with Sen. Peter Fitzgerald (R-Ill.) after his Senate testimony.

## Events

04/03 — Capitol Hill visits to congressional offices, IRS, and the Treasury Department, and a meeting with an assistant to President Bush

05/03 — Capitol Hill briefing on pension accounting

09/03 — Capitol Hill briefing on pension funding

For more information, visit [www.actuary.org/pension.htm](http://www.actuary.org/pension.htm).

Underlined documents are on the Academy website.

# Council on Professionalism

American Academy of Actuaries

Oct. 2002-Oct. 2003

## Public Statements

11/02 discussion draft of proposed revisions to the Qualification Standards

01/03 amicus brief to the Court of Appeals for the State of Arizona in *Cohen v. J. Huell Briscoe & Associates Inc.*

04/03 discussion paper, *The Actuary's Relationships With Users of a Work Project*

## Events

11/02 — Life and Health Qualifications Seminar



Panelists William Falk and Lauren Bloom enjoy a light moment before a professionalism session at the Enrolled Actuaries meeting in March.

For more information, visit [www.actuary.org/professi.htm](http://www.actuary.org/professi.htm).  
Underlined documents are on the Academy website.

Malpractice litigation against actuaries is growing. This isn't because the quality of actuarial work is declining. Rather, it reflects a general rise in litigation in this country, along with the plaintiff bar's discovery of the actuarial profession, the fact that actuaries are taking on more professional assignments, and a weak economy that has highlighted possible shortfalls in pension reserves.

The Council on Professionalism takes this trend seriously and is responding in a variety of ways.

In January, the Academy submitted an *amicus curiae* brief to the Court of Appeals for the State of Arizona in *Cohen v. J. Huell Briscoe & Associates Inc.*, a case arising out of the insolvency of AMS Life Insurance Co. The Academy's brief clarifies the role of the valuation actuary as an expert who works as part of a team (including accountants, attorneys, and auditors) to advise the company's management, and it addresses the application of actuarial standards of practice.

As part of an ongoing effort to educate the profession, the council exposed for comment and then published a white paper on actuaries' responsibilities to the users of their work products. A discussion draft of proposed revisions to the qualification standards that the council

exposed in November received over 70 comments, which are now being reviewed by the Committee on Qualifications.

Similarly, members of the council including Professionalism Vice President Robert Rietz participated in a number of presentations on professionalism, including multiple sessions at the Enrolled Actuaries meeting in March, an April session for the Casualty Actuaries of the Southeast, a session on liability issues at the Academy's May Washington Forum, sessions in May and June at the SOA's spring meetings, sessions on professionalism and the ABCD process at the fall 2003 NAIC meeting, and a session on litigation issues at the September meeting of the Actuarial Society of Greater New York.

A separate educational initiative of the council, the annual Life and Health Qualifications Seminar, continues to grow in popularity. Enrollment in the three-day seminar has more than doubled since the Academy first offered it in 2000.

Finally, the Committee on International Issues is still accepting comments on its discussion draft, *Application of Professional Standards in International Practice*, which is intended to help actuaries comply with the Code of Professional Conduct when practicing outside the United States.

## ABCD

The ABCD serves the five U.S. actuarial organizations by considering complaints concerning possible violations of the Code of Professional Conduct and responding to inquiries from actuaries about their professional conduct.

As of Sept. 30, 2003, the ABCD had 15 active inquiries, compared to 19 at the same time in 2002. Of those 15 cases, two are awaiting the subject actuaries' initial responses to the complaints, two are awaiting a decision from the ABCD as to whether to investigate, five are under investigation, two have been investigated and are awaiting the subject actuaries' responses to the investigators' reports, two have been scheduled for a hearing but not yet heard, and two went to hearing in September 2003.

So far this year, the ABCD has handled 16 voluntary requests for guidance.

## ASB

The ASB serves the actuarial community and the public by codifying generally accepted actuarial practice through the issuance of actuarial standards of practice (ASOPs). Since October 2002, the ASB has exposed a number of proposed revised and new ASOPs. It also repealed Actuarial Compliance Guidelines 1 and 2 in June 2003, and in October 2003 it repealed the preface to the ASOPs. The guidance contained in the preface will be incorporated into a new document written by the Academy's Council on Professionalism.

The ASB is also working with the IAA in the effort to develop international standards of practice.

## ASB Publications

12/02 exposure draft of a revision of ASOP 4, *Measuring Pension Obligations and Determining Pension Plan Costs*

03/03 exposure draft of a revision of ASOP 1, *The Redetermination (or Initial Determination) of Nonguaranteed Charges or Benefits for Life Insurance Policies and Annuity Contracts*

06/03 exposure draft of a revision of ASOP 11, *The Treatment of Reinsurance Transactions Reflecting Life or Health Insurance Risks in Financial Statements*

10/03 second exposure draft, *Determining Health and Disability Liabilities Other than Liabilities for Incurred Claims*

10/03 second exposure draft, *Selection and Use of Asset Valuation Methods for Pension Valuations*

10/03 exposure draft, *Introduction to the Actuarial Standards of Practice*

10/03 exposure draft of a revision of ASOP 23, *Data Quality*

10/03 exposure draft of a revision of ASOP 38, *Using Models Outside the Actuary's Area of Expertise (All Practice Areas)*

Vice President: Robert Rietz • The Council on Professionalism has 82 individuals serving on its committees, subcommittees, task forces,

and work groups. • Between 09/02 and 09/03 there were 7 articles on professionalism issues in *Contingencies*.