

AMERICAN ACADEMY OF ACTUARIES

*Academy
Year in
Review*

2011 RECORD

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AMERICAN ACADEMY *of* ACTUARIES

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Introduction



Mary Frances Miller, President, 2010-2011

Dear Academy Colleague,

With more than 1,200 volunteers working on approximately 150 committees, subcommittees, work groups, and task forces, the breadth and depth of the Academy's work can be seen in testimony, comment letters, white papers, issue briefs, hearings, and similar work product. Throughout that activity, the Academy's mission to serve the public and the United States actuarial profession is a constant.

With a vision for the Academy that financial security systems in the United States be sound and sustainable, and that actuaries be recognized as pre-eminent experts in risk and financial security, the totality of the Academy's work and its impact on the public and the profession are far greater than the sum of its individual work product.

This past year of 2011 was an active one. In every area of practice and professionalism, the Academy made significant strides on broad, vital issues.

Academy volunteers conducted well-attended Capitol Hill briefings on subjects ranging from Medicare and Social Security to pensions, retirement risk, and reauthorization of the National Flood Insurance Program. The Academy has seen a surge in member interest in professionalism issues. Groups of actuaries, gathered at as many as a thousand Web-linked sites, have been willing to set aside 90 minutes from a hectic workday to examine compelling professionalism topics during Academy webinars. This dedication reflects the strength of our members' commitment to professional excellence.

In the pages that follow, you'll learn much more about the specifics of the Academy's work over the previous 12 months. Little of this work reflects an endpoint. Rather, it represents the Academy's legacy, dating back to 1965, of serving as the public voice for the U.S. actuarial profession and providing independent and objective actuarial information, analysis, and education for the formation of sound public policy.

Thank you for all you do for the profession and the American Academy of Actuaries.

Sincerely,

A handwritten signature in black ink, appearing to read "Mary Frances Miller".

Mary Frances Miller
2011 President
American Academy of Actuaries

Council of U.S. Presidents Highlights

The Council of U.S. Presidents (CUSP) is the Academy committee on which the presidents and presidents-elect of the five major U.S.-based actuarial organizations come together to discuss issues of importance to the entire U.S. actuarial profession. In 2011, CUSP continued to discuss and advance a proposal to try to establish a joint disciplinary process among all the organizations.

Under the proposal, a disciplinary recommendation by the Actuarial Board for Counseling and Discipline, after being provided to the applicable member organizations, would be submitted for determination to a single representative joint disciplinary panel and, in the event of an appeal, a joint appeal panel. The proposal could create a more efficient disciplinary process with greater consistency in outcomes.

The proposed reforms required each of the U.S.-based actuarial associations to vote on bylaw changes that would allow their organization the option to join a joint discipline agreement. Those votes occurred in 2011 at each of the organizations, and

the membership for each organization voted and passed these amendments during their respective elections. The next steps, which remain subject to final approval by the board of directors of each of the organizations, will address how to structure a joint process.

CUSP also discussed significant international issues in 2011, including how to establish a process among the U.S. organizations to review drafts of model international standards of actuarial practice (ISAPs) emanating from the International Actuarial Association (IAA). CUSP asked the Actuarial Standards Board (ASB) to review the first exposure draft of an IAA model standard, ISAP 1—*General Actuarial Practice*, and to establish a process that could be used in the future as more model international standards emerge. In response to CUSP's request, the ASB established a substantive and thorough review process and issued its first report to CUSP on the ISAP 1 exposure draft, which the Academy exposed to its membership in an October [email](#).

Council on Professionalism Highlights

The Council on Professionalism and/or its committees:

■ Hosted and sponsored quarterly low-cost webinars on important professionalism topics to assist actuaries to meet their continuing education requirements. Co-sponsors included the American Society of Pension Professionals and Actuaries (ASPPA), the Casualty Actuarial Society (CAS), the Conference of Consulting Actuaries (CCA), and the Society of Actuaries (SOA). The webinar topics covered:

- “Revised ASOP No. 41: Actuarial Communications”
- “The Profession’s Responsibility to the Public”
- “Code of Professional Conduct—Applying the Same Code in Uncertain Economic Times”

More actuaries attended the Academy’s professionalism webinars this year than in any of the prior years since the council began hosting professionalism webinars, with more than 2,100 registered sites for the first three webinars of 2011. A fourth webinar, on international issues related to the work of the International Actuarial Association and important to U.S. actuaries, was conducted on Dec. 15, 2011.

■ Recommended to the Academy Board of Directors that it establish a requirement that all Academy members who serve on any Academy committee meet the continuing education requirements as set forth in the U.S. Qualification Standards to further illustrate the Academy’s commitment to its mission of promoting high professionalism standards. The board approved the recommendation at its meeting on Oct. 28.

■ Recommended changes to the Academy’s existing conflict of interest policy. The Academy Board of Directors adopted the council’s recommended [changes](#), which incorporate the discussion paper described below.

■ Published a discussion paper, [Conflicts of Interest When Doing Volunteer Work](#), intended to assist current and future Academy volunteers in identifying and resolving potential conflict of interest issues when they provide volunteer services to the Academy.



PROMOTING HIGH PROFESSIONAL STANDARDS

Academy Council on Professionalism members Ken Kent and Karen Terry discuss the profession’s responsibility to the public during a professionalism webinar on June 29. The Academy hosted four professionalism webinars in 2011.

■ Completed, pursuant to the Academy’s strategic plan, its task of reminding Academy volunteers to provide the annual conflict of interest acknowledgments required by the Academy board to evidence compliance with the policy. As a result of the annual conflict of interest acknowledgment process, only 15 members out of approximately 1,250 volunteers were dropped from their respective committees for failing to make such acknowledgment.

■ Are reviewing and updating previously published discussion papers, including those on international practice and required disclosures under the Code of Professional Conduct. The council also is revising its draft discussion paper on the difficult subject of compliance with Precept 13 of the Code of Professional Conduct.

■ Hosted a well-received round-table forum on actuarial professionalism at the National Association of Insurance Commissioners’ fall meeting. Representatives from the Academy’s Council on Professionalism and its Committee on Qualifications and members of the Actuarial Standards Board and the Actuarial Board for Counseling and Discipline facilitated an open, candid, and free-flowing discussion with regu-

lators about issues they may be facing and answered questions about actuarial professionalism.

■ Sent, jointly with the Health Practice Council, a letter to the Arizona Department of Insurance regarding the state's administrative regulation definition of "qualified actuary" as it applies to actuaries who issue insurance rate certifications and advised the Arizona department of the distinctions between the qualifications for rate opinions and reserve opinions.

■ Continued to consider the appropriate vehicles for educating volunteers and committee chairs on professionalism issues they should consider in the context of Academy meetings involving volunteers, such as antitrust, confidentiality, and conflict of interest.

■ Sponsored the Academy's 12th annual Life and Health Qualifications Seminar to assist actuaries in meeting the examination and continuing education requirements under Section 3 of the U.S. Qualification Standards. More than 75 actuaries attended the intensive seminar on Nov. 7–10, 2011, in Arlington, Va.

■ Vetted, through its Committee on Actuarial Public Service, the many candidates nominated for this year's Robert J. Myers Public Service Award and rec-

ommended nominee Mary D. Miller to the Executive Committee, which approved the recommendation. Miller received the award at the Academy's Annual Meeting held Oct. 24, 2011.

■ Continued to encourage the Academy's professionalism staff to participate in SOA and CAS professionalism courses. The council also continued to serve as a professionalism resource by providing topics and speakers for actuarial organizations and actuarial clubs to further encourage adherence to the high standards of qualifications, practice, and conduct promulgated by the Academy.

■ Continued, through its Committee on Qualifications, to respond to numerous questions regarding the U.S. Qualification Standards. The council submitted a letter to the SOA in response to its questions regarding the standards as they apply to actuaries changing areas of practice.

■ Sent a letter to the owners of the Actuarial Outpost, D.W. Simpson, to urge the firm to remove a forum on the outpost that contained sexually explicit and other inappropriate comments that reflect poorly on the actuarial profession. The Actuarial Outpost subsequently limited the forum's visibility.

ABCD Highlights

The Actuarial Board for Counseling and Discipline (ABCD) was established by the U.S.-based actuarial organizations to strengthen members' adherence to the recognized standards of practice and ethical and professional conduct under the Code of Professional Conduct. The ABCD, which is an autonomous board housed in the Academy, responds to actuaries' requests for guidance on professionalism issues and considers complaints about possible violations of the actuarial Code(s) of Professional Conduct. It also informally mediates disputes involving members of the organizations and other parties, speaks on professionalism topics, and publishes material on professionalism.

As of Sept. 30, 2011, the ABCD had 21 inquiries in progress and had completed six inquiries. Of those, five were dismissed and one resulted in a recommendation for discipline. It also responded to 41 requests for guidance.

The ABCD continued its educational outreach throughout the year. ABCD representatives responded to speaker requests and continued to write the column Up to Code, which appears in each issue of *Contingencies* magazine. Up to Code is a vehicle to inform the profession about current issues that the

ABCD has seen in its counseling and discipline work. The 2011 Up to Code topics follow:

- Jan/Feb 2011—"Comments on Changing the Disciplinary Process"

Readers respond to proposed discipline reforms.

- March/April 2011—"Non-actuarial Services under the Code"

Under the Code of Professional Conduct, actuaries should perform all services in an ethical and competent manner.

- May/June 2011—"Question Time"

James Gutterman, who joined the ABCD in 2010, discusses his first-year impressions.

- July/August 2011—"International Compliance"

The work products of U.S. actuaries often will need to meet practice guidelines set by entities other than the Actuarial Standards Board.

- Sept/Oct 2011—"Are You an Expert?"

What are your responsibilities for complying with the Code of Professional Conduct when you offer expert testimony about another actuary's work?

- Nov/ Dec 2011—"A Look at Transparency"

What does transparency in the actuarial disciplinary process mean to you?

Public Discipline Highlights

The Academy convenes a disciplinary committee to hear each individual case referred to it by the Actuarial Board for Counseling and Discipline (ABCD). Acting in accordance with the Academy's bylaws to review the recommendation from the ABCD, these committees addressed the disciplinary recommendations it

received from the ABCD in 2011. In accordance with the Academy's efforts to be as transparent as possible within confidentiality constraints, the Academy posts all [notices of public discipline](#) on its website. In 2011, the Academy publicly reprimanded one member and expelled one member.

ASB Highlights

The Actuarial Standards Board (ASB) establishes and improves actuarial standards of practice (ASOPs). These ASOPs identify what the actuary should consider, document, and disclose when performing an actuarial assignment. The ASB's goal is to set standards for appropriate practice for the United States.

When creating or revising an ASOP the ASB:

- Reviews and evaluates current and emerging practices;
- Determines appropriate guidance;
- Publishes an exposure draft to obtain input from actuaries and other interested parties;
- Considers all comments received; and
- Publishes a final standard or another exposure draft.

From Oct. 1, 2010, to Sept. 30, 2011, the ASB:

Released three exposure drafts:

- Proposed revision of ASOP No. 20, [Discounting of Property/Casualty Unpaid Claim Estimates](#);
- Proposed revision of ASOP No. 27, [Selection of Economic Assumptions for Measuring Pension Obligations](#);
- Proposed a new ASOP, [The Use of Health Status Based Risk Adjustment Methodologies](#).

Released two discussion drafts:

- Proposed revision of ASOP No. 4, [Measuring Pension Obligations and Determining Pension Plan Costs or Contributions](#);
- [Enterprise Risk Management: Risk Evaluation and Risk Treatment](#).

Issued the final version of six revisions:

- ASOP No. 10, [Methods and Assumptions for Use in Life Insurance Company Financial Statements Prepared in Accordance with U.S. GAAP](#);

- ASOP No. 28, [Statements of Actuarial Opinion Regarding Health Insurance Liabilities and Assets](#);
- ASOP No. 35, [Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations](#);
- ASOP No. 36, [Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves](#);
- ASOP No. 41, [Actuarial Communications](#);
- [Revision of Deviation Language for Standards and Removal of References to Public Statements of Actuarial Opinion \(PSAOs\) From Standards](#) (All Practice Areas).

Issued two repeals:

- ASOP No. 2, [Recommendations for Actuarial Communications Related to Statements of Financial Accounting Standards Nos. 87 and 88](#);
- ASOP No. 9, [Documentation and Disclosure in Property and Casualty Insurance Ratemaking, Loss Reserving, and Valuations](#).

The ASB, through its quarterly publication of "The [Boxscore](#)," reports its working calendar of planned discussion and review of standards of practice and any related ASB activities.

The ASB, as mentioned in the report on CUSP ([Page 2](#)), established a robust process to review the first model international standard of actuarial practice issued by the International Actuarial Association (IAA). In addition to providing its review and comments to CUSP for the information of the five U.S.-based actuarial organizations, the ASB, as the sole standard-setting body for actuaries in the United States, also provided those comments directly to the IAA.

Practice Council Highlights

Casualty Practice Council Highlights

The Casualty Practice Council:

- Conducted the Academy's sixth annual [seminar](#) on loss reserve opinions. The sold-out seminar covered a range of topics, including accepting an opinion assignment, documentation, point estimates, and risk of material adverse deviation.
- Proposed [revisions](#) to the National Association of Insurance Commissioners (NAIC) on its *2011 Instructions for Statements of Actuarial Opinion* draft and provided [comments](#) on its *2012 Actuarial Opinion Instructions* exposure draft.
- Collaborated with members of the life, health, and pension practice councils on a special task force to review the meaning of the terms "actuarially sound" and "actuarial soundness" in state and federal legislative and regulatory contexts.
- Hosted a [webinar](#) on the latest developments concerning regulatory capital requirements for U.S. property/casualty insurance enterprises. The presenters also discussed the ongoing revision of P/C risk-based capital requirements, the NAIC's solvency modernization initiative, and recent developments at the International Association of Insurance Supervisors. The webinar, which was co-sponsored by the Casualty Actuarial Society, attracted more than 300 registrants.
- Conducted a Capitol Hill [briefing](#) on the National Flood Insurance Program (NFIP) and the future of flood insurance in the United States. The briefing, which served as a vehicle for the release of a new monograph about the NFIP, was well attended by congressional staff.
- Released a new [monograph](#), *The National Flood Insurance Program: Past, Present . . . and Future?* The monograph addresses the history, goals, and role of the NFIP, its structure and administration, and key differences between the NFIP and private-sector insurance, among other issues.
- [Commented](#) on S. 1091, The Consumer Option for an Alternative System to Allocate Losses (COASTAL) Act; provided written [testimony](#) to the Senate Committee on Banking, Housing, and Urban Affairs for a hearing on the reauthorization of the NFIP; and commented on H.R. 1309, the Flood Insurance Reform Act of 2011, in a [letter](#) to the leadership of the House Financial Services Committee.
- Submitted [comments](#) to the Wilmington Regional Association of Realtors in response to its request for Academy input on a North Carolina bill that would create a state property insurance advisory board that would include an actuary.
- Submitted a comment [letter](#) to the American Institute of Certified Public Accountants on its *Audit and Accounting Guide for Property and Liability Insurance Entities* working draft.
- Presented at the National Conference of Insurance Legislators' [spring](#) and [summer](#) meetings on the actuarial implications of the Federal Emergency Management Agency's flood mapping being done within the NFIP.



AN OBJECTIVE RESOURCE ON PUBLIC POLICY ISSUES
Academy Flood Insurance Subcommittee Chairperson Stuart Mathewson addresses congressional staffers, as Academy Casualty Practice Council Vice President Tim Wisecarver looks on, during a Capitol Hill briefing on the National Flood Insurance Program on July 12. During the briefing, the Academy unveiled a new monograph on the program.

- Published the annual *Property/Casualty Loss Reserve Law Manual* that is designed to help appointed actuaries comply with the NAIC annual statement requirements for statements of actuarial opinion.
- Updated the annual *Statements of Actuarial Opinion on Property and Casualty Loss Reserves* practice note.

Health Practice Council Highlights

The Health Practice Council:

- Provided numerous comment letters to the Department of Health and Human Services related to the implementation of several key provisions of the Affordable Care Act (ACA). The letters addressed topics such as [medical loss ratios](#), the implementation of the [risk-sharing mechanisms](#) (reinsurance, risk adjustment, and risk corridors), the planning and development of state health benefit [exchanges](#), the development of [accountable care organizations](#), the creation of [consumer operated and oriented plan programs](#), and the formalization of the new [rate review process](#) and the creation of related consumer disclosure forms. The council also published new educational issue briefs on [risk adjustment](#), [actuarial value](#), and [accountable care organizations](#).
- Met with representatives from congressional offices, government agencies, and external organizations to discuss various aspects of health reform implementation. During and subsequent to the Capitol Hill visits, the council responded to questions on a wide variety of issues, including the Community Living Assistance Supports and Services (CLASS) Act, essential benefits and actuarial value, large employers' response to the ACA, alternatives to the individual mandate, and the effect of the ACA on premiums, payment reform, Medicare, and Medicaid.
- [Testified](#) at a U.S. House Energy and Commerce Subcommittee on Health hearing on the CLASS Act—a voluntary long-term care services program included in the ACA—that it would be difficult to achieve an actuarially sound program under the current program design. Council members also [presented](#) the Academy's ongoing concerns with the CLASS program at a number of events, includ-



THE VOICE OF THE U.S. ACTUARIAL PROFESSION
Al Schmitz testifies on behalf of the Academy about the *Community Living Assistance Services and Supports (CLASS) Act* program during a U.S. House Energy and Commerce Subcommittee on Health hearing on March 17. Schmitz said that it would be difficult for the CLASS program, as currently structured, to meet the requirement that it be actuarially sound over a 75-year period.

ing the National Conference of Insurance Legislators summer meeting.

- Developed and submitted several statements on Medicare's financial condition, including an annual [issue brief](#) on the Medicare Trustees Report and a new [issue brief](#) outlining several Medicare reform options and their impact on cost, access, and quality of care. The council held a Capitol Hill [briefing](#) on the challenges to Medicare's solvency and sustainability, highlighting the information in the two issue briefs. In a [letter](#) to the new Joint Select Committee on Deficit Reduction, the council urged it to consider options that would improve Medicare's long-term financial condition. The council also conducted a Dec. 9 webinar, What Every Actuary Should Know about Medicare—from Structure to Reform.
- Assisted the Centers for Medicare & Medicaid Services (CMS) by reviewing and offering [input](#) on its Medicaid rate-setting checklist. Members of the council also gave a [presentation](#) to CMS field offices on the Medicaid rate-setting process for Medicaid managed care programs.
- Worked with the NAIC on projects related to the [Medicare supplement refund formula](#), a [valuation table](#) for group long-term disability, and a survey of carriers that write [Medicare Part D](#) business. The council issued a joint report with the life and property/casualty risk-based capital committees on

the NAIC's [solvency modernization initiative](#). Council members collaborated with the Society of Actuaries on projects related to evaluating, updating, and adjusting the 1985 NAIC cancer claims cost tables, and making recommendations with respect to valuation morbidity tables for long-term care insurance.

- Developed a [practice note](#) on the *Revised Actuarial Statement of Opinion Instructions for the NAIC Health Annual Statement*. The council also began work on practice notes related to long-term care, rate filing, and review under the ACA, and large group medical business insurance.

Life Practice Council Highlights

The Life Practice Council:

- Submitted a long-awaited [report](#) on nonforfeiture improvement to the National Association of Insurance Commissioners' (NAIC) Life Actuarial Task Force (LATF).

- Provided extensive input on the development of annuity disclosure model regulations, which were adopted by the NAIC's Life Insurance and Annuities (A) Committee on Aug. 3, 2011. In the preceding two years, the council submitted six comment letters and participated in numerous conference calls.

- Formed a new work group to address emerging issues associated with contingent annuities. The work group submitted a comprehensive [report](#) to the NAIC's Life Insurance and Annuities (A) Committee prior to the NAIC's fall meeting.

- Responded to questions from the Government Accountability Office (GAO) about the private group life insurance market and provided information about typical product designs and benefits, pricing and reserving practices, operational practices, and general aspects of managing group life insurance. The GAO was conducting an audit of the U.S. Office of Personnel Management, which administers the Federal Employees Group Life Insurance operations.

- Released the *Application of C-3 Phase II and Actuarial Guideline XLIII* [practice note](#) in March.

- Contributed to a [joint report](#) with the health and property/casualty risk-based capital (RBC) commit-

tees on the NAIC's solvency modernization initiative (SMI). The report discusses the intended/expected safety levels for RBC and identifies risks that are missing from the RBC formulas. The Life Capital Adequacy Subcommittee was instrumental in shaping the NAIC's next steps in the SMI project.

- Jointly sponsored two seminars with the Society of Actuaries on the NAIC's proposed principle-based approach (PBA) to reserves and capital. The May seminar focused on general PBA issues while the September seminar looked at PBA from a products perspective.

- Hosted three webinars. The January [webinar](#) focused on life and annuity public policy issues. The April [webinar](#) and the November [webinar](#) updated attendees on the proceedings at the NAIC spring and fall meetings and the progress made on the PBA initiative.

- Released two practice notes, [Market Consistent Embedded Values](#) and [Actuarial Practices Relating to Accounting for Insurance Pursuant to International Financial Reporting Standards](#). Work continues on practice notes on generally accepted accounting principles, and the Financial Accounting Standards Board's Accounting Standards Update 2010-26, which deals with accounting for costs associated with acquiring or renewing insurance contracts.

- Continued to assist LATF on life principle-based reserve issues and the field testing of *Valuation Manual-20: Requirements for Principle-based Reserves for Life Products*.

- Continued work, through a joint Life/Pension Practice Council task force, on a paper that addresses policy issues related to lifetime income. The purpose of the paper is to assist policymakers with decisions related to providing income security for all Americans.

- Submitted a [report](#) and [presentation](#) on the 2012 individual annuity reserving table to LATF.

- Prepared the annual *Life & Health Valuation Law Manual* for publication, which is designed to help appointed actuaries comply with the requirements of the NAIC Model Standard Valuation Law and the Model Actuarial Opinion and Memorandum Regulation.

Pension Practice Council Highlights

The Pension Practice Council:

- Conducted a Capitol Hill [briefing](#) that provided an actuarial perspective on the 2011 Social Security Trustees Report. Panelists from the Social Security Committee summarized the report and discussed policy options to address Social Security's long-term financial soundness. The May 26 briefing was well attended by senior-level congressional staff.

- Conducted a Capitol Hill [briefing](#) that addressed the different types of risk affecting today's retirement programs and offered guidelines for policymakers on how to better manage these risks. The material for the April 4 briefing was developed by the Pension Committee and presented by members of the Pension Committee and Pension Practice Council.

- Conducted a Capitol Hill [briefing](#), jointly sponsored by the Society of Actuaries (SOA), to present new research findings from the actuarial profession illustrating that the private defined benefit system is facing a "rising tide" of pension funding challenges. Presenters at the Oct. 11 briefing discussed important implications for plan sponsors, beneficiaries, and policymakers.

- Collaborated with the SOA's Pension Section Council to present an informational webinar that examined International Accounting Standard No. 19 (IAS 19), *Employee Benefits*, and potential changes to pension accounting under International Financial Reporting Standards. The webinar featured members of the Pension Accounting Committee and was viewed by nearly 200 Academy and SOA members as well as interested parties working in the pension accounting arena.

- Presented an informational [webinar](#) on Internal Revenue Service (IRS) Guidance Notice (2010-83) that addressed funding relief for multiemployer defined benefit plans under the Pension Relief Act of 2010. The webinar featured three members of the Multiemployer Subcommittee and an actuary from the Department of the Treasury.

- Developed a new [practice note](#) with information for actuaries on current practices relevant to the audit of pension plan financial information that is subject to U.S. generally accepted accounting principles (US GAAP).

- Published several new and revised issue briefs focusing on Social Security. These included an updated [issue brief](#) on automatic adjustment mechanisms that could help address Social Security's actuarial imbalance and an [issue brief](#) that offered an actuarial perspective on the 2011 Social Security Trustees Report.

- Provided [comments](#) to the Joint Board for the Enrollment of Actuaries on final regulations and continuing education requirements for enrolled actuaries.

- Submitted a [comment letter](#) to the U.S. Securities and Exchange Commission recommending that public pension plans be excluded from the definition of "investment strategies" and that enrolled actuaries and members of the five U.S.-based actuarial organizations be excluded from the definition of "municipal advisers" when they are providing actuarial services that are governed by the actuarial standards of practice and the Code of Professional Conduct.

- Sent a letter to the IRS and the Department of the Treasury with comprehensive [comments](#) and



A SOURCE OF NONPARTISAN INFORMATION
Stephen Goss, the chief actuary at the Social Security Administration and a member of the Academy's Social Security Committee, answers questions during the Academy's May 26 Capitol Hill briefing on the program's financial condition.



WORKING IN THE PUBLIC INTEREST
Academy Public Interest Committee Chairperson Tom Terry testifies at a U.S. House Committee on Ways and Means subcommittee hearing on Social Security on July 8. The congressional hearing was aired live by C-SPAN 3. In his statement to the subcommittee members, Terry said that actuaries support restoring actuarial balance to Social Security by increasing the program's retirement age to account for longevity improvements.

recommendations for future guidance on merger and spinoff issues related to the measurement of assets and liabilities for pension funding purposes and funding ratios.

- Commented in a [letter](#) to the IRS about concerns over the implications of the proposed modifications to Circular 230 and registration requirements for preparer tax identification numbers and the application of these rules to various reporting requirements for retirement plan professionals.
- Continued work, through a joint Pension/Life Practice Council task force, on a paper that addresses policy issues related to lifetime income. The purpose of the paper is to assist policymakers with decisions related to providing income security for U.S. workers.

Risk Management/Financial Reporting Council Highlights

The Risk Management/Financial Reporting Council:

- Released an updated version of the *Risk Classification Statement of Principles* [monograph](#). Originally published by the Academy in June 1980, the mono-

graph provides actuaries and other interested parties with an in-depth but accessible discussion of the concepts underlying risk classification as it is applied in all actuarial practice areas.

- Submitted [comments](#) to the National Association of Insurance Commissioners (NAIC) on its *Own Risk and Solvency Assessment (ORSA) Guidance Manual*. The council offered recommendations for improving the guidance manual, which focuses on the fundamental components of a strong enterprise risk management framework.

- Commented to the [International Actuarial Association](#) and to the [NAIC](#) on the International Association of Insurance Supervisors (IAIS) paper *ICP 14: Valuation for Solvency Purposes*. The comments addressed the total balance sheet approach and solvency regulation abroad for insurance core principles (ICPs).

- Sent [comments](#) to the IAIS on its concept paper *Common Framework for the Supervision of Internationally Active Insurance Groups*. The comments addressed the methods of operating groupwide supervision of internationally active insurance groups.

- Submitted a [revised report](#) and [letter](#) to the NAIC Capital Adequacy Task Force that explained how to treat deferred tax assets in risk-based capital formulas for life, property/casualty, and health.

- Sent a [letter](#) to the Department of the Treasury with details about the metrics used to help identify systemic risk in the insurance sector.

- Sent [comments](#) to the Financial Stability Oversight Council on its proposed rule that would require supervision and regulation of certain non-bank financial companies. The comments suggested criteria on possible metrics that could be used to identify systemic risk.

- Released *The Role of the Actuary Under Federal Risk and Insurance Oversight* [monograph](#). This is an updated version of the 2003 *Role of the Actuary* monograph.

- Submitted a [letter](#) to the International Accounting Standards Board (IASB) with comments on the reinsurance issues in its *Insurance Contracts* exposure draft. The letter discussed the calculation and amortization of residual margins on reinsurance ceded for long duration contracts as proposed in the exposure draft.

- Presented an [educational session](#) on the discount rate for insurance contracts to the Financial Accounting Standards Board (FASB) and the IASB. The Feb. 3 presentation addressed concerns about the potential misinterpretation of specifically enumerated methods for measuring fair value.
- Conducted two webinars on the insurance contracts project. The Jan. 3 [webinar](#) focused on the Academy's positions and responses to the IASB *Insur-*

ance Contracts exposure draft and the accompanying FASB discussion paper, *Preliminary Views on Insurance Contracts*. The speakers also presented an overview of the comment letters that had been submitted to the IASB and FASB. The May 10 [webinar](#) updated attendees on the progress the IASB and FASB had made toward completing the insurance contracts project. The speakers also discussed risk and composite margins, discount rates, acquisition costs, and unbundling.

Volunteer Activities

As this edition of the *Record* shows, the Academy's 1,200-plus volunteers over the past year produced substantial, noteworthy work that touched every practice area and many aspects of the profession. These volunteers demonstrate the deep commitment Academy members have to serving both the profession and the public.

Reflecting the growing interest in contributing to the public policy and professionalism work of the Academy, nearly 600 members in 2011 completed the annual volunteer survey to offer their time, talent, and expertise to advance the profession and serve the public.

New to this year's survey was the ability to view additional information on the various Academy groups included on the survey (e.g., time commitment, travel, and required/desired skills) to assist members in choosing volunteer opportunities that meet their needs as well as the needs of the Academy groups. Members also had the option to sign up for the Academy Advisors, a "virtual" committee that employs easy-to-use survey research technology via the Internet to capture feedback and advice from a representative group of Academy members. The Academy Advisors are instrumental in helping the Academy leadership by adding a reliable, broader perspective to decision making and governance.

The Volunteer Resource Committee (VRC) initiated several programs in 2011 to enhance and support members who volunteer. Academy members who join Academy committees now receive a welcome email to help jump-start their involvement. The VRC in December hosted a first-ever new volunteer orientation webinar, which covered issues ranging from antitrust and conflict of interest policies to the tools used to get committee work done. The webinar was recorded and is available for current and potential



ASSISTING IN THE FORMATION OF SOUND PUBLIC POLICY
Tim Luedtke, Patrick Collins, and April Choi (from right to left) stop to admire the Capitol Rotunda during the Health Practice Council's "fly-in" on Feb. 28 and March 1. During their visit to Washington, members of the council met with congressional and agency staff members to discuss health care reform implementation. Council members also sat down with members of the media to provide an actuarial perspective on various implementation issues.

volunteers to listen to online throughout the year. The VRC plans to conduct a new volunteer orientation webinar every fall for the new pool of volunteers generated by the annual volunteer survey.

The Academy leadership is committed to continuing to make improvements in recruiting volunteers and giving volunteers the resources they need to serve and to have a productive and positive experience.

Thanks to all our Academy volunteers.

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Academy Events Recap

Throughout the year, Academy volunteers present briefings, seminars, and webinars for both actuaries and other interested parties. These events—covering a wide variety of topics on public policy, professionalism, qualifications, and standards—offer members convenient, interactive, cost-effective opportunities to expand their knowledge, sharpen their skills, and grow their knowledge.

Events in 2011 included:

January

- 3 *Webinar*: [Reactions to the IASB and FASB Insurance Contracts Papers](#)
- 20 *Webinar*: [Overview of Life and Annuity Product Issues](#)
- 27 *Webinar*: [A Look at IRS Guidance Notice 2010-83](#)

February

- 2 *Webinar*: [Actuarial Opinions and ASOP Nos. 36 and 43](#) (Academy, CAS)

March

- 23 *Webinar*: [Revised ASOP No. 41: Actuarial Communications*](#)
- 27–30 *Conference* (Washington): [Enrolled Actuaries Meeting](#) (Academy, CCA)

April

- 4 *Capitol Hill Briefing*: [Pension Risk and Your Retirement](#)
- 14 *Webinar*: [Post-NAIC Update/PBA](#)

May

- 10 *Webinar*: [Insurance Contracts Project Update](#)
- 18 *Seminar* (New Orleans): [Preparing for Change under PBA: Life Company Reserves and Capital](#) (Academy, SOA)
- 26 *Capitol Hill Briefing*: [An Actuarial Perspective on the 2011 Social Security Trustees Report](#)
- 27 *Capitol Hill Briefing*: [An Actuarial Perspective on the 2011 Medicare Trustees Report](#)
- 31 *Webinar*: [P/C Risk-Based Capital: State and International Solvency Regulation](#) (Academy, CAS)

June

- 29 *Webinar*: [The Profession's Responsibility to the Public*](#)

*The professionalism webinars were presented by the Academy's Council on Professionalism and co-sponsored by the Society of Actuaries (SOA), the Casualty Actuarial Society (CAS), the Conference of Consulting Actuaries (CCA), and the American Society of Pension Professionals and Actuaries (ASPPA).



PROVIDING INDEPENDENT ANALYSIS ON CRITICAL ISSUES Academy Health Practice Council Vice President Tom Wildsmith introduces a new Academy issue brief that provides an actuarial perspective on the 2011 Medicare Trustees Report during a related Capitol Hill briefing on May 27.

July

- 11 *Summer Summit* (Washington): [Enterprise Risk Management](#)
- 12 *Capitol Hill Briefing*: [Weathering the Storm: Placing the National Flood Insurance Program on Actuarial Solid Ground](#)
- 20 *Webinar*: IAS 19—Changes to Pension Accounting Under IFRS (Academy, SOA)

September

- 14 *Seminar* (Orlando): Preparing for Change under PBA for Life Products: Life Company Reserves and Capital
- 21 *Webinar*: [Code of Professional Conduct: Applying the Same Code in Uncertain Economic Times*](#)

October

- 11 *Capitol Hill Briefing*: [New Research Findings Indicate a "Rising Tide" of Contributions Facing Defined Benefit Pensions](#) (Academy, SOA)

November

- 7–10 *Seminar* (Arlington, Va.): [Life and Health Qualifications](#) (Academy, SOA)
- 16–17 *Seminar* (Washington): [P/C Effective Loss Reserve Opinions](#)
- 22 *Webinar*: [Post-NAIC Update/PBA](#)

December

- 1 *Webinar*: New Volunteer Orientation
- 9 *Webinar*: [What Every Actuary Should Know About Medicare: From Structure to Reform](#)
- 15 *Webinar*: IAA Standards Development and Its Impact on U.S. Actuaries*

Academy Awards

Five long-serving actuaries received awards during the Academy's Annual Meeting and Awards Luncheon in Las Vegas on Oct. 24.

The Academy awarded Michael Abroe, a principal and consulting actuary with the Chicago office of Milliman, the 2011 Jarvis Farley Service Award in recognition of his many years of service to the Academy and the actuarial profession. Abroe has served on more than three dozen Academy com-



Academy President Mary Frances Miller presents the 2011 Jarvis Farley Service Award to Michael Abroe.

mittees, task forces, and work groups, and was vice president of the Health Practice Council from 2004 to 2006. In recent years he led the Academy's work with regulators who are implementing sections of the Affordable Care Act that create new rules for filing and reviewing health insurance premium rates. Abroe also serves as the chairperson of the Actuarial Standards Board General Committee.

The Farley Award was established in 1991 in honor of Jarvis Farley, a charter member of the Academy. The Academy presents the award to individuals who continue Farley's spirit of volunteer service to the actuarial profession.

The Academy also honored Mary Downey Miller with the 2011 Robert J. Myers Award for Public Service in recognition of her contributions to the public good through 16 years of service as a property and casualty actuary with the Ohio Department of Insurance. Through 2011, she served as the assistant director of the department's product regulation and actuarial services division. Miller has served the Academy as a member of more than a dozen committees, task forces, and work groups. She has been a regular director on the Academy board since 2009,



Academy President Mary Frances Miller (r) presents the 2011 Robert J. Myers Award for Public Service to Mary Downey Miller.

was vice president of the Casualty Practice Council from 2004 to 2006, and served as co-chairperson of the Academy's Financial Soundness and Risk Management Committee from 2002 to 2005. Miller also has been active at the National Association of Insurance Commissioners (NAIC), where she has served on numerous committees and was vice chairperson of its Casualty Actuarial and Statistical Task Force.

The Myers Award was established in 1994 to honor Robert J. Myers' lifelong commitment to public service. Myers is credited with helping to structure and fund the nation's largest social insurance program in history during his tenure as the chief actuary of the Social Security Administration from 1947 to 1970. The award is bestowed upon an actuary who has distinguished himself or herself through a single noteworthy contribution to the public good or a career devoted to public service.

In addition, the Academy presented the inaugural Outstanding Volunteerism awards to three of its volunteers—Steve Alpert, Arnold Dicke, and Stuart Mathewson—for their contributions to the professional association and their efforts to advance its mission.

Alpert is a consulting actuary and principal in Mercer's New York office. He was recognized for successfully bridging differing viewpoints to enable the Academy to present timely and balanced comments to regulators and policymakers on public pension plan issues.

Dicke is a consulting actuary and the president of New World Actuaries in Studio City, Calif. He was recognized for leading a six-year effort to overhaul



Mary Frances Miller presents the inaugural Outstanding Volunteerism awards to Steve Alpert, Stuart Mathewson, and Arnold Dicke (l to r) for their contributions to the Academy and their efforts to advance its mission.

an Academy paper on risk classification.

Mathewson is a senior pricing actuary for Swiss Re in Eden Prairie, Minn. He was recognized for heading a multiyear effort to draft and publish a monograph on the National Flood Insurance Program and for his support of the education campaign supporting the paper's release.

The Academy established the award for Outstanding Volunteerism in 2011 to honor Academy volunteers who have made a single, noteworthy contribution above and beyond what is reasonably expected of an Academy volunteer.

Presidential Communications

In each issue of *Contingencies*, the Academy's bimonthly magazine, the president of the Academy offers perspectives on topics relevant to the profession and the public policy work of the Academy.

During her term, Academy President Mary Frances Miller wrote about:

- **THE RIGHT THING:** The value of the Academy going beyond presenting independent and objective actuarial analysis on public policy issues to taking advocacy positions on public policy matters on which actuaries have significant insight and expertise.
 - **GLOBAL POSITIONING:** The new Academy strategic plan offers ever more opportunities for Academy volunteers to contribute their knowledge, experience, and skill to examine issues vital to the profession and the public interest.
 - **CAN YOU HEAR ME NOW?:** Through the new Academy Advisors panel, the Academy continues to take the pulse of members to ensure the knowledgeable, unbiased voice of the actuary is heard on important public policy issues.
 - **DUE DILIGENCE:** Proposed reforms to the professionwide discipline process are being made with the simple goal of increasing efficiency and consistency.
 - **FIND YOUR PLACE IN THE PROFESSION:** Volunteer service on an Academy committee can put members on a leadership track—not only within the profession but also within the member's own career.
 - **THE SYSTEM WORKS:** When you see partisans on both sides of a public policy debate citing the same Academy work product to make their case, it means the Academy's mission to provide "independent and objective actuarial information, analysis, and education for the formation of sound public policy" is working.
- Throughout her term, Academy President Mary Frances Miller also kept members informed through a series of emails to update members or address specific issues:
- A welcome message from the newly installed Academy president recapping the highlights of October's Annual Meeting and Awards Luncheon and previewing the major public policy and professionalism objectives for the year ahead. ([November 2010](#))
 - A preview of The Actuarial State of the Union (timed to the President's annual address to Congress) and highlights of the recently approved revisions to the Academy vision and mission statements. ([January 2011](#))
 - Announcement of the trial nomination and election procedures for 2011 and the Academy's new online Election Center. ([April 2011](#))
 - Proposed changes to improve the U.S. actuarial profession's discipline process. ([May 2011](#))
 - A joint letter from the presidents of the U.S.-based actuarial organizations regarding the proposal to improve the U.S. actuarial profession's discipline process. ([July 2011](#))
 - Announcement of dates and details of the online balloting for (1) candidates for open regular director positions on the Academy Board of Directors and (2) the proposed bylaws amendments as well as the slate of candidates approved by the Nominating Committee for presidential officers and vice presidents. ([July 2011](#))
 - A report to members that the International Actuarial Association (IAA) has released its first exposure draft of a model International Standard of Actuarial Practice (ISAP), that the exposure draft is open for comments from IAA member associations and any individual, and that the Actuarial Standards Board has provided a report to the U.S. based-actuarial associations on the proposed ISAP. ([October 2011](#))

Academy Communications

The Academy also has worked to enhance communications through other channels with both members and external audiences.

Communicating Via Social Media

The Academy's [Twitter](#) feed, which launched in June 2010, reported more than 900 followers near the close of calendar year 2011. With more than 250 substantive tweets over time, the Academy Twitter feed, under the name (handle) [Actuary_Dot_Org](#), seeks to promote the public policy and professionalism work of the Academy by announcing the release of Academy papers, reports, and comment letters; highlighting Academy testimony and briefings; reporting on Academy media coverage; and publicizing major Academy events.

As the launch of a significantly upgraded Academy website nears, the Academy also has created an Academy group on [LinkedIn](#) and an Academy wall on [Facebook](#).

Academy members who embrace social media now have a choice of platforms through which to stay up to date with the constant flow of news and new work product from the Academy.

Academy Video Library Expands

The Academy in 2011 continued to build its library of videos on public policy and professionalism topics available to members and other interested parties on the Academy's [YouTube channel](#). Reports from the Capitol Hill briefings on pension risk and the rising tide of pension funding challenges facing defined benefit plans, an engaging dialogue among public pension plan experts, and a preview of the newly revised Actuarial Standard of Practice (ASOP) No. 41, *Actuarial Communications*, led the expanded video roster. All the Academy videos are available through the Academy's YouTube channel.



COMMUNICATING ACTUARIAL ISSUES

Academy Pension Committee member Lane West discusses retirement risk during an April 4 Capitol Hill briefing. The briefing also was broadcast on YouTube as part of the Academy's ongoing effort to reach new audiences using various social media tools.

Roster of Academy Publications Grows

The Academy continued to release numerous publications throughout the year. In addition to comment letters, white papers, issue briefs, monographs, and presentations on public policy and professionalism, the Academy resumed publication of this annual report, the *Record*, published a newly revised membership [brochure](#), and expanded its member newsletters and magazines with the addition of "[This Week](#)" a weekly email compilation of Academy news and events, and "[Retirement Account](#)," a quarterly digital newsletter covering the substantial work product of the Pension Practice Council. A revised professionalism brochure is under review by the Council on Professionalism and is expected to be released early in 2012.

North American Actuarial Council Highlights

The North American Actuarial Council (NAAC) brings together the nine national actuarial organizations on the North American continent:

- American Academy of Actuaries (Academy) (U.S. based)
- ASPPA College of Pension Actuaries (ACOPA) (U.S. based)
- Asociación Mexicana de Actuarios (AMA)
- Asociación Mexicana de Actuarios Consultores (AMAC)
- Canadian Institute of Actuaries (CIA)
- Casualty Actuarial Society (CAS) (U.S. based)
- Colegio Nacional de Actuarios (CONAC)
- Conference of Consulting Actuaries (CCA) (U.S. based)
- Society of Actuaries (SOA) (U.S. based)

The primary purpose of NAAC is to build solid and lasting bridges between the professional actuarial organizations of North America. It provides a forum to promote coordination, cooperation, and trust among the leadership of the participating organizations, which represent actuaries in Canada, Mexico, and the United States. In this spirit, NAAC members exchange and share information on significant current activities, discuss professionwide issues (not necessarily involving all participating organizations), and, wherever possible, develop an action plan to address those issues.

In 2011, the NAAC:

■ Promoted Continuity

NEW MEMBER ORIENTATION. NAAC maintains its recurring annual process for orienting new NAAC members and sustaining momentum from year to year. This process also includes orientation related to NAAC member organizations' involvement at the International Actuarial Association (IAA), to soften the learning curve in a time of intense activity related to the development of model International Standards of Actuarial Practice. Outgoing presidents report on current and resolved NAAC issues. The NAAC Manual, posted on NAAC's SharePoint site and updated as needed, as well as current and past annual reports, also help to create continuity.

ORGANIZATION STAFF COLLABORATION MEETINGS. In accordance with a NAAC recommendation, staff from all the actuarial organizations—primarily those who report to the executive directors—continue to meet regularly. The executive directors and approximately 25 staff members from various organizations discuss how to share work, such as research, event planning, and communications resources. The presidents of each organization also usually attend this meeting. To date, collaboration meetings have taken place in January 2008, August 2008, January 2009, September 2009, August 2010, and September 2011.

- Continued to expand the work of the NAAC Collaborative Research Group. The Collaborative Research Group has been holding monthly conference calls since it was created at NAAC's February 2009 meeting. One project that resulted is joint SOA and CAS funding of a study on the risk of severe inflation and deflation that leverages Mexican actuaries' experience factoring inflation and hyperinflation

into their actuarial work. The group also has shared information on a variety of ongoing projects, including the Actuaries' Climate Volatility Index, the work of the Joint Risk Management Section, and research on retirement and systemic risk.

■ Participated actively in the work of the IAA. The IAA brings together actuaries from across the globe for its twice-yearly meetings. NAAC members regularly share their respective positions and perspectives on current IAA initiatives. The NAAC member organizations reflect the perspective and the expertise of Canadian, Mexican, and U.S. actuaries in contributing to the IAA's ongoing work. Activities in 2011 focused on:

- DEVELOPMENT OF MODEL INTERNATIONAL STANDARDS OF PRACTICE FOR FINANCIAL REPORTING.** NAAC member organizations continued to share information on their divergent approaches to the issue of model international standards of practice.
- CREATION OF THE INTERIM ACTUARIAL STANDARDS SUB-COMMITTEE (IASSC) AT THE INTERNATIONAL ACTUARIAL ASSOCIATION.** NAAC member organizations have shared information related to the development of this subcommittee. They have discussed its role in supervising five task forces charged with developing model standards related to general practice, International Financial Reporting Standard (IFRS) 4, International Accounting Standard (IAS) 19, social security, and enterprise risk management.

■ Supported increased information-sharing among NAAC member organizations. Presentations and reports in 2011 included:

- DISCIPLINARY REFORM IN THE UNITED STATES**
- IMPLEMENTING SOLVENCY II IN MEXICO**
- THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS' (NAIC'S) SOLVENCY MODERNIZATION INITIATIVE (SMI)**
- MANAGING REPUTATIONAL RISK RELATED TO PUBLIC PENSION PLANS**
- DEVELOPING SOFT SKILLS AMONG ACTUARIES**
- LEVERAGING SOCIAL NETWORKING**
- ENVIRONMENTAL SCANNING**

International Activities

The American Academy of Actuaries serves as the voice of the U.S. actuarial profession internationally, coordinating activities among the five major U.S.-based actuarial associations to identify emerging international issues affecting U.S. actuaries and, where possible, to seek consensus on positions under consideration by international organizations.

As the actuarial organization with the largest membership of U.S.-based actuaries, the Academy also is committed to advancing the U.S. profession in the international arena with multilateral stakeholders concerned with insurance and actuarial matters, such as the International Association of Insurance Supervisors (IAIS), the International Accounting Standards Board (IASB), the Organization for Economic Co-Operation and Development (OECD) and, in particular, the International Actuarial Association (IAA). Within its overall mission to serve the public and the U.S. actuarial profession, the Academy continues to develop and provide input on actuarial issues to international stakeholders, including public policymakers and standard-setters, to ensure that the interests of U.S. actuaries are known and considered.

At the IAA, signature issues of 2011 involved the Academy's continuing work to emphasize that any international standards of actuarial practice (ISAPs) adopted through the IAA must be model standards—examples for associations or areas of the world in which few or no standards of actuarial practice exist—and that they must be voluntary, not mandatory. There also is ongoing discussion at the IAA regarding the desirability and feasibility of achieving convergence of actuarial standards around the globe.

Some of the Academy's activities at the IAA for 2011 included:

■ Process Established for Review of Draft Model ISAPs

The IAA developed a process three years ago for implementing model ISAPs. An Interim Actuarial Standards Subcommittee, reporting to the IAA Executive Committee, was established in 2011, as well as task forces dedicated to each of five proposed international actuarial standards: general, enterprise risk management (ERM), IAS 19, insurance account-

ing, and social security. The Academy is actively involved in all stages of the drafting process for each of the five proposed ISAPs. To provide a comprehensive review of the model standards, the Council of U.S. Presidents (CUSP) asked the Actuarial Standards Board (ASB) to establish a process for reviewing exposure drafts issued by the IAA. The ASB established a substantive and thorough review process and issued a report to CUSP on the exposure draft of ISAP 1—*General Accounting Practice*. The Academy shared the ASB report with its membership and solicited member feedback on the draft.

■ G-20 Private Sector Task Force

The Academy is actively involved in the IAA's participation on a joint task force reporting to the G-20 on regulatory convergence. The Private Sector Task Force of Regulated Professions and Industries was established to provide an analysis of gaps in regulatory convergence and to make recommendations on how to close such gaps across a number of professions and industries that operate within the financial sector. In addition to the IAA, task force members include the International Federation of Accountants, the CFA Institute, the International Association of Restructuring, Insolvency & Bankruptcy Professionals, the Institute of International Finance, the IASB, the International Corporate Governance Network, the International Insurance Society, and the International Valuation Standards Council.

■ Enterprise Risk Management

The Academy continues to participate in discussions on ERM at multiple levels within the IAA reflecting a parallel focus on ERM that the Academy initiated internally this year through the creation of an ERM Task Force and at the Academy's Summer Summit in Washington. The IAA's Pensions and Employee Benefits Committee published a note focusing on the application of ERM principles in the pension industry. The Academy also will monitor the IAA's actuarial approach for the financial risks section, which has expanded its scope to include ERM topics in addition to its focus on financial risk.