



AMERICAN ACADEMY *of* ACTUARIES

September 27, 2002

Ms. Nicole Séguin
Executive Director
International Actuarial Association
360 Albert
Ottawa, Ontario
CANADA

Dear Ms. Séguin:

The American Academy of Actuaries¹ Workers Compensation Subcommittee (Subcommittee) reviewed the International Actuarial Association's (IAA's) proposed Guidelines of Actuarial Practice for Social Security Programs (Guidelines). Below are our comments and recommended changes to the exposure draft.

The proposed Guidelines subject some or all of the U.S. Workers' Compensation (WC) industry to the IAA recommendations. To avoid the situation where U.S. judicial and regulatory bodies have multiple, conflicting standards, we request that you define the Social Security Programs (SSPs) in the IAA guidelines so as to explicitly exclude the U.S. WC market.

Since most WC insurance is sold in a competitive environment, few would perceive this business as falling under the category of a SSP. However, state governments play many roles in the WC process, ranging from setting WC benefits to being the sole provider of WC insurance². Some state programs may have some of the qualities of SSPs. Despite these superficial similarities, we do not believe that it is appropriate for actuaries to be required to analyze any aspect of the U.S. WC industry according to the Guidelines.

A key purpose of the Guidelines is to address the situation that, in many countries, SSPs are not subject to the same professional standards as other programs with similar structures. In the U.S., WC reserves must generally be reviewed by an actuary, regardless of whether those reserves arose from the voluntary

¹ The American Academy of Actuaries is the public policy organization for actuaries practicing in all specialties within the United States. A major purpose of the Academy is to act as the public information organization for the profession. The Academy is non-partisan and assists the public policy process through the presentation of clear and objective actuarial analysis. The Academy regularly prepares testimony for Congress, provides information to federal elected officials, comments on proposed federal regulations, and works closely with state officials on issues related to insurance. The Academy also develops and upholds actuarial standards of conduct, qualification and practice, and the Code of Professional Conduct for all actuaries practicing in the United States.

² The role of the state in WC varies significantly from state to state. There are only 5 states in which the state is the sole provider of WC insurance, but in most states the state plays some role in providing insurance to those companies that cannot obtain insurance through the voluntary market.

or residual market. For voluntary reserves, an actuary must generally sign a statement of actuarial opinion, stating that the reserves are in compliance with, among other things, the Casualty Actuarial Society's Property & Casualty statement of principle regarding loss reserves, a document, which can be found at <http://www.casact.org/standards/princip/sppcloss.pdf>.

This document presently requires that the reserves be subject to 25 considerations. Many of these are similar to the considerations of the Guidelines, but some differ in some significant ways. One example of a standard prescribed by the Guidelines that would be difficult and unnecessary for a U.S. actuary to fulfill is #7, results. This standard recommends that the actuary show results by age, sex and earnings, which is virtually unheard of among U.S. WC insurers. Data are generally not tracked or analyzed this way in the U.S. WC insurance system. Implementing the proposed Guidelines so that is routinely done would be costly and complex with little, if any, additional benefit.

The Subcommittee is concerned that the IAA may publish Guidelines that appear to apply to the U.S. WC insurance system with standards that offer little perceived benefit and that are more onerous and costly to implement than those with which U.S. insurers must already comply. The Subcommittee believes it is prudent to avoid creating potential conflicts should someone seek to impose the IAA guidelines on insurers writing WC in the U.S. The Subcommittee therefore, respectfully requests that the IAA amend its document so as to explicitly exclude the U.S. WC system from its proposed Guidelines of Actuarial Practice for Social Security Programs.

If you have any questions or would like additional information, please feel free to contact me or Greg Vass, the Academy's senior casualty policy analyst, at (202) 223-8196. Thank you for your consideration.

Sincerely,



Nancy Treitel
Chairperson
Workers' Compensation Subcommittee