JUNE 2006
THE NEWSMONTHLY OF THE AMERICAN ACADEMY OF ACTUARIES
Actuarial UPDATE

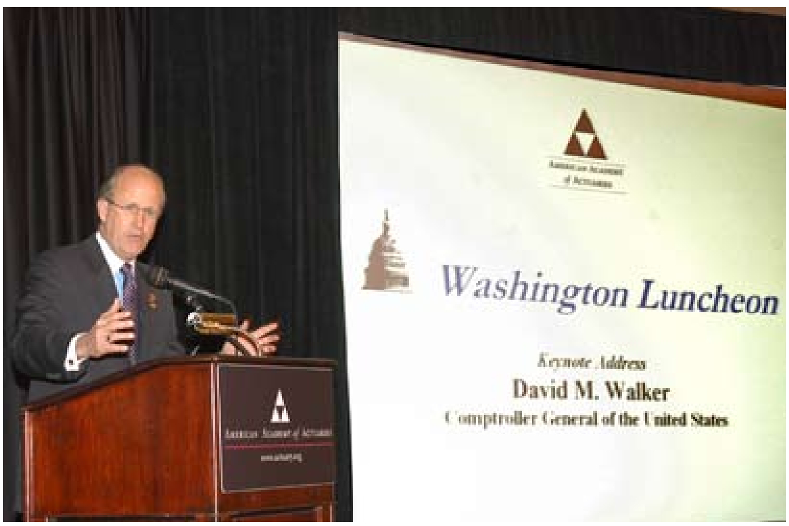
Spring Meeting 2006

Fast Track Information

DURING THE COURSE OF THE ACADEMY'S 2006 Spring meeting, attendees heard about cutting-edge developments in the life, casualty, health, and pension areas, sounded off to the Actuarial Standards Board (ASB) on the definition of generally accepted practice and other issues, and got their marching orders from a top federal official on the need for applying their financial and professional skills in the service of the American public.

All in one day.

Some 165 Spring Meeting attendees hit the ground running on May 16, grappling with issues ranging from health savings accounts, to the development of a principles-based approach to insurance regulation, insuring against terrorism risk, and the changing professionalism landscape for pension actuaries in a series of morning and afternoon concurrent sessions (see stories on Pages 4-7).



David Walker addresses Spring Meeting participants.

In the middle of the day, David Walker, comptroller general of the United States and head of the Government Accountability Office, offered a wide-ranging indictment of current federal retirement policy and urged actuaries to work for reform. "In two years, the first baby-boomers reach early retirement under Social Security and in a few more years they

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Inside

Spring Meeting 2006
Extensive coverage of concurrent sessions . **PAGES 4-7**

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Richard Foster receives the 2006 public service award . . .**PAGE 9**

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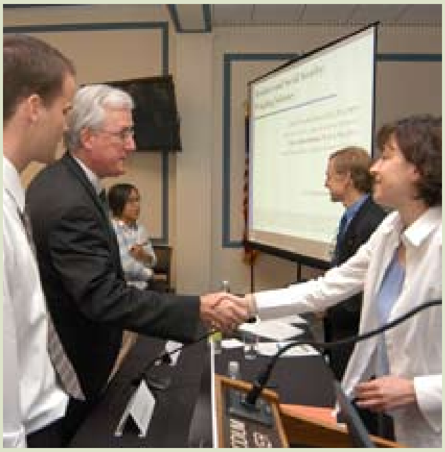
New Academy Counsel
Mary Downs is the Academy's general counsel and director of professionalism . . . .**PAGE 15**

Seeking Solvency for Medicare and Social Security

BOTH MEDICARE and Social Security face solvency problems in the future. But Medicare's difficulties are at once more urgent and more complicated to fix, according to Academy Senior Health Fellow Cori Uccello.

Speaking at the Academy's May 12 Capitol Hill briefing on the 2006 trustees reports on Medicare and Social Security, Uccello drew a bleak picture of the future of Medicare. According to the 2006 trustees report, the depletion of Medicare's Hospital Insurance (HI) program trust fund, which pays for inpatient hospital care, is now pre-

See SEEKING **SOLVENCY**, Page 8



Cori Uccello, right, greets a reporter following the Hill briefing.

JUNE

20-22 SOA spring meeting (health), Hollywood, Fla.

21 Joint Academy Health Practice Council/SOA Health Section meeting, Hollywood, Fla.

22 Academy Life Practice Council webcast on principles-based initiative

25-27 AcademyHealth annual research meeting, Seattle

26-27 ASB meeting, Washington

29-30 CIA annual meeting, Ottawa

JULY

7 Academy Life Reserves Work Group meeting, Chicago

10-14 SAV course on quantitative risk management, Lausanne, Switzerland

11 Academy webcast on policyholder behavior

12 Peer review webcast (Academy, CCA)

16-19 2006 Western benefits conference, Las Vegas

20-23 NCOIL summer meeting, Boston

23 Academy Pension Practice Council meeting, Burlington, Vt.

24 Academy Pension Committee meeting, Burlington, Vt.

AUGUST

2 Academy Financial Reporting Council meeting, Chicago

3 Academy Executive Committee meeting, Washington

15-19 National Conference of State Legislators meeting, Nashville, Tenn.

29-30 ASB meeting, Washington

SEPTEMBER

7-8 NAIC Life and Health Actuarial Task Force meeting, St. Louis

9-12 NAIC fall meeting, St. Louis

11-12 Casualty loss reserve seminar (Academy, CAS), Atlanta

13 Academy Life Financial Reporting Committee meeting, Chicago

25 Academy Board of Directors meeting, Washington

26-27 Academy annual meeting, Washington

28-October 1 North American Actuarial Council meeting, Napa Valley, Calif.

OCTOBER

15-18 SOA annual meeting, Chicago

18 CIA joint day with SOA, Chicago

19-20 CIA general meeting, Chicago

23-25 CCA annual meeting, Rancho Mirage, Calif.

22-25 ASPPA annual meeting, Washington

WEB INTERFACE
Links to documents underlined in blue are included in the online version of this issue at **www.actuary.org/update/index.asp**

Academy NEWS Briefs

Update and *Contingencies* Medal Again

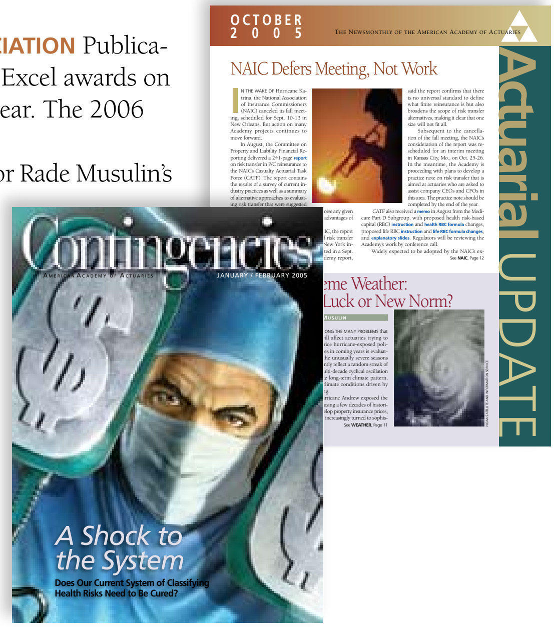
THE SOCIETY OF NATIONAL ASSOCIATION Publications bestowed three of its annual Excel awards on Academy publications again this year. The 2006 winners were:

► A bronze award to the *Actuarial Update* for Rade Musulin's column, "Extreme Weather: Bad Luck or New Norm?," in the October 2005 issue.

► A silver award for the 2005 January/February *Contingencies* cover illustration of a doctor about to apply the paddles to an ailing health care system.

► A bronze award to *Contingencies* for Rich Zatorski's End Paper column, "Channel Surfing," in the September/October 2005 issue.

The awards were presented at the SNAP's annual awards gala June 14 in Washington.



Dues Process The May 1 regular deadline has passed, but you can still pay your 2006 Academy membership dues online at www.actuary.org/dues.asp. You will need to add a $106 late fee to your $530 regular payment, for a total of $636. If dues are not received by Nov. 1, your membership will be dropped and you will have to apply for reinstatement as an Academy member. Questions? Contact Kate Callahan, the Academy's membership operations coordinator (Callahan@actuary.org; 202-223-8196).

Expanded Quarters Your benefits as an Academy Club Quarters member just got better: new Club Quarters have opened in New York, opposite Rockefeller Plaza, and rooms at Club Quarters in downtown Washington and Boston have been substantially refurbished. Use the Club Quarters' website to book a room by going to www.clubquarters.com/home_pub.asp and entering "aaoa" (without the quotation marks) as your member password. For more information, assistance, or offline reservations, contact Club Quarters directly: Club Quarters Member Services, 49 West 45th Street, New York, N.Y. 10036 (212-575-0006; memberservices@clubquarters.com).

***Contingencies* Reprint** The Institute of Chartered Financial Analysts of India is reprinting the article "Terrorism Modeling: Preparing the Worst-Case Scenario," by John Tedeschi, Krista Ann Lienau, and Peter Cheesman from the November/December 2004 issue of *Contingencies* in its executive reference book on terrorism.

Dubious Honor Former Academy member and retired actuary Chris Doyle of Forsyth, Mo., was the April 23 winner of the *Washington Post*'s "Style Invitational" contest in which contestants were asked to take any article appearing in the *Post* and use only the words appearing in it to write a poem or other funny thing. Doyle, who has won the enormously silly, frequently scatological, and absurdly popular invitational 15 times, gained top honors with no less than four entries composed from the words of an article headlined "Moussaoui Says He Was to Fly 5th Plane."

IN THE NEWS

Donald Segal, the Academy's vice president for pension issues and a consulting actuary with CCA Strategies in New York, was quoted in a May 9 *Washington Post* column on the Department of Energy's new policy eliminat-

MEDIA RELATIONS ACTIVITY REPORT

APRIL 2006

Placements	43
Pickups	28
Interviews	4
Requests	9
Media impressions	551,357
Web impressions	34,230,222

Note: Media impressions are a combination of readership, listenership, and viewership.

ing reimbursements to contractors for defined benefit pension plans. The column referred to a May 3 Academy letter to the Energy Department condemning the policy (see story, Page 12). An article on the issue by syndicated columnist Marie Cocco that appeared in the *Denver Post* and the Boulder Colo. *Daily Camera* quoted Academy Senior Pension Fellow **Ron Gebhardtsbauer**.

Several Academy members were quoted in a May 3 *Wall Street Journal* article on the development of C-3 Phase II, including **Richard Ash,** vice president and appointed actuary with Jackson National Life Insurance Company in Lansing, Mich.; **George Hansen,** an actuary with A.M. Best in Oldwick, N.J.; **Jeffrey Leitz,** a senior consulting actuary with Towers Perrin in Weatogue, Conn.; and. **Hubert Mueller,** chairperson of the Academy work group that developed the C-3 Phase II practice note and a principal at Towers Perrin in Hartford, Conn.

National Underwriter's April 24 coverage of the American Council of Life Insurers (ACLI) proposal to use split mortality tables mentioned the Academy's efforts to review the ACLI plan. In continued coverage in the April 28 issue, *National Underwriter* quoted **Dave Sandberg,** the Academy's vice president for life issues and vice president and corporate actuary with Allianz Life in Minneapolis, **Larry Gorski,** vice chairperson of the Life Practice Council and an actuary with Claire Thinking in New Berlin, Ill., **Donna Claire,** chairperson of the Life Financial Soundness/Risk Management Committee and president of Claire Thinking in Fort Salonga, N.Y. Sandberg was also quoted earlier in the month in a BestWire article about the use of lapse rates in calculating reserves.

The Academy's Terrorism Risk Insurance Subgroup released its analysis on the long-term availability and affordability of terrorism insurance to the President's Working Group on Financial Markets on April 27 (see story, Page 13). Numerous insurance trade publications including *National Underwriter* and BestWire discussed the analysis. The analysis also triggered interest in trade press for other industries. GlobeSt.com, a real estate industry news source, discussed the implications of the Academy analysis for the real estate market and the American Bankers Association linked to it from its online newsletter. Some of the articles quoted **Michael McCarter,** the subgroup's chairperson and vice president of industry & regulatory affairs for American International Group in New York.

William Sohn, chairperson of the Academy's Committee on Pension Accounting and a consulting actuary with Buck Consultants in New York, was quoted in an April 26 BNA article on plan sponsors' reactions to the Financial Accounting Standards Board proposal to change accounting rules for pensions and other postretirement benefits. Sohn said that "our sense is that a lot of sponsors of plans haven't fully reacted yet." Also quoted in the article were **John Ehrhardt,** a principal and consulting actuary with Milliman in New York, and **Alan Glickstein,** an actuary with Watson Wyatt Worldwide in Dallas. A May 9 article on the issue from BenefitNews.com quoted Ehrhardt, Academy Senior Pension Fellow **Ron Gebhardtsbauer,** and **Ken Steiner,** a member of the Pension Practice Council and an actuary at Watson Wyatt Worldwide in Arlington, Va.

Academy Senior Pension Fellow **Ron Gebhardtsbauer** was quoted in an April 21 *BusinessWeek* article on freezing pension plans. Gebhardtsbauer offered advice to employees who wonder if their pension plans would be frozen or terminated. He said that employees should look to see what their company's competitors were doing. Gebhardtsbauer also was quoted in articles in *Workforce Management* and on CNNMoney.com on his mention of projected pension plan funding levels at a May 15 pension conference sponsored by AARP and Employee Benefit Research Institute. Gebhardtsbauer found that the average pension funding ratios at S&P 500 companies were moving closer to 100 percent because of interest rate and equity increases. Finally, Gebhardtsbauer was quoted in a May 2 *Newsday* feature on firefighters' underfunded pensions in Long Island, N.Y. Gebhardtsbauer said that the plans, funded by 50 percent or less, were "worse funded than most private and public-sector pension plans."

An analysis by the Academy's Small-Group Task Force on proposed Senate legislation to establish small-business health plans (see story, Page 14) was featured May 5 on "NOW," a show that airs on PBS. An article on the analysis also ran in the May 5 *National Underwriter* online newswire. And the Academy's May issue brief, *Medicare's Financial Condition: Beyond Actuarial Balance*, was cited in a CNNMoney.com report on the Medicare and Social Security trustees' annual report.

An April 17 *Fortune* article about General Motors' annual report included remarks by **Jeremy Gold**, a member of the Academy's Pension Practice Council and proprietor of Jeremy Gold Pensions in New York, about the automaker's pension plan. Gold said, "GM was smart in borrowing the money to fund the plan. That's tax efficient. Its timing was extraordinarily good, too,

See **ACADEMY NEWS BRIEFS**, Page 14

ATTENDEES WHO REGISTERED for the Spring Meeting property/casualty concurrent sessions came away from the day with a wide variety of useful information. In the first session, a panel of regulators provided updates about proposed revisions to the National Association of Insurance Commissioners (NAIC) model audit rule that are designed to bring it into accordance with Sarbanes-Oxley. The panel also discussed the contents of an actuarial opinion summary and particularly the use of terms such as reasonable, material, judgment, and range. "We want to push a higher level of clarity," said Richard Marcks, a property/casualty actuary for the Connecticut Insurance Dept.

In the second session, Marc Oberholtzer, vice chairperson of the Committee on Property Liability Financial Reporting (COPLFR), gave an update on regulatory activity in the area of finite reinsurance.

"There is an expectation at the NAIC that the companies evidence risk transfer to the extent necessary to comply with accounting rules at the point when the contract is entered into, not three or five years later, or never," Oberholtzer said.

COPLFR has been working closely with the NAIC on this issue, and last year produced a **report** on the topic along with a **practice note** to assist actuaries when evaluating risk transfer in P/C reinsurance contracts. "The work that the Academy and CAS risk transfer groups have undertaken has probably done more for the credibility of the actuary than anything else I've seen," said Mary D. Miller, the Academy's vice president for casualty issues and an actuary with the Ohio Department of Insurance. Asked by a member of the audience whether a standard of practice for finite reinsurance was in the works, Miller said, "I think practice hasn't evolved enough in this area to be developing a standard."

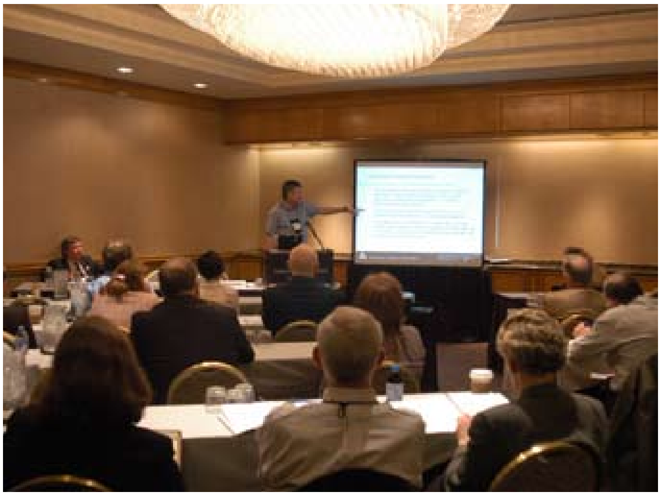
In the third session, panelists discussed the current state of catastrophe ratemaking and pertinent actuarial standards of practice in a field that is clearly evolving. Kay Cleary of Florida's Citizens Property Insurance Corp., which insures homeowners in high-risk areas and others who cannot find coverage, discussed the complicated relationship between ratemaking principles and the goals of affordability and accessibility. Referring to the problems of modeling for natural disasters, panelist Sean Delvin, chief actuary for GE Insurance Solutions, admitted, "We are light years from pre- (Hurricane) Andrew, but we still have a long way to go."

The fourth casualty session featured a discussion by Casualty Practice Council members Ralph Blanchard and Chris Carlson on a **proposed** new standard on P/C unpaid claim and claim adjustment expense estimates. And in the final session of the day, Michael McCarter, chairperson of the Terrorism Risk Insurance Subgroup, brought attendees up to date on Academy efforts to model the impact of a major terrorist attack (see story, Page 13).

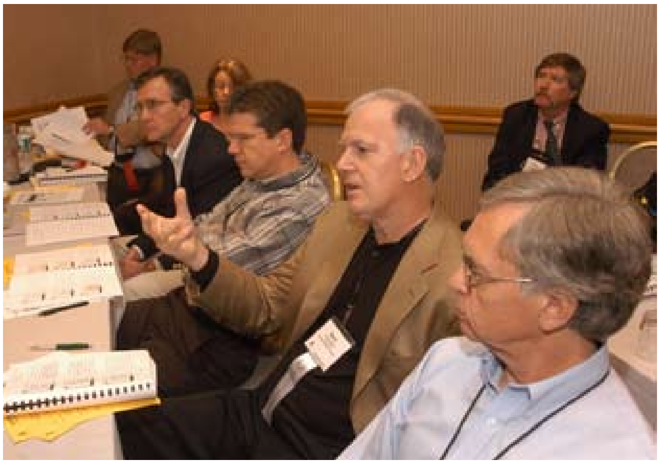
"Since Sept. 11, the Academy has been a consistent source of advice to policy-makers about terrorism coverage," McCarter said. "Whether the analysis we have provided has been fully understood and appreciated remains to be seen."

—LINDA MALLON

Attendees debate the standards-setting process at the ASB's open hearing.



Ralph Blanchard discusses a proposed casualty standard on unpaid claim and claim adjustment expense estimates.



Academy President-elect Steven Lehmann makes a point at a casualty concurrent session.

BECAUSE A **principles-based approach** to reserving is better suited than a traditional rules-based approach to keep up in a world of rapidly changing products, it is taking hold in the health insurance arena as well as in life insurance, said former Academy President Barbara Lautzenheiser, speaking at the first session in the Spring Meeting's health track.

In fact, said P.J. Stallard, chairperson of the Federal Long-Term Care Task Force, long-term care insurance makes for a perfect fit with the principles-based approach because it has wider claim variations even than life insurance. Lautzenheiser said that Academy volunteers have engaged with regulators in an "astronomical effort" to make the principles-based approach work. The Actuarial Standards Board (ASB) has also played a major role because the principles-based approach relies so heavily on actuarial judgment rather than hard and fast rules, said ASB Chairperson Cecil Bykerk. "The ASB must provide the structure within which actuarial judgment may be exercised," Bykerk said.

The rise of consumer-driven health plans (CDHPs) and how well they perform was the topic of the second health track session, introduced by Academy Senior Health Fellow Cori Uccello. Among the issues addressed was whether CDHPs actually lower the cost of health care and whether they attract only the young and healthy or a broader mix. David Tuomola, chairperson of the Emerging Data Subgroup, reported on the CIGNA CDHP experience study, one of the largest to date. Subgroup members Brent Greenwood and Penny Hahn spoke on studies of other companies' CDHPs. All reported that health care usage went down during the first year of the plan, but increased as the balances that were available in insured individuals' accounts were carried over into the second year and beyond. Few insureds spent their balances down to zero in the first year. What wasn't clear was whether the decrease in first-year usage was because insureds were actually healthier.

The third and final health track session probed the mysteries and complexities of actuarial equivalence and the first year's experience with Medicare's Part D prescription drug plan. Tom Wildsmith, chairperson of the Medicare Steering Committee, and Dale Yamamoto, chairperson of an Academy work group developing an actuarial equivalence practice note for retiree medical, recounted the difficulties of attesting to the actuarial equivalence of drug plans applying for the Medicare drug subsidy. Though it was possible to pass many plans using actuarial judgment, Yamamoto said, there will be a need in coming years for more efficient data collection, plan summary analysis, and coordination with client filings. Paul Spitalnic of the Centers for Medicare and Medicaid Services (CMS) analyzed the first year from the CMS perspective. By encouraging plans to be creative and set themselves apart from other plans, he said, CMS ended up with around 4,000 plan bids rather than the originally estimated 1,500 to 1,800.

—STEVE SULLIVAN

Long-term care insurance makes for a perfect fit with the principles-based approach because it has wider claim variations even than life insurance.

Barbara Lautzenheiser briefs health actuaries on the principles-based initiative.

AT THE SPRING MEETING'S LIFE SESSIONS, leaders in the Academy's principles-based effort explained where the initiative had taken them so far and where they were headed next.

It all began in the 1990s with C-3 Phase I, an effort to update the NAIC life risk-based capital (RBC) formula to better reflect interest-rate risk for fixed annuities as insurers used a growing array of complex investment options and cash flow modeling had become a standard analytical tool. C-3 Phase 1 requirements took effect in 2001 and, in 2002, in response to the emergence of a growing array of variable annuities with various types of guaranteed benefits, the Academy began the **C-3 Phase II** effort. C-3 Phase II created a new modeling approach to reflect equity risk in the RBC requirements for variable annuities with guarantees, and many of the Academy's C-3 Phase II recommendations became regulatory requirements at the end of 2005.

> The larger aim is to craft principles-based approaches that will reshape the way risk-based capital and required reserves are calculated for all American life insurance and annuity products.

In the past couple of years, the Academy's principles-based efforts have broadened to include annuity reserving requirements. But they don't end there. The larger aim is to craft principles-based approaches that will reshape the way risk-based capital and required reserves are calculated for all American life insurance and annuity products.

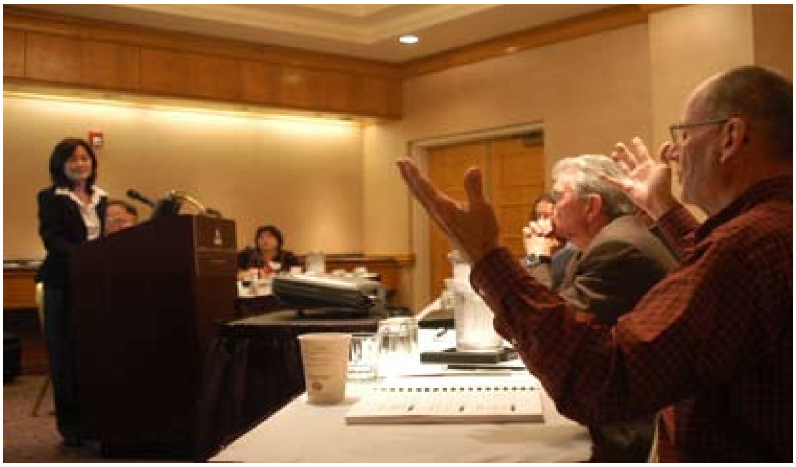
"What we're trying to do, in effect, is to 'right-size' reserves and capital," explained Donna Claire, chairperson of the Life Financial Soundness and Risk Management Committee.

Joining Claire at the first session were vice chairpersons of the Life Practice Council, Tom Campbell and Larry Gorski, who discussed some of the lessons that have been learned along the way, such as the importance of field tests before full implementation of a regulatory change and the need to get more input from reinsurers in the future.

Each part of the project is building on previous lessons, said Gorski, who noted that C-3 Phase I RBC took five years to develop and be implemented, while C-3 Phase II RBC only took three years. Campbell predicted that principles-based reserving for variable annuities would be in place by 2008.

The second life session focused on the present, with presentations by Dave Neve and Tom Kalmbach, co-chairpersons of the Academy's Life Reserve Work Group (LRWG). LRWG is working on statutory reserve methods for all life products, Neve explained, and is coordinating its work with the C-3 Phase III Work Group, its counterpart on the RBC side. Kalmbach focused on how principles-based reserving is likely to affect product pricing. The new approach, Kalmbach said, could help companies make sure they were pricing financially sound products; could facilitate the development of simpler, easier-to-understand products; and could encourage companies to tailor products more precisely to the needs of particular markets.

Led by Larry Gorski, meeting participants ponder lessons learned in the principles-based effort.



Shirley Shao, left, fields question on governance issues.

LIFE BRIEFS

➤ **Frans te Groen**, an actuary with Travelers Life & Annuity in Hartford, Conn., has joined the Universal Life Work Group.

➤ **Tom Nuckols**, second vice president and annuity valuation actuary with Jefferson Pilot Financial in Greensboro, N.C., has joined the Annuity Reserves Work Group.

The third life session looked ahead to future tasks for the principles-based project. The session was led by Dave Sandberg, the Academy's vice president for life issues; Larry Bruning, chairperson of two NAIC Life and Health Actuarial Task Force subgroups; Jim Lamson, chairperson of the Academy's Annuity Reserves Work Group; Shirley Shao, chairperson of the Academy's principles-based governance work group; and Nancy Bennett, chairperson of the Academy's Life Capital Adequacy Subcommittee (LCAS).

Much of the future effort will involve coordinating various elements of the principles-based framework for reserving and RBC, said Sandberg. Deciding how to audit and examine companies under a principles-based system will be "one of the key questions regulators are going to have to deal with," Bruning said.

Lamson summarized the results of a confidential Academy survey about C-3 Phase II implementation that had received responses from about 70 companies. "There are only 74 companies that write variable annuities in the United States, so this was amazing," Lamson said, adding that the survey indicated that understanding the C-3 Phase II instructions was one of the most difficult aspects of compliance. He also described the plans of the recently formed Annuity Reserve Work Group, which plans to develop principles-based reserve requirements for all annuities except variable annuities; so far, 22 types of annuity designs fit the bill.

Shao talked about several "big-picture issues" being tackled by the Regulatory Interface, Governance, and Peer Review Work Group, including the need for independent review as actuarial judgment is incorporated into statutory valuation. "We're moving to a very different system," she noted, indicating that more scrutiny will be expected, and needed, in a regulatory framework that allows company-specific data to be used.

Similarly, Bennett said a principles-based capital approach requires reconsideration of some major questions, such as the purpose of the regulatory capital framework, its definition of solvency, and whether a principles-based methodology should be required just for new policies or for all existing policies. "We are certainly cognizant of the magnitude of this change," said Bennett. She added that the LCAS plans to use C-3 Phase III as a pilot project to vet principles-based RBC issues, and that it will develop a proposed transition plan for moving from primarily factor-based RBC to principles-based RBC.

—ANNE ASPLEN

SPRING MEETING PENSION TRACK

GROWING PRACTICES IN NEW ISSUE areas such as stock option valuations and heightened awareness of and emphasis on financial economics are changing the professional landscape for pension actuaries. In the Spring Meeting's pension session, David Fleiss, chairperson of the Actuarial Standards Board's Pension Committee, and Kathleen Riley, chairperson of the Council on Professionalism's Committee on Qualifications, offered an overview of new standards being developed in these areas and how they affect pension actuaries.

Highlighted in the session were a number of revisions of actuarial standards of practice (ASOPs) that are currently in exposure drafts. Fleiss said that a third exposure draft could be expected on ASOP No. 4, *Measuring Pension Obligations*, in August. "We expect to have a final version of ASOP No. 4 completed within two years," said Fleiss. "At that point, we will look at ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*, in light of financial economics and other developing practices." A final version of the new standard on asset valuation methods is expected in August. And the comment deadline for the second exposure **draft** of ASOP No. 38, *Using Models Outside the Actuary's Area of Expertise*, which may be of interest to pension actuaries engaging in stock option valuations, is July 15.

The session also allowed attendees to provide feedback to the panelists on current exposure drafts, particularly the **draft** qualification standards. Participants questioned the 50-minute hour versus the 60-minute hour, continuing education requirements for organized activity versus general credits, and requirements for signing statements of actuarial opinion. Riley encouraged attendees to submit written comments, which are due by July 1. "This is the type of feedback we need to ensure that we develop a standard that is acceptable to the profession," said Riley.

—HEATHER JERBI

FAST TRACK, *continued from Page 1*

will be eligible for benefits under Medicare. These programs are fundamentally unsustainable in their present form," Walker said in his Washington Luncheon speech. Calling the passage of the Medicare Part D program "the poster child for what is wrong with Washington," Walker said, "We took a program that was in the hole and added another trillion on top of it."

Walker called on his audience to continue to push for reforms in Social Security, the private pension system, Medicare, and, most particularly, the health care system in general. "If there is one thing that can bankrupt America, it's health care," Walker said.

Walker also urged the actuarial profession to continue to have the courage to state unpopular truths. "This country needs more leaders with four attributes: courage, integrity, creativity, and stewardship," Walker said. "It is particularly important for professionals, such as actuaries, to state the facts, to speak the truth, and to do the right thing, even if it's not popular."

Illustrating his point, Walker pointed to the actions of Richard Foster, chief actuary for the Centers for Medicare and Medicaid Services (CMS) and winner of the 2006 Robert J. Myers Public Service Award (see story, opposite). In 2003, Foster objected to high-level pressure to withhold information from Congress about the estimated costs of adding a prescription drug benefit to Medicare. Unable to attend the Spring Meeting because of an earlier commitment, Foster received his award from Academy President Peter Perkins in a ceremony at CMS that was videotaped for screening at the luncheon.

Capping off the Spring Meeting was an open hearing, chaired by Cecil Bykerk, chairperson of the ASB, Lawrence Sher, ASB vice-chairperson, and Robert Miccolis, a member of the ASB, in which attendees were invited to air their opinions about the standards-setting process and other aspects of the ASB's procedures.

SEEKING SOLVENCY, *continued from Page 1*

dicted for 2018, two years earlier than was projected just last year. This is because of slightly higher hospital expenditures and upward revisions in short-range assumptions about patient utilization of hospital services. Over the next 75 years, Uccello said, the HI trust fund deficit is expected to grow to $11 trillion.

The bottom line? Eliminating the HI deficit would require an immediate 121 percent increase in payroll taxes or an immediate 51 percent reduction in benefits, or some combination of the two. "That's what would be needed if we acted today," warned Uccello. "If we put things off, it would require even higher increases in taxes or larger reductions in benefits."

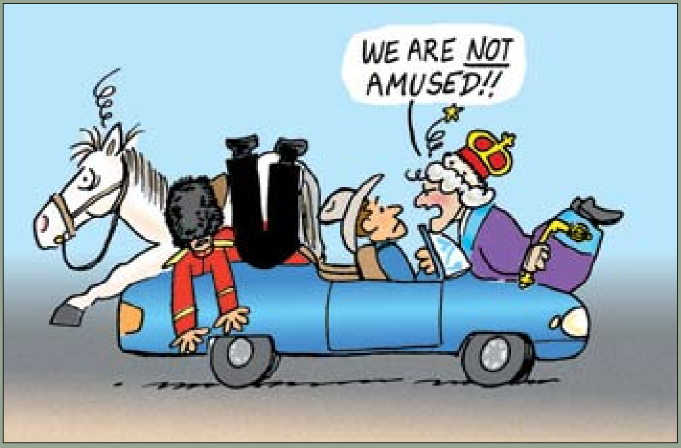
Because rising health care costs are the key challenge to Medicare's long-range solvency, Uccello said, "Any solutions we look at need to consider the health care system as a whole, not just the Medicare portion."

Although serious, the problems of Social Security are less urgent.

"How far off are we? About 2 percent of payroll," Academy Senior Pension Fellow Ron Gebhardtsbauer told the briefing audience of congressional staff, journalists, and other policy-makers. "If we increased taxes by that much, we would set the Social Security system up for the next 75 years. But it wouldn't be a sustainable solution because we keep living longer."

Gebhardtsbauer urged policy-makers to try their own hand at solving the system using the new, improved Social Security game on the Academy's website. The game walks players through the major Social Security reform options, providing both the pro and con arguments, and tracks their progress toward achieving a solution to Social Security's financial problems. "It's easy to fix Social Security—I do a different one every day," Gebhardtsbauer said. The hard part? "Getting everybody to agree on a solution."

Briefing attendees received copies of two new Academy issue briefs that examine more closely the findings of the 2006 **Social Security** and **Medicare** trustees reports.



Not all rules of the road are universal. It's the same for the rules that govern your actuarial practice. If you are doing business in another country, you need to become familiar with the standards and qualification requirements of that country and apply them to your work.

Foster Receives Myers Award

IN RECOGNITION OF HIS MANY contributions as chief actuary for the Centers for Medicare and Medicaid Services (CMS), Richard Foster received the Academy's prestigious Robert J. Myers Public Service Award at the 2006 Spring Meeting's Washington Luncheon.

As chief actuary, Foster is responsible for all actuarial and other financial analyses for Medicare and Medicaid. His work affects 70 million Medicare and Medicaid beneficiaries, 155 million current workers, and virtually all U.S. health care providers.

Foster, who has served 11 years in the position and manages a staff of 82 actuaries, economists, and statisticians, is a career government actuary who was hired as a student actuary at the Social Security Administration shortly after picking up his graduate degree in applied mathematics in 1973.

"I've never regretted becoming an actuary, even if I did sort of fall into it. When I interviewed for the job at SSA, I knew virtually nothing about the profession. I've since found that actuarial work offers one of the very best ways I've run across to apply the logic and reasoning abilities that you get from a strong math background," Foster recalled in a recent interview with the *Update*.

At the Social Security Administration, Foster rose to the position of deputy chief actuary, working under former chief actuaries and Myers award recipients A. Haeworth Robertson, Dwight Bartlett, and Harry Ballantyne. Foster has also worked on various occasions with another former chief actuary: Robert J. Myers, for whom the award is named.

"Bob Myers has always set the standard for actuaries when it comes to industry, independence, and integrity," Foster said in acceptance remarks that were taped before the Spring Meeting because of a previous commitment that kept Foster from collecting his award in person. "We all owe Bob a debt of gratitude, both for his service on behalf of the public and for his substantial contribution to the public's positive perception of the actuarial profession."

Academy President Peter Perkins, right, congratulates Richard Foster on his Myers Award.

Although he enjoyed his work with Social Security, Foster said that he was interested in moving over to CMS when the position of chief actuary fell open because he thought it might challenge him professionally. Has it ever. During the course of the past 11 years, Foster has had to deal with six major legislative initiatives related to Medicare that were enacted and several more that weren't successful.

"The politics can be a challenge," Foster admitted. "Most policy-makers who work with Medicare are pretty familiar with the Office of the Actuary. We are pretty well known and respected for being non-partisan and objective. But we do occasionally get policy-makers who don't understand that role—or worse, understand it but want to use our reputation in a misleading way to promote their policies."

Foster was at the center of a media maelstrom in 2003 when he resisted high-level pressure to withhold information from Congress about the estimated costs of adding a prescription drug benefit to Medicare. At considerable professional risk, Foster fought to maintain his office's longtime role of providing independent, nonpartisan, technical assistance to Congress. After he published an article about the experience in *Contingencies* in 2004, hundreds of actuaries contacted him to offer their support and express thanks for his extraordinary example of commitment to the public interest.

"Rick Foster has succeeded and prevailed as a leader of actuaries and an inspiration for federal employees and officials—both appointed and elected," said Academy President Peter Perkins in presenting Foster with his award. "His ability, integrity, professionalism, dedication, and consistency should be an example for us all to follow as actuaries."

Despite the occasional notoriety, Foster said he has never regretted turning his mathematical skills to government actuarial work. "Policy-makers need good technical advice. They have conflicting priorities and they need to know what they are doing when they design or modify programs, including objective analyses of the technical and financial implications," Foster said. "All actuaries work on behalf of the public, but this is a very immediate way to do it."

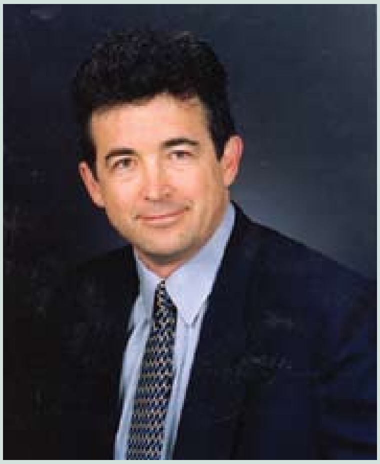
Foster has served on the Academy's Board of Directors and on several committees of the Society of Actuaries. He has received a number of awards, including the Presidential Distinguished Executive Award in 2001 from President Bush, the Meritorious Executive Award in 1998 from President Clinton, and alumni of the year awards from the College of Wooster in Ohio, where he completed his undergraduate studies, and the University of Maryland, Baltimore County, where he received his graduate degree. He was also selected as a founding member of the National Academy of Social Insurance.

ACADEMY SPOTLIGHT

Life Practice Council

Life Practice Analyst: Amanda Yanek (yanek@actuary.org; 202-785-7880)

Vice President: Dave Sandberg



LAST OCTOBER, the National Association of Insurance Commissioners (NAIC) adopted risk-based capital (RBC) C-3 Phase II instructions, to take effect on Dec. 31. It was an important milestone in the Life Practice Council's campaign to encourage more principles-based regulation rather than rely on formulas that actuaries must follow. But work continues on many fronts.

WHAT'S BEEN DONE

Reserves

Members of the Life Financial Soundness/Risk Management Committee continue to coordinate work on a new approach to the Standard Valuation Law with reserving and solvency methods that are principles based, rather than formula based.

The Variable Annuity Reserve Work Group has developed a reserve methodology for variable annuity products that uses the C-3 Phase II approach. (At the June NAIC meeting, the group presented survey results on company readiness for implementation of an actuarial guideline on reserving for variable annuities.

The Life Reserves Work Group (formerly known as the Universal Life Work Group) is continuing to develop a principles-based approach to determining reserves for all life products. The group submitted a first draft of a possible **model regulation** and three possible actuarial **guidelines** for the valuation of reserves at the December NAIC meeting, and provided an update to these documents at the June NAIC meeting. In addition to hosting information sessions for regulators at recent NAIC national meetings, the group has visited a number of state insurance departments to discuss the new reserving approach.

Formed in January to develop principles-based reserve requirements for all non-variable annuity products, the Annuity Reserves Work Group submitted its first report to the NAIC's Life and Health Actuarial Task Force (LHATF) in June. And the Experience Subcommittee continues to work with the Joint SOA/Academy Preferred Mortality Project Oversight Group on the development of a new valuation table process to support a principles-based framework.

Capital

The Life Capital Adequacy Subcommittee continues to support actuaries as they implement C-3 Phase II. In January, the group unveiled its enhanced pre-packaged **scenarios** and interest-rate generator. At an April 23 seminar, the group discussed results from its recently completed **survey** of companies' experiences with year-end filings.

Work has also begun on the C-3 RBC requirements for life products under a principles-based approach (C3 Phase III). It is still unclear if this will partner with or follow the reserve project.

An Economic Scenario Subgroup has been formed to ensure that Academy work groups developing principles-based reserve and capital recommendations for different segments of insurance business (life, annuity, and long-term care) have a common and consistent platform for projecting economic scenarios.

Consistency

The Consistency: Principles, Summary, Definitions & Report Format Work Group began working last year to create uniformity among the many groups developing proposals under the principles-based project. To date, the group has finalized a set of overriding principles and a universal definition of prudent best estimate. The group has also identified the next series of terms to define, as well as additional charges for the group such as reporting consistency and documentation requirements to support assumptions.

The Standards for Stochastic Methods Work Group was formed earlier this year to recommend the most efficient method for supporting the use of stochastic interest rate and equity generators for the purpose of calculating capital charges (C-3 Phase I and C-3 Phase II) and reserves using a stochastic methodology (principles-based life reserves). The group is seeking to develop a consistent stochastic methodology for calculating RBC and reserves.

Governance

The Regulatory Interface, Governance and Peer Review Work Group has drafted a set of governance **issues** and an exploration of possible recommended solutions for effective uniform governance of a principles-based framework.

Web page

In order to keep members apprised of progress on life aspects of the principles-based approach, the Academy this spring launched a **page** on the Academy's **website** devoted to the principles-based project.

WHAT'S PLANNED

- A June 22 webcast on principles-based life reserving and RBC, including an update on the NAIC summer meeting;
- A July 11 webcast on setting assumptions for expenses and policyholder behavior in a principles-based framework;
- An update to the variable annuities practice note, to be released in September.
- A principles-based approach seminar, planned for this fall;
- Delivery to the NAIC of a complete package for principles-based life reserves that can be adopted by the end of 2006.

Academy Condemns DOE Pension Policy

THE ACADEMY'S PENSION Practice Council has strongly condemned a recent announcement by the Department of Energy that it was eliminating reimbursements to contractors for the cost of providing defined benefit (DB) pension plans for new employees.

"The Department's decision is seriously detrimental to the interests of American workers who have come to depend on the defined benefit pension system in particular and the nation's public/private retirement partnership in general," wrote Donald Segal, the Academy's vice president for pension issues, in the May 3 **letter** to Energy Secretary Samuel Wright Bodman.

The council's letter identified four areas of concern with the policy:

- It doesn't provide for an adequately balanced public-private national retirement security policy.
- It denies contractors the ability to choose the type of retirement plan provided to prospective employees, effectively forcing contractors to select 401(k)-type arrangements.
- It isn't justified on a cost basis. DB plans are typically less expensive than defined contribution plans for new employees, which the policy excludes.
- It doesn't address concerns about cost volatility. There are alternative ways to lessen volatility, including the use of new plan designs or different investment approaches.

As the result of the Academy's letter and an accompanying **press release**, Segal was quoted prominently in a May 9 *Washington Post* "Federal Diary" column on the topic. On Capitol Hill, the Senate drafted legislation that would force the Energy Department to withdraw the policy (one

Pension Funding: Who Picks Up

ON MAY 5, THE ACADEMY'S Pension Committee sent a **statement** to federal policy-makers, Capitol Hill staff, and employee benefits organizations discussing the need to protect healthy defined benefit pension plans in this country from the financial losses incurred by employers who terminate their plans and shift their liabilities to the financially struggling Pension Benefit Guaranty Corp. (PBGC).

Although PBGC premiums were increased in February, premiums alone will not be enough to eliminate PBGC's 2005 $22.8 billion deficit. So, who picks up the pieces? In its statement, the Academy suggested several possibilities—healthy plan sponsors who have not transferred plans to the PBGC; customers of those industries (primarily airline and steel) that are responsible for a majority of PBGC's liabilities; taxpayers. But all of them would be costly. What may be preferable, according to the Academy's statement, are financial remedies using mechanisms outside the defined benefit system.

Proposed federal pension funding reform legislation, which at the time of this writing was under consideration in a House-Senate conference committee, would require sponsors to quickly fund their plans up to 100 percent of accrued liabilities and would restrict benefits for plans that are not well funded. In addition

PENSION BRIEFS

➤ In a May 5 letter, the Pension Practice Council continued its dialogue with the Government Accountability Office (GAO) about data used in a November GAO report on cash balance plans. The Academy first expressed reservations about the study in a Nov. 28 letter. The GAO responded in December with a description of how it derived the typical average pay plan formula that it used in the study. In its May letter, the practice council again urged the GAO to amend or supplement its report with additional analysis reflecting Academy concerns.

of the bill's co-sponsors, Sen. Ted Kennedy [D-Mass.], cited Academy objections in his statement introducing the proposed legislation) and a House Appropriations subcommittee has also moved to block it. Some policy-makers have openly expressed concern about the effect the policy would have on consideration of pension funding reform legislation.

While the Energy Department has indicated through various news sources that it has no intention of rescinding its new policy, the Academy continues to educate policymakers and the media about the harm the policy does to retirement security.

—Heather Jerbi

the Pieces?

to this tightening of the funding rules, there are other options to slow the shifting of liabilities to the PBGC.

The Senate-passed version of pension funding reform gives the PBGC authority to work out funding arrangements with sponsors, for instance. Such arrangements would force employers to maintain responsibility for their pension plans and keep the burden off the PBGC and the sponsors of healthy plans. Another alternative would be to offer weak companies with underfunded plans a federal guarantee for a loan to pay the regular minimum contribution. While this could increase federal government costs, the PBGC's liabilities and costs to premium payers would not increase. The Academy statement noted that any such federal relief for a financially troubled industry should be based on a more thorough evaluation of the industry's overall fiscal needs and not just on its pension funding obligations.

Finally, the Academy statement urged that bankruptcy law be modified to make unfunded pension liabilities a priority and to clarify PBGC's priority unsecured claim for the cost of current accruals. Currently, bankruptcy law can encourage sponsors with underfunded plans to enter reorganization and shed pension liabilities, as well as post-retirement medical. This creates a moral hazard for plan sponsors because the PBGC must stand behind sponsors' pension promises even if sponsors don't.

—Heather Jerbi

Academy Analyzes Terrorism Risk for President's Working Group

A NATIONAL FRAMEWORK for terrorism risk is necessary if terrorism coverage is to be widely and readily available.

That is the substance of the Academy's April 21 response to questions posed by the President's Working Group on Financial Markets, which has been asked to report to Congress by Sept. 30 on the long-term availability of terrorism insurance, including group life insurance and coverage for chemical, nuclear, biological, and radiological (CNBR) attacks.

Drawing on analysis it originally developed at the request of congressional staff considering options for the extension or replacement of the Terrorism Risk Insurance Act (TRIA), the Academy's Terrorism Risk Insurance Subgroup said that a major terrorist attack on New York using chemical, nuclear, biological, or radiological weapons could result in $778 billion in insured losses—$696 billion in property and casualty losses, and $82 billion in group life insurance losses.

CASUALTY BRIEFS

➤ **Lauren Pachman** is the Academy's new casualty policy analyst. She replaces Greg Vass, who left the Academy for a position at America's Health Insurance Plans. Pachman previously worked as a litigation associate for several Washington law firms. She is a graduate of the George Washington University Law School and is a member of the bar in the District of Columbia, Maryland, and New Jersey.

"Without a national framework for managing terrorism risk, many insurers could be exposed to losses far greater than they could sustain—significantly damaging their ability to provide the ongoing insurance coverage that is essential to the stability of the entire economy," said subgroup chairperson Michael McCarter.

The Academy subgroup could not identify any insurance, reinsurance, or capital market solution that would be available to finance such large potential insured losses from a CNBR event. Without sufficient risk financing options, insurers could only control solvency threat by limiting their exposure to CNBR losses, the subgroup said. For workers' compensation and group life policies, insurers would have to protect themselves by limiting the availability of underlying coverages since law and regulation prohibit CNBR exclusions in those policies.

In its response, the subgroup drew on analysis it developed from catastrophe risk models created by the risk-modeling firm AIR Worldwide.

Academy Suggests Tweaks to Enzi Health Bill

While legislation proposed earlier this year to establish small-business health plans was an improvement on previous association health plan (AHP) bills, it wasn't perfect, said the Academy in a May 4 letter to Senate leaders.

The legislation, sponsored by Senate, Health, Education, Labor and Pensions Committee Chairman Michael Enzi (R-Wyo.), was reported out of committee on March 15 but failed in mid May to garner enough votes to end debate and move forward.

"Many of the negative consequences were addressed in the Enzi legislation," said Academy Senior Health Fellow Cori Uccello. "The bill appeared to apply the same rules to all health insurance providers, thus creating a level playing field. But there was still more to consider."

The legislation that was reported out of committee would have permitted small businesses to offer basic plans that might not provide state coverage mandates. If the plan didn't comply with state mandates, an enhanced plan, offering at a minimum the benefits covered by state employee coverage plans in one of the five most populous states (California, Texas, New York, Florida, or Illinois) would have had to be offered as well. Before suspension of the debate as a result of the failed vote, Sen. Olympia Snowe (R-Maine) was preparing to offer an alternative that would require plans to cover mandates from at least 26 states.

In its analysis of the bill, the Academy's Small-Group Market Task Force (with input from the Individual Medical Market Task Force) found that it enabled all insuring entities in the small-group market to follow common rating rules and benefit package requirements. However, the Academy warned in its letter, any subsequent change to the bill that reintroduced self-funded AHPs without clear rating rules and adequate capital requirements would likely destabilize the market and create plan insolvencies.

The letter also warned that as the bill moved through the Senate and into conference, there needed to be a clear definition of benefit requirements. Similarly, the legislation needed to define transition rules to prevent a disruption to the existing small-group market.

While association health plan reforms have been offered in both the House (where it has been adopted) and Senate in recent years, this was the farthest any such legislation has moved in the Senate.

ACADEMY NEWS BRIEFS, *continued from Page 3*

because interest rates were low and we now know that the stock market was ready to head up. But to put money into opaque risky assets—that I think is dangerous."

ON THE MOVE

▶ **Dave Gustafson**, chief policy actuary and acting director of the Policy Research and Analysis Dept. at the Pension Benefit Guaranty Corp. (PBGC), recently received the agency's distinguished career service award in recognition of his professional accomplishments. A 25-year veteran of the PBGC, Gustafson helped design numerous reforms in the federal pension insurance system and the funding rules that became law with enactment of the 1987 Pension Protection Act and the 1994 Retirement Protection Act. Gustafson was instrumental in creating the PBGC's early warning program, the Corporate Finance and Negotiations Dept., and played a principal role in developing and maintaining the agency's Pension Insurance Modeling System, a tool for assessing the PBGC's current financial status and its future outlook.

▶ **Richard Rush**, a consulting actuary with Leif Associates Inc. in Denver, received a 2006 Outstanding Communicator Award from the National School Public Relations Association. The award recognizes Rush's volunteer work supporting the success of students and public schools in Jefferson County, Colorado.

▶ **Hugh McHaffie** has joined the John Hancock Variable Annuities division of Manulife Financial in Boston as senior vice president for its variable annuity business. He was formerly senior vice president of product management for the individual business segment of MetLife.

▶ **Kent Sluyter** has been appointed chief actuary for the individual life insurance business of Prudential in Newark, N.J. He was formerly responsible for Prudential's individual life insurance underwriting, claims, and special investigations units.

▶ **Lise Hasegawa** has been named vice president in the financial division of MetLife Auto & Home in Warwick, R.I. As chief reserving actuary, she oversees loss reserves.

▶ **Craig Kliethermes** has joined RLI in Peoria, Ill. as the company's new vice president for actuarial services, including pricing, reserving, enterprise risk modeling, and actuarial analysis of new business opportunities. He was formerly senior vice president and director of quantitative analysis for Lockton Cos. in Kansas City, Kan.

Mary Downs Named Academy General Counsel

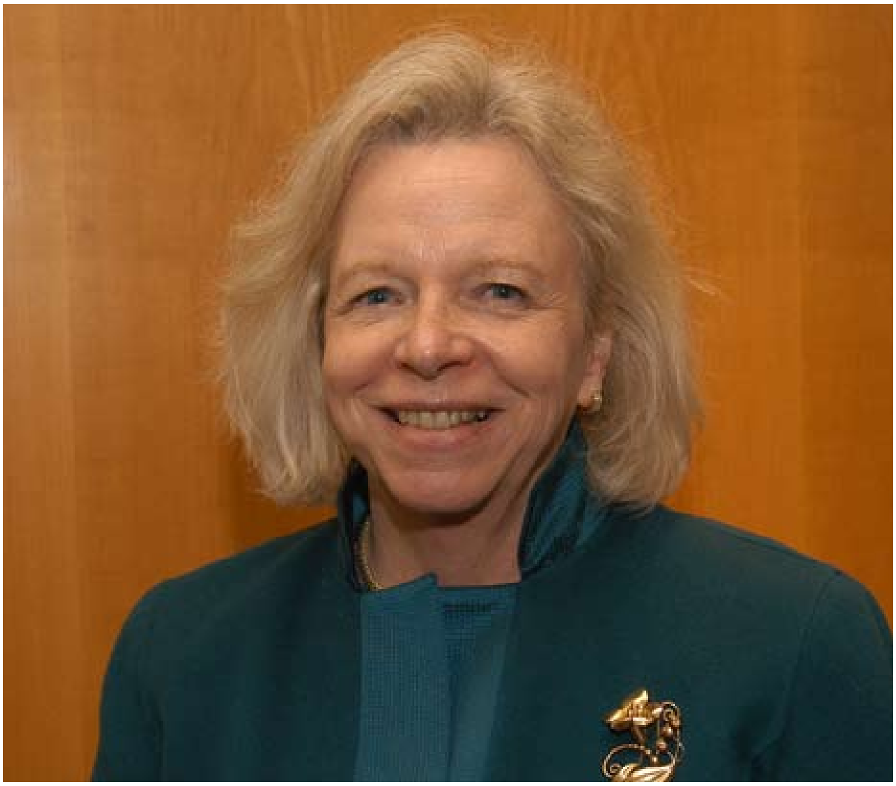
NOBODY HAD TO EXPLAIN to Mary Downs, the Academy's new general counsel and director of professionalism, what actuaries actually do for a living. Thanks to a favorite cousin who is an actuary, Downs had already formed a very favorable opinion of the profession: "Actuaries are very bright people," Downs said. "While numbers are their thing, they are very articulate and focused on the meaning of words. Words are a lawyer's essential stock in trade, and I like to work with people who are so focused and articulate in communicating."

As the Academy's general counsel and director of professionalism, Downs will be focusing on professionalism initiatives in the Council on Professionalism as well as working with the Actuarial Standards Board and the Actuarial Board for Counseling and Discipline and various committees of the Council on Professionalism. She will also serve as the de facto general counsel for the North American actuarial profession, providing ongoing legal advice and assistance to the Academy's sister organizations through the North American Actuarial Council.

Downs brings a varied professional portfolio to her new position, including experience as the general counsel of a trade association. Just before coming to the Academy, she served as director of litigation for MCI, managing litigation involving large commercial customers, government markets, the telecom network, and real estate facilities, as well as intellectual property and some international matters. She also advised on litigation risk assessment, dispute resolution, and disclosure and reserve issues to meet recommended or required accounting and reporting standards for the company.

Joining MCI when it was just beginning to work its way out of bankruptcy, Downs said she gained valuable experience working on compliance issues under the microscope of regulatory, judicial, and public scrutiny. "From a professional and ethical perspective, there were lessons to be learned," Downs said. "I understand what can go wrong in an organization and I understand how to help correct it."

Not that Downs feels the actuarial profession is in trouble. Quite the contrary. Although the professional landscape is changing for actuaries on a number of fronts, Downs said she has been impressed with how well poised the profession is for such changes. "They understand that it is coming and they are preparing for it," Downs said, pointing to initiatives like the Critical Review of the U.S. Actuarial Profession (CRUSAP) task force, which was launched last year to examine challenges facing the actuarial profession. "It's a very exciting time to be here," Downs said.



Before taking the job at MCI, Downs worked at Fannie Mae on the development of new products for the secondary mortgage market, regulatory investigations, and a wide variety of general corporate matters including litigation and contracts. Previously, she was general counsel of the Air Transport Association, a trade association representing major U.S. airlines; chairman of the board of SatoTravel, a travel agency formerly owned by many airlines; and an attorney at the Civil Aeronautics Board serving in a variety of positions, including chief of the antitrust division, associate director of congressional, community, and consumer affairs, and as executive assistant to two different board members. Downs also was chief trial attorney for the board in the first series of airline merger cases to arise after passage of the Airline Deregulation Act in 1978. For her work in those cases, she received the Federal Bar Association's "Younger Federal Lawyer of the Year" award.

Downs earned her law degree at Boston College Law School and her undergraduate degree at Newton College of the Sacred Heart. A long-time resident of Washington, Downs is married and the mother of two daughters and a son.

Actuarial Update

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FARLEY AWARD NOMINATIONS

THE ACADEMY IS LOOKING FOR nominations for the 2006 Jarvis Farley Service Award, given annually to an actuary who has provided sustained exemplary volunteer service to the profession.

With the exception of current Academy officers and past presidents, all Academy members are eligible for the award, as are directors and members of the Actuarial Standards Board and the Actuarial Board for Counseling and Discipline.

E-mail your nominations by July 17 to the Academy at **awards@actuary.org**. Include the name of the nominee, a brief explanation of why his or her volunteer service is exemplary, and your name and telephone number.

June 22 Life Webcast

For those who missed the Academy's June 22 webcast on its principles-based initiative, all is not lost—the entire webcast will be available on CD.

THE WEBCAST INCLUDED

- A summary of topics discussed during the June 8-13 National Association of Insurance Commissioners meeting.
- An activities review of the Academy's Life Reserves, Annuity Reserves, and Variable Annuities Reserves Work Groups
- A discussion on the role of a principles-based approach to peer review and potential changes in governance in insurance testing to accommodate principles-based approaches to reserving and solvency testing.

For more information about the June webcast, contact Amanda Yanek, the Academy's life policy analyst (yanek@actuary.org)

Also missed the Academy's March webcast? Buy the 90-minute CD containing the complete webcast audio presentation and Q&A, along with the PowerPoint presentation, in a single self-executing file. www.actuary.org.