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AMERICAN ACADEMY OF ACTUARIES

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HONORS

Casualty Regulator Bailey Receives Myers Award



1999 Myers Award honoree Robert A. Bailey (center) receives congratulations from Academy President Richard S. Robertson (left) and award namesake Robert J. Myers.

Robert A. Bailey, former first deputy insurance commissioner for the state of Michigan, is the 1999 recipient of the Robert J. Myers Public Service Award. Bailey, who accepted the honor at the May 27 Academy Washington Luncheon, is the first actuary in casualty practice to receive the award.

In presenting the award, Academy President Richard S. Robertson cited the words of casualty actuary Michael Lamb, one of those who nominated Bailey. "Much of Bob's career was spent with the state of Michigan and the National Association of Insurance Commissioners (NAIC) service office, where his intelligence and self-discipline enabled him to make many formative contributions to the regulatory database, solvency tests and profitability concepts that we embrace today. Probably no other single individual has contributed so much to our ability to intelligently regulate casualty insurers for the public interest."

As chief casualty actuary of the Michigan Insurance Bureau from 1965 until 1974, and as first deputy commissioner from 1991 until 1997, Bailey developed one of the first computerized audits of property/casualty financial statements and was instrumental in the development of the NAIC Early Warning System, now called the Insurance Regulatory Information System. As director of the NAIC Database from January 1974 until February 1981, he helped bring casualty insurance regulation into the computer age.

Bailey is a 1951 graduate of the University of Iowa, where he earned an M.S. in actuarial science in 1953. He is a fellow of the Casualty Actuarial Society (CAS) and has served on both the CAS and Academy boards of directors. In addition to his governmental service, Bailey's actuarial career has included employment by private firms, including the A.M. Best Co. and E.W. Blanch Co.

Bailey is a second-generation actuary; his father was Arthur Bailey, former New York State insurance regulator. The contributions that both Baileys made to the development of credibility theory are described in a feature article in the April *North American Actuarial Journal*, published by the Society of Actuaries.

The Robert J. Myers Public Service Award, presented annually to an actuary who has made a noteworthy contribution to the public good, is named for the former chief actuary of the Social Security Administration. Previous year's recipients are former California regulator John Montgomery (1995); Guy King, former chief actuary of the Health Care Financing Administration (1996); James Gardiner of the New York State Department of Insurance (1997); and Dwight K. Bartlett III, former Social Security chief actuary and Maryland insurance commissioner (1998).

Social Security Chief Hails Academy Education Efforts

The Academy's public education work on Social Security, spearheaded for the past two years by Senior Pension Fellow Ron Gebhardtsbauer, drew praise from U.S. Commissioner Ken Apfel in his May 27 address at the Academy's Washington Luncheon.



Commissioner Ken Apfel

"Ron Gebhardtsbauer and the Academy have provided a remarkable service to the public," Apfel said. "I visited your Web site the other day and was struck by the wording of your mission statement. It calls for the Academy to assist in the formulation of public policy by providing independent and objective information, analysis and education. You have certainly done that. As the debate progresses, the Academy needs to continue to play the role that it has in educating the American public."

Apfel also admires the Social Security Game, an interactive Web game developed by the Academy. "The game is a wonderful learning tool," Apfel said, "because it presents the pros and cons of each one of the options it offers. There are tough choices to be made, and every one of them has trade-offs. I invite all Internet users to look at this game."

The Social Security Game encourages players to develop their own package of Social Security reforms based on a menu of the leading options in the debate. Players must choose options that together restore Social Security to 100 percent solvency for 75 years, according to the projections of Social Security Administration (SSA) actuaries. The game can be found at the Academy Web site, www.actuary.org.

SSA's own communications work is helped by its in-house actuaries, Chief Actuary Harry Ballantyne and Deputy Chief Steve Goss. "The Social Security Administration will continue to make public education a top priority," Apfel said. "In our materials, we are fortunate to be able to use the good information provided by Harry and Steve and their exceptional staff. Their actuarial projections help people understand the implications of various alternative choices."

On the possibility of Social Security legislation this year, Apfel expressed optimism. "I disagree

with those who say that Social Security reform is dead in the water." As a Clinton appointee, he stated that the best scenario would be legislation along the lines of the administration plan to strengthen the current program over the long-term, maintain a guaranteed benefit that favors low-income workers and increase retirement savings through universal savings accounts (USAs) outside Social Security.

However, it is possible that the administration could support universal savings accounts even without enactment of the president's reform framework. Asked about the recent proposal by House Ways and Means Chairman Bill Archer (R-Texas) and Rep. Clay Shaw (R-Fla.), Apfel noted similarities between the Clinton USAs and the Archer-Shaw plan. "It is possible that we could be in a situation where a savings incentive is created" independent of comprehensive Social Security reform.

Apfel also mentioned aspects that the administration could support in the plans of Representatives Jim Kolbe (R-Ariz.) and Charlie Stenholm (D-Texas), as well as Archer-Shaw. Apfel stressed that elements of those proposals would help fill holes in the safety net, particularly for women. In that context, the commissioner praised the Academy's recent issue brief on women's issues.

Recent improvements in the actuarial projections for Social Security should not blind policymakers to the need for reform. "The simple laws of actuarial mathematics can have a way of focusing the mind when it comes to long-term issues," Apfel said. "The coming retirement of 76 million baby boomers and improvements in the longevity and health status of the elderly have deservedly caught the attention of Washington. Your profession provides independence and credibility to discussion that is fraught with uncertainties and conflicting opinions."

What's New on the Web

The new Web address of *Contingencies* magazine is www.contingencies.org. At the site, you will find a feature article from the current issue and each of the past two issues, as well as Puzzles, Letters to the Editor and a handy searchable index of 10 years' worth of *Contingencies* articles.

Best of all, *Contingencies* can take you shopping for books and CDs at amazon.com, where every dollar spent helps the profession. Buy any book reviewed or recommended on the Book Link page, and *Contingencies* receives 15 percent of the purchase price; for all other purchases, *Contingencies* receives 5 percent. One-quarter of the proceeds will be invested in the future of the profession, through the CAS/SOA Joint Minority Recruiting Program (see Page 4).

IN BRIEF

NAIC News

The Academy presented technical work products to the National Association of Insurance Commissioners (NAIC) at its June 4 – 9 meeting in Kansas City, Mo. Among the actions:

- Donna Novak of the Academy Health Practice Council reported on a joint Academy/NAIC project to develop a health reserving guidance manual. The manual will provide guidance to actuaries and regulators on establishing reserves for health coverages and reporting those liabilities. The final draft is expected to be delivered to the NAIC Life Health Actuarial Task Force (LHATF) in October. Novak also reported on an NAIC requested project led by Mike Abroe to collect data on the Medicare supplement market.

- An Academy task force on life insurer risk-based capital led by Cande Olsen gave a C-3 interest rate risk update and a recommendation to adopt the property/casualty recommendation for insurance subsidiaries held at market value.

- Pat Teufel, chairperson of the Academy Committee on Property/Liability Financial Reporting, presented comments on NAIC Casualty Actuarial Task Force (CATF) Chairman Richard Roth's proposed revisions to the Annual Statement Instructions, including recommendations on securitization and retroactive reinsurance.

- The Academy Equity-Indexed Products Work Group presented a revised draft of a model nonforfeiture law for equity-indexed annuities known as NF-ZZZ.

- Tom Campbell and Steve Preston presented status reports on efforts to develop an integrated CRVM (commissioners reserve valuation methodology) for variable annuities with guaranteed living benefits and on the work of an Academy work group on variable life reserving guidelines.

Academy Seeks SF Honoree

June 3 was Society of Actuaries (SOA) Day in the state of Illinois by proclamation of Gov. George Ryan, as the SOA celebrated the official 50th anniversary of its founding. The birthday festivities climax in San Francisco, October 17 – 20, where the Academy joins the SOA at its annual meeting.

Correction

The Academy representatives who met with General Accounting Administration (GAO) staff about Social Security assumptions on March 21 were Ron Gebhardt and Bruce Schobel, not Allan Gorrellick and Dick Joss as stated in the May *Update*. Gorrellick and Joss met with GAO officials on March 2 to discuss pension plan top-heavy rules.

The Academy's Jarvis Farley Service Award will be presented at Tuesday's SOA Presidential Luncheon, and nominations of individuals who have made an outstanding volunteer contribution to the profession are still being accepted. E-mail your nomination to the Academy's Director of Communications, Ken Krehbiel, at krehbiel@actuary.org, or fax it to his attention at 202-872-1948.

At the Academy's Annual Meeting on Monday, political analyst Fred Barnes delivers the luncheon address, and 1999 Academy President Richard S. Robertson hands off the gavel to successor Steve Kern. New vice presidents take office, and new regular directors of the Academy Board will be elected. For details, see the brochure in this month's *Update* mailing.

Don't Play Games With Medicare

President Clinton's proposal to use 15 percent of the federal budget surplus for Medicare is a positive development toward solvency because it would represent a government commitment to pay benefits from general revenue when required, Senior Health Fellow Dwight Bartlett stated in an interview on Medicare reform proposals in the *May Employee Benefit Plan Review*. "The government has been playing games, transferring benefits that previously were paid out of Part A into Part B to make appear more solvent," he said. "Stuffing U.S. securities into the trust fund does not delay the date at which tax revenues no longer will be sufficient to cover current benefits' cost."

Premium support proposals to give beneficiaries a fixed-dollar amount to buy coverage in the private market would have an uncertain effect on Medicare fiscal soundness, Bartlett stated. "Advocates of this plan seem less focused on the short-range effects — in terms of the general revenue financing required from the government than on the constraint on medical inflation that they feel the plan will have in the long run," he continued. "There is considerable



Dwight Bartlett

dispute as to how much constraint the proposal would produce. It seems reasonable that there would be some favorable effect."

Casualty News

At an interim meeting of the National Association of Insurance Commissioners (NAIC) on May 19, the Academy presented basic guidelines for licensing of multiple statistical agents for workers compensation. The report was drafted by an Academy work group under the leadership of Layne Onufer.

The basic guidelines are intended to help states and the NAIC as they consider the issue of multiple statistical agents for workers compensation rating

agencies. A statistical agent collects and compiles workers compensation data, and for decades there has been essentially one in each state, the National Council on Compensation Insurance in most cases.

However, states are considering whether to permit multiple statistical agents. Some states have decided to license multiple statistical agents, while others permit agents to compete for a state contract. Still other states may decide to keep their existing statistical agent.

The Academy report does not recommend any one of these models over another. "The actuarial profession has a vested interest in the data collection and ratemaking process," the Academy report stated. "There is a diversity of views within the actuarial

community as to which of the potential models is most desirable."

The Academy guidelines recommend that:

- Industrywide aggregations of data in each state continue to exist regardless of the number of licensed statistical agents;
- Each state use a common set of class definitions and single minimum standard statistical plan;
- Confidentiality of information be protected;
- Statistical agents meet minimum qualifications requirements to ensure data integrity and confidentiality;
- Data should be maintained in such a way as to permit ease of transfer to other organizations;
- Costs and benefits to insurers, agents and regulators be considered in the decision-making process.

FROM A GUEST CHAIRPERSON

KENNETH W. PORTER

With Visibility Comes Accountability

During President Clinton's first year in office I was asked by the White House to join a small group of actuaries and one economist in the Cost Audit Group for national health care reform. We spent months providing an external review of the cost analyses of various alternative national health designs. During this time, it became apparent that some members of Congress and the administration wanted to reform defined benefit pension plans as soon as health care was finished.



Kenneth W. Porter

According to proponents, defined benefit pension reform was necessary because traditional plan designs discriminate against women and other disadvantaged groups. To summarize their argument: Individuals in these groups are more likely than white males to change jobs in order to extricate themselves from negative work environments. Women in particular make more frequent job changes because many do not return to previous employers after taking time off for childcare. As a result, greater numbers of women and minority group members end their careers with small pension fragments from several employers rather than larger career-long pensions from single employers. The proponents of reform argued that tax subsidies for defined benefit plans should be less dependent on longevity with a single employer. Subsidies should rather reflect the life-long contribution individuals make to society, and the career-long taxes they pay.

There was little success putting these ideas into public policy. Nevertheless, inaction in Washington did not stop employers from rethinking how they deliver pension benefits. For a variety of reasons, many companies decided they needed to redistribute pension values among a broad base of employees. Thanks in no small part to the ingenuity of actuaries, cash balance plans and pension equity plans were created to meet these growing business needs. In doing so, actuaries solved many of the stated objectives of the White House and Congress, in many cases without support from Washington.

Today these hybrid pension plans are embroiled in controversy. The governmental bodies that wanted change a few years ago are openly attacking the solution, especially the treatment of longer-term employees during the transition to a new plan. This congressional reaction does not, however, result from a change of heart among our leaders in Washington. Rather, it stems from the way some of these plans have been rolled out and communicated, and from the way some members of the actuarial profession have described these plans in professional continuing education programs. Inflammatory actuarial presentations have been distributed throughout Washington, and we may get reactionary "corrective" legislation that could damage hybrid plan development and, perhaps, the entire defined benefit community.

One could argue that changes to the law should be initiated only on the basis of a careful, substantive analysis of the public good and not merely as a reaction to the hue and cry elicited by incomplete statements taken out of context. Certainly, it is imperative for actuaries to feel free to express their unbiased professional opinions without fear of reprisal. Increasingly, however, the actuarial profession is taking center stage in a number of public policy debates. In addition, many of our presentations are now only a mouse-click away.

With increased exposure comes increased accountability. It is obvious from the current congressional debate over cash balance plans that the transcripts of our meetings can and will be used outside the forums in which they are presented. Accordingly, it is incumbent on all actuaries to keep an external focus when they prepare their presentations. Surely the salient points of actuarial innovation can be expressed in less explosive ways without sacrificing the free flow of creative interactions that make our profession strong.

At a cash balance seminar a number of years ago, I remember leaning over to the actuary next to me and whispering, "Taken out of context, this presentation could be very damaging." I wish I had spoken a little louder.

—PORTER IS CHAIRPERSON OF THE ACTUARIAL BOARD FOR COUNSELING AND DISCIPLINE.

'Actuaries Help Us Stick to the Facts' Close-up on Carolyn Lukensmeyer of ADSS

Over the past two years, the Academy has enjoyed a fruitful collaboration with the nonpartisan educational group Americans Discuss Social Security (ADSS). Senior Pension Fellow Ron Gebhardtsbauer and other Academy actuaries have served as impartial scorekeepers at more than 50 ADSS-sponsored forums all over the country and at three national teleconferences, bringing the expertise of actuaries to the attention of President Clinton, Vice President Gore and both Republican and Democratic members of Congress. Academy staff member Jeffrey Speicher spoke with ADSS Executive Director Carolyn Lukensmeyer as she prepared to wrap up her organization's work at the end of June.



Ron Gebhardtsbauer and Carolyn Lukensmeyer at the May 27 Academy Washington Luncheon.

Why was ADSS formed?

ADSS was created by the Pew Charitable Trusts to get elected officials and the public to focus on Social Security in a timely fashion — sooner rather than later. The thinking behind ADSS is that if citizens are given the opportunity, their views can actually influence the debate in Washington.

Some political pundits assert that Congress has become captive to special interests. To restore trust, elected officials need to deal with public policy issues in the context of people's lives, not as they fit the definition of a special interest group. The challenge for elected officials is to convince citizens that they will be listened to, and to frame issues as citizens understand them rather than forcing citizens toward a predetermined answer to the question.

Why did you involve actuaries in your program?

The actuarial profession is an extraordinary resource to ensure that a public debate is built upon the facts. Actuaries can make sure that statistics are not abused in support of a particular position and used to reflect what is possible in the arena of public policy.

In planning our forums, we knew that the Social Security trust fund would be an issue, and we wanted an authoritative voice who could explain the financing mechanism and allow us to move on to examine reform options. Very early on, Ron Gebhardtsbauer proved himself to be that authoritative voice on financing and also as an unbiased expert who could present the pros and cons of each reform option.

So actuaries added value?

No question about it. The value the actuaries brought is not just in the quality of their information, but the very professional skill of knowing how to keep the debate in a positive mode.

An example was the 10-city women's teleconference with Hillary Rodham Clinton that Anna Rappaport participated in. We used a debate format with Jane Bryant Quinn as moderator, and there were several times when Anna saved the day by jumping in when panelists veered away from accuracy by saying, "Well, you know that is not quite right," or, "Let's put it in this context."

And we've actually had fun at the forums. Every one of the Academy actuaries has been very engaging, disproving the stereotype of actuaries as boring and dry.

How have you protected your reputation for impartiality?

Members of our National Advisory Board represent the entire range of opinion on Social Security. We have experts from across the spectrum reviewing our literature, from the Cato Institute to the AFL-CIO. At times, our presentations have been challenged by some who say that we make Social Security's problems seem too small and by others who say we make them seem too large. So I guess we've hit the right balance. The participation of nonpartisan organizations like American Academy of Actuaries has lent credibility to our impartial character.

The conventional wisdom now says, "No action on Social Security until after the 2000 elections." What is

your read?

ADSS advocates only two principles. One is that citizens' voices should be heard and should make a difference. The other principle is that it is better to take action sooner rather than later.

Our work shows that something very dramatic has happened among the American public who are paying attention to this issue. Social Security used to be called the third rail of politics: Touch it and die. But that is not the mood out there right now. Americans are really advocating reform of Social Security. I don't think the administration and Congress have yet focused on that fact.

Our forums and polling show that there is a wide consensus in the country for a safety net for retirees, survivors and people with disabilities. People want the Social Security program to be stable, fair to every generation and financially able to sustain itself over time.

In terms of specific solutions, our surveys show heavy support for raising the cap on taxable earnings and a pretty close split on the use of private accounts. The most impressive statistic to me concerns using the budget surplus: 60 percent of the public, both Democrats and Republicans, think it is a great idea. That same public, 74 percent, understand that using the surplus alone is not enough, which shows me that these two years of education have paid off. People know there is no single, easy answer.

However, if Social Security slips off the agenda as we go into the next round of presidential politics, it could become a third rail once again, and the education effort will have to be repeated.

Gebhardtsbauer Leads Web Forum

Contrary to popular thought, political participation is not dead. Instead, it has changed to keep up with the fast-paced technological age. From May 24 to June 4, Academy Senior Pension Fellow Ron Gebhardtsbauer helped keep alive the spirit of direct democracy by moderating an electronic town meeting on Social Security sponsored by Americans Discuss Social Security and Network Democracy. Joining Gebhardtsbauer online were Senators Jim Bunning (R-Ky.), Judd Gregg (R-N.H.) and Rick Santorum (R-Pa.); and Representatives Jim Kolbe (R-Ariz.), Jerrold Nadler (D-N.Y.), Earl Pomeroy (D-N.D.), Mark Sanford (R-S.C.), Clay Shaw (R-Fla.) and Charlie Stenholm (D-Texas).

Each member of Congress participating in the discussion posted his proposal on the discussion site. This allowed people to compare the proposals, ask questions and give opinions. The result was a lively discussion between elected officials and citizens. According to Gebhardtsbauer, "The members of Congress were very responsive to people's questions about their legislative proposals to fix Social Security. Citizen participation

was also encouraging. In one day there were 13,000 hits on the forum's Web site."

In his closing remarks, Gebhardtsbauer surveyed the common ground among the congressional positions. He noted that all had common features. All would maintain progressivity; invest in equities; use general revenues; eliminate the earnings test; and would agree to lock up the Social Security surplus.

"These less painful reforms don't fully solve all of Social Security's current financial problems," said Gebhardtsbauer, "but if you look further, about half the proposals agree on the following features. They would raise the retirement age slightly and then index it with lifespan, increase the benefit computation period a little, raise the wage base somewhat, make technical improvements to the cost of living adjustment and require future fixes of the system to be automatically put on a fast track for congressional approval. This second group of somewhat more painful reforms could get us the rest of the way to a solution, but of course would be more difficult to enact."

Social Security Honor Roll

The following individuals have been thanked by Academy President Richard S. Robertson for their assistance to the Academy's Social Security education effort. "Over the past few years, the Academy has contributed to the national debate on Social Security by providing independent actuarial information to members of Congress, the Clinton administration and the American public," Robertson wrote. "By answering the Academy's request to participate at a public forum on Social Security, sponsored by Americans Discuss Social Security and the Public Forum Institute, you have made an important contribution to that effort. Thank you for helping the Academy carry out its mission of advancing the actuarial profession."

Receiving letters of thanks were David Adams, Kent Bartell, Jerry Bogart, Elinor Bowman, Jeff Bridges, James B. Dexter, Heidi Rackley Dexter, Tom Foley, Don Fuerst, Jim Isbell, Barbara Blatt Kalben, James Maclean, Judy Miller, Mary Frances Miller, Robert J. Myers, Peter Neuwirth, Herbert Petterson, Anna Rappaport, Bruce Schobel, Eric Stallard, Ken Steiner, Valerie Stevens, Jack Turnquist, Steve White, Howard Young and Larry Zimpleman.

In addition to the individuals who have spoken or answered questions at Social Security forums, many more have taken time from their schedule in response to an Academy invitation to attend a forum in their area. Thank you!

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Call it synergy. Sometimes, two events occur almost simultaneously and can be put together to create a victory for all concerned. The January/February *Contingencies* magazine featured a cover story by Robert Randall, the first African-American fellow of the Society of Actuaries, where he discussed his experiences as a pioneer black actuary. Randall's article received a tremendous response, with many letter-writers agreeing that the profession should do more to encourage minority recruitment.

At about the same time, *Contingencies* editor Steve Sullivan signed an agreement with bookseller amazon.com to allow readers to purchase books directly

through the *Contingencies* Web site, www.contingencies.org. Under the deal, *Contingencies* receives 15 percent of the price of books reviewed or recommended in the magazine. *Contingencies* receives 5 percent of the price of all other books and CDs purchased.

Well, the Academy has put two ideas together — helping the actuarial profession's showcase magazine and helping qualified students pursue studies in math — and come up with a win/win. As an investment in the future of the profession, *Contingencies* will contribute 25 percent of all revenues earned to the work of the Casualty Actuarial Society (CAS)/Society of Actuaries (SOA) Joint Committee on Minority Recruiting.

Since 1977, the mission of the CAS/SOA committee has been to provide scholarships for qualified minority students interested in actuarial science and to fund summer mathematics education programs for high school students.

In 1998, the committee awarded \$29,500 in student scholarships. Of 42 applicants, 26 applicants received tuition grants and an exam waiver. This year, the committee has expanded its commitment to col-

lege-sponsored summer programs and this year will award funding to programs at Howard University, Illinois State University, University of Louisville and Temple University. These programs expose high school students with high mathematics scores to the actuarial profession through courses in math applications, computer literacy and visits from practicing actuaries.

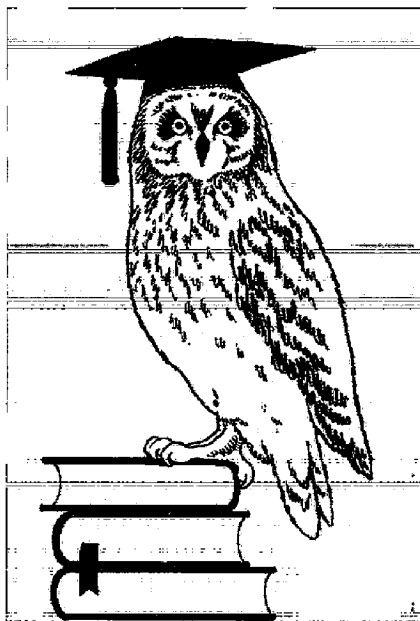
As proud as I am of the committee's work, the need is greater than our current resources. That is why I make a personal appeal to all actuaries to do their shopping for books and CDs through www.contingencies.org.

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—STROM IS CHAIRPERSON OF THE CAS/SOA JOINT COMMITTEE ON MINORITY RECRUITING.



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THE ACTUARIAL UPDATE

1 Casualty Regulator Robert Bailey Honored

2 ABCD's Ken Porter on Actuarial Speech

3 Actuaries Bring Facts to Social Security Debate

4 Buy Books, Boost Actuaries at *Contingencies* Web Site

ENCLOSURES

In Search Of ... ■ 1999 Annual Meeting Brochure