



SOCIETY OF ACTUARIES

**Health Valuation Boot Camp
August 12- 13, 2009**

Professionalism Session

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Professionalism and the Actuary

Health Pricing and Valuation Boot Camp
Seattle, WA -- August 12, 2009

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Agenda for Today

Code of Conduct refresher course Qualification Standards and CPD

- AAA Qualification Standards
- New SOA CPD requirements

Actuarial Standards of Practice

- Plus further thoughts on actuarial communications
- *Watch for the Pop Quizzes and our own reality show!*



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Code of Conduct -- Common Sense Ethics



Pop Quiz

- Which actuarial organization(s) adopted the Code of Professional Conduct?
 - A. AAA
 - B. SOA
 - C. CCA
 - D. ASPPA
 - E. CAS
 - F. All of the above
 - G. A and B
 - H. A, B and E



Pop Quiz

- Which actuarial organization(s) adopted the Code of Professional Conduct?



Code of Professional Conduct

- You are **required** to keep current with the Code, as well as applicable Law and other rules of professional conduct within your jurisdictions
 - http://www.actuary.org/pdf/prof/code_of_conduct.pdf
- We will review the code today
 - *Note: the paraphrasing is mine personally and should not be construed as an official SOA interpretation. It's simply meant to be helpful to us today!*



Better keep yourself clean and bright; you are the window through which you must see the world.

– George Bernard Shaw (1856 – 1950)



**Precept 1:
Professional Integrity**

- **Be honest**
- **Use Skill and Care**
 - Don't be deceitful or intentionally **misrepresent**
- Don't do anything **illegal**, or that would hurt our **reputation**
 - Includes using 3rd party relationships to engage in improper activity



Precept 2: Qualification Standards

Make sure you're qualified

- Basic education
- Experience
- Continuing education



Precept 3: Standards of Practice

- You must satisfy applicable **Standards of Practice**
 - It's your **responsibility** to know what those are and keep up with changes
- If no Standard applies to the work, use **professional judgment** and generally accepted actuarial principles and practices
- If you **depart** from the Standards you must justify why



Precepts 4, 5 and 6: Communications and Disclosure

Actuaries
Risk Is Opportunity.™

Actuarial communications must:

- Be **clear** and **appropriate**
- Identify the **responsible actuary**
- Indicate who can provide **supplementary** information
- Identify the **Principal**



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Precepts 4, 5 and 6: Communications and Disclosure

Actuaries
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You must disclose **sources of compensation** in relation to an assignment

- If you are **not independent** you must disclose this to the Principal
- Disclosure is required regardless of your firm's operating locations



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Precept 7: Conflict of Interest

Actuaries
Risk Is Opportunity.™

You should not perform Actuarial Services involving an actual OR potential conflict of interest, unless:

- You are able to act **fairly**
- You have **disclosed** the conflict to all Principals
- **All Principals** have agreed on your performance of the services



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Precept 8: Control of Work Product

Actuaries
Risk Is Opportunity.™

You should make sure your work is not used to **mislead** others

- Recognize the risks of **misquotation and misinterpretation**
- Construct and present your Actuarial Communication to avoid this
- Include **limitations** on the distribution and utilization of the Communication



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Precept 9: Confidentiality

Actuaries
Risk Is Opportunity.™

Don't disclose **confidential** information

- Unless Principal **authorizes**
- Unless required by Law



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Precept 10: Courtesy and Cooperation

Actuaries
Risk Is Opportunity.™

- Use **courtesy** and **respect**
- **Cooperate** with others in the Principal's best interest
 - You can work for a Principal even if another actuary is already doing so
 - Differing opinions are allowed by the Code
 - You can (should) consult with the prior actuary, but only with consent of the Principal
 - And if you are the prior actuary, you should cooperate with the new actuary



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Precept 11: Advertising

Actuaries
Risk Is Opportunity.™

Don't use false or misleading **advertisement** for Actuarial Services

- Includes **all media** trying to influence any person or organization



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Precept 12: Titles and Designations

Actuaries
Risk Is Opportunity.™

Your **designation** should be only used in a way that is authorized by the organization



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Precept 13 and 14: Violations of the Code

- If you are aware of a **material violation** of the Code by another Actuary
 - First **discuss** it with the other actuary
 - Then you should **disclose** to the Counseling and Discipline body
 - ◆ Unless contrary to law, or violating confidentiality
- Material violation:
 - **Important**
 - Affects the **outcome** of a situation



Precept 13 and 14: Violations of the Code

- If you are asked to provide information or cooperate with a counseling or disciplinary body, you should do so **promptly** and **truthfully**
 - Subject to restrictions of the Law, or confidentiality
- The ABCD stresses the “**C**”
 - <http://www.abcdboard.org/>



Qualification Standards and CPD



Pop Quiz – Triple True / False

The US Qualification Standard applies to Academy members

The US Qualification Standard applies **only** to Academy members

As a member of a US based actuarial organization I must **always comply** with the US Qualification Standard



Academy Mission



Serve the Public on behalf of the U.S. Actuarial profession

- **Public Policy**
 - Independent and objective actuarial information, analysis, and education
- **Issue identification**
 - on behalf of the public, where actuarial science provides a unique understanding
- **Public's understanding and recognition**
 - of the value of the actuarial profession



Academy Mission



Serve the Public on behalf of the U.S. Actuarial profession

- **Common Interest among Actuarial Organizations**
 - Facilitate and coordinate issues of common interest among the U.S.-based actuarial associations
- **Standards of actuarial qualification, practice, and conduct**
 - provide for the establishment, maintenance, and enforcement of high professional standards
- **Global coordination**
 - of the U.S. profession



Committee on Qualifications (COQ)

- Charged with promulgating, and revising, as necessary, the Qualification Standards.
 - Counsels actuaries on issues relating to qualifications
 - Develops guidelines for the administration of the qualification standards.



Scope Expanded

“Prescribed” Statements of Actuarial Opinion (PSAO) vs. SAOs

- Expanded meaning of an SAO
 - PSAO was more restricted
- Also applies to all actuaries issuing SAOs in the United States
- You don’t issue Statements of Actuarial Opinion?
 - Then the revised Standards do not apply to you
 - CE requirements also do not apply



Qualification Standards

Code of Conduct Precept 2 Says...

- You must be **qualified**
 - You satisfy basic and continuing education
 - You have appropriate experience
- You must satisfy **qualification standards**
 - You are responsible to know and observe standards
 - In the U.S., the Academy published Qualification Standards
 - Revised Standards became effective January 1, 2008.
 - You must be qualified even if no qualification standard exists for the assignment/jurisdiction



Structure of Qualification Standards

U.S. Actuaries should have a copy of the revised Qualification Standards:

- Introduction
 - including important definitions
- General Qualification Standard
 - Basic Education and Experience Requirements
 - Continuing Education Requirements
- Specific Qualification Standards (if applicable)
- Changes in Practice and Application
- Acknowledgement of Qualification
- Recordkeeping Requirements



Pop Quiz

Which of the following is an SAO:

- a) Life Annual Statement Opinion
- b) Email to the CFO outlining assumptions and the data used to derive them
- c) Email to the CFO with a pricing recommendation
- d) Memo to department manager regarding performance of a student on a project
- e) DRAFT report provided to management, which you know will be shared with the Board of Directors



SAO Defined

- SAO:
 - **Opinion** expressed by the actuary
 - in the course of performing **Actuarial Services**
 - intended by that actuary to be **relied upon**
 - by the **person or organization to which** the opinion is addressed
- Actuarial Services:
 - **Professional services**
 - provided to a **Principal** (client or employer)
 - by an individual acting **in the capacity of an actuary.**
 - Include the rendering of advice, recommendations, findings, or opinions based upon **actuarial considerations**



Basic Education and Experience (BEE)

You must meet three criteria to issue an SAO

- Member of an actuarial organization
- Three years of responsible actuarial experience
 - Work that requires knowledge and skill in solving actuarial problems
- Knowledge of the Law applicable to the SAO
 - Through examination or documented professional development



Additional BEE For Specialty Tracks

To issue an SAO in an SOA specialty track area, or tracks covered in CAS or ASPPA exams:

- Highest designation + specialty track; OR
- Highest designation + 1 year of experience with subject of SAO; OR
- 3 years of experience with subject of SAO + be under the review of qualified actuary



Additional BEE For Specialty Tracks

Grandparent clause on BEE requirement

- Future changes to these requirements do not apply retroactively
- So, if you were qualified for a track pre-2008, you are still qualified in that track



Three-Year Experience Requirement

- **New** provision in revised standards requires “three years of responsible actuarial experience” to be deemed qualified
- If you do not yet meet the three-year requirement, and you prepare SAOs for another actuary, a qualified actuary must review and take responsibility for that work



Continuing Education

- **30 CE Hours** – You must complete *and* document at least **30 hours each calendar year of relevant CE**
 - **Organized Activity** Requirement – At least **six** hours must be from “Organized Activities”
 - **Professionalism** Requirement – At least **three** hours must be on professionalism topics
 - Cap on **General Business Courses** - General business courses are limited to **three** hours per year
- A CE hour is defined as 50 minutes



Continuing Education

- You should meet the CE requirement in the calendar year preceding the year in which you issue an SAO
- If you are short in the preceding year:
 - shortfall may be earned in the year the SAO is issued, but
 - must be met before the SAO is issued
- CE earned in the same calendar year that the SAO is issued cannot be used toward that calendar year's requirement
 - i.e. it's considered part of the previous year



Relevant Continuing Education

Continuing education is “**relevant**” if it:

- **Broadens or deepens** your understanding, or
- Expands your knowledge of **practice in related disciplines**, or
- Facilitates your **entry into a new area** of practice



Organized Activities

- Interaction with actuaries or other professionals working for *different* organizations
 - In-house meetings can constitute “organized activities” if they use outside speakers
- Examples of organized activities:
 - conferences, seminars, webcasts, in-person or online courses, or committee work that is relevant CE



Other Activities

- **“Other activities”** – include, but are not limited to:
 - reading actuarial literature, statutes or regulations
 - reading other books, papers or articles on relevant technical or professional topics
 - writing professional papers or articles
 - listening to recordings of relevant meetings, seminars or conferences
 - in-house meetings
 - studying for actuarial exams
 - drafting actuarial exam questions
 - preparing to speak or lead a discussion at a continuing education activity



Professionalism Topics

- **Professionalism topics** – include, but are not limited to:
 - studying, reviewing, or providing input on an Exposure Draft of an ASOP
 - studying or reviewing the Code of Professional Conduct
 - serving on the ASB or a professionalism committee
- Professionalism requirement may be satisfied by either organized activities or other activities.



General Business Skills



- General business and consulting courses are capped at 3 CE hours
- Include, but are not limited to:
 - Client relationship management
 - Presentation skills
 - Communication skills
 - Project management
 - Personnel management



Continuing Education Determination



- Ultimately, it's your responsibility!
 - You should make a reasonable, good-faith determination of what enhances your ability to practice
- The Academy does not audit members for relevance or compliance



No More Approved Providers

- The revised Qualification Standards eliminated the approved provider program
 - You are required to determine “relevant” continuing education
- JBEA’s regulation regarding EAs is unaffected
 - Sponsors of CE for EAs must still be approved



Specific Qualification Standards

- Apply only to actuaries who issue the following SAOs:
 - NAIC Life and A&H Annual Statement
 - NAIC Property and Casualty Annual Statement
 - NAIC Health Annual Statement
- CE requirement is 15 CE hours in the specialty area per calendar year
 - Applies toward the 30 general hours
 - Was 12 hours pre-2008



Transition

- 30 hours of CE effective for SAOs issued in 2010
- For SAOs issued in 2009:
 - CE earned in 2008 (or early 2009)
 - 30 hour requirement is **reduced to 24 hours**
 - 3 hours of professionalism and 6 hours of organized activities are **not reduced**



Recordkeeping

You are responsible to track your own compliance with the Qualification Standards

- Records should contain
 - date of CE
 - number of hours
 - description of the subject matter
 - whether it is professionalism, outside activity or general business
- AAA developed an on-line tool called TRACE
 - <http://www.actuary.org/trace.asp>



Reality TV Part 1



SOA CPD Requirement



Who

- All SOA members must meet the requirement
 - ASA, CERA and FSA
 - ◆ An ASA/CERA still taking exams must meet the requirement, but exams/studying count
 - Retirees too, but compliance different



Who

- Must comply once you have attained your first SOA credential
 - Must start earning CPD credits the year **after** the attainment of your first credential
 - Example:
 - ◆ Attain ASA in spring 2011
 - ◆ Start earning credits in 2012
 - ◆ First certification of compliance as of December 31, 2013



When

- Effective date: January 1, 2009
- Must certify compliance as of December 31 of each year
 - First certification December 31, 2010
- At the end of each year, the member will certify compliance with the requirement during the past two calendar years



Pop Quiz

True or False:

As long as you meet the U.S. Qualification Standards, issued by the AAA, you don't have to worry at all about the SOA CPD standards



How to Meet the Requirement

- Two ways to meet the requirement
 - Basic Requirement Provisions
 - Alternative Compliance
- You can combine standards within the 2-year period
 - For example, one year meet the SOA standard & one year meet the US Qualification Standard



Basic CPD Requirement

- Two-year rolling cycle
- 60 units every 2 years
 - One unit = 50 minutes (1 hour = 1.2 units)
- For more info, go to
<http://www.soa.org/leadership/current-initiatives/cpd-announcement.aspx>



Summary of key provisions

Summary of Key Provisions of the CPD Requirement (per cycle)			
Category	Requirement (% of credits)	Requirement (units per cycle)	Structured or self-study
Job-relevant skills	75 percent of credits minimum	45 units minimum	At least three structured units must be in professionalism
Business and management skills	25 percent of credits maximum	15 units maximum	Can be either
Total required credits		60 units	At least 30 units per cycle must be structured credit*

*At least three units of structured credit per cycle must be in professionalism; other structured units can be in any combination of job-relevant and business skills that meet the required minima and maxima. At least 7.5 units of structured credit must be from a source other than the employer.



Definitions

- **Job-relevant (>=75%):** CPD credits are job-relevant if they broaden or deepen a member's knowledge of work.
 - Can include technical topics and nontechnical topics
 - Should include at least 3 credits of professionalism.
- **Business and management skills (<=25%):** Skills not unique to the actuarial profession that improve personal effectiveness



Definitions

- **Structured credit:** any organized activity or any experience derived from an organized activity with an opportunity for participant interaction
 - Meetings, seminars, webcasts, some volunteer activities
 - Listening to audio, viewing video, or reading transcripts of organized activities
 - At least 7.5 units per cycle from a non-employer source
- **Self-study:** No limit on activities that count, except normal work duties do not count



What's the difference between normal job duties & CPD?

Learning something new **for** your job is a professional development activity that is job-relevant CPD.

Applying something new **in** your job is part of your normal job duties, and would not be CPD.



Students

- If you're still taking exams, you earn structured credit for...
 - An “effective attempt” at an FSA examination
 - ◆ See table
 - Successful completion of an FSA module (generally 7.5 units/module)
- Studying for exams and reading module materials is self-study



Structured Credit for Exams

Structured Credit Units Earned for an Effective Attempt* at an FSA Examination	
Structured Credit Units Earned	FSA Exams
15	CSP-RC, CSP-IU, CSP-IC, CSP-GH, APMV, AFE, FET, DP-GH, DP-IU, DP-IC, DP-RC
10	CSP-RU
7.5	DP-RU, EA2-A
5 credits	EA2-B

*An effective attempt is defined as a score that is greater than or equal to 50 percent of the passing score. On the SOA's 0 to 10 scale, this would mean a score greater than zero.



Alternative compliance

- Members who are **subject to** one of the following standards may elect to meet that standard instead:
 - U.S. Qualification Standard
 - CIA Qualification Standard
 - Category 1 or 2 of the U.K. CPD Scheme
 - The Institute of Actuaries of Australia CPD Standard
- “Subject to”: Through membership or by other means, you are subject to this CPD standard



Alternative Compliance

- You can combine standards within the 2-year period
 - 1 year meet the SOA standard & one year meet the US Qualification Standard OR
 - 1 year meet UK Category 1 & 1 year meet the US Qualification standard



Certification of Compliance

- At December 31 of each year member must certify compliance
 - First certification period as of December 31, 2010
 - Will have a few months to complete certification
 - Certify electronically



Pop Quiz

True or False:

As an SOA member, your compliance with CPD requirements is entirely on the honor system. Neither the AAA nor the SOA performs audits of compliance.



Compliance

- Members must keep a log
 - What was it, date, structured/self-study, job-relevant or business & management, etc.
 - Not required to have certificates of attendance
- If meet an alternative compliance standard, must show a log of how you've complied with that standard



Compliance

- The SOA will audit a small subset of members (~Up to 1%, 200 members)
- To ensure that members are complying with the CPD standard
- If you are audited, you need to submit your log
 - No need for certificates of attendance
 - Form could be TRACE (AAA tool), CCA tool or your own log file



Compliance

- Members who do not meet the SOA CPD requirement must inform anyone relying on their actuarial expertise that they have not met the SOA CPD requirement.
- The **online member directory** will be altered to add a heading for the SOA Continuing Professional Development Requirement (2011)
 - “Compliant” or “Non-compliant”
 - If you are retired, “Retired”



Compliance

Michelle Member	Designations
[Title]	[Michelle's designations]
[Employer]	SOA Continuing Professional Development Requirement
[Contact information]	Compliant (2009-2010)
	[Other information as shown in the directory]



Compliance

Michelle Member [Title] [Employer] [Contact information]	Designations [Michelle's designations] SOA Continuing Professional Development Requirement Non-compliant (2009-2010) [Other information as shown in the directory]
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ASOPs for Health Actuaries





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Actuarial Standards of Practice

- Precept 3: you must satisfy applicable standards of practice
 - This includes keeping current on changes
- You must be prepared to justify departures from standards



Pop Quiz

True or False:

An AAA member is expected to be familiar with *all* Actuarial Standards of Practice (ASOPs)



Applicability Guidelines

- The ASB publishes a mapping of ASOPs to types of work
 - <http://www.actuary.org/pdf/prof/guide.pdf>
 - This is currently being updated but we should still rely on the health mapping
 - Handout



It is a capital mistake to theorize before one has data. Insensibly one begins to twist facts to suit theories, instead of theories to suit facts.

– Arthur Conan Doyle (1859 – 1930)



ASOP 23: Data Quality

- Data quality is a significant driver in the quality of actuarial analyses
- ASOP 23 provides guidance:
 - Selection of data
 - Reliance on data and information supplied by others
 - Review of data
 - Limitations of the actuary's responsibility
 - Use of data
 - Documentation and
 - Communications and disclosures



ASOP 23: Data Quality

- Considerations in **selection** of data
 - Desired data elements, and possible alternatives
 - Appropriateness including how current
 - Reasonableness, comprehensiveness, and internal/external consistency
 - Material limitations
 - Alternative data – cost and feasibility, and benefit to be gained
 - Sampling methods



ASOP 23: Data Quality

- Considerations in **review** of data
 - Data definitions
 - Questionable values and inconsistent relationships
 - Prior data



ASOP 23: Data Quality

- Judgments in **use** of data
 - Sufficient quality
 - Require enhancement
 - Judgmental adjustments of assumptions
 - Material defects
 - Inadequate data



ASOP 23: Data Quality

- Documentation and Disclosure
 - The ASOP lists specifics
 - Basically, you should document and disclose anything resulting from the selection, review or use of the data that could impact the results
 - General rule: If you are uncomfortable disclosing it, then you should probably reconsider your data or analysis!



*Honest criticism is hard to take,
particularly from a relative, a friend,
an acquaintance, or a stranger.*
– Franklin P. Jones (1887 – 1929)



ASOP 41: Actuarial Communications

- ASOP 41 currently being rewritten
- Deviation standards
 - ASOP 41 will probably become the standard for all other Standards on deviation
- May also clarify and define Actuarial Reports and Actuarial Communications



ASOP 41: Actuarial Communications

- Communications should outline:
 - Scope of the work
 - Methods, procedures, assumptions, data and other information
- Communications should *collectively* satisfy the standard, even if individual communications may not



ASOP 41: Actuarial Communications

- Form and content: should be clear and appropriate
- Timing: communication should be issued within a reasonable period following analysis
- Significant findings: should be formally presented



ASOP 41: Actuarial Communications

- Required Disclosures
 - Principal
 - Scope
 - Limitations or constraints on the use or applicability of the findings
 - Responsible actuary(ies), organization if appropriate



ASOP 41: Actuarial Communications

- Required Disclosures (continued)
 - Conflict of interest
 - ◆ Financial, organizational or other
 - Reliance on other sources for data and other information
 - ◆ Making use of other sources without assuming responsibility for those sources
 - Responsibility for assumptions and methods
 - ◆ Including information for which the actuary does not assume responsibility



ASOP 41: Actuarial Communications

- Oral communications: Standards apply to the extent practicable
- Reconciliation of material differences is required if follow up work by the same actuary produces different results
 - In writing, if original follow up communication was oral



ASOP 41: Actuarial Communications

- Responsibility to other users
 - Recognize that communication could be misused, and take steps to avoid
 - ◆ e.g. specific language limiting distribution
 - The actuary does not have an obligation to communicate to anyone but the Principal



Pop Quiz

- What are your observed best practices in communications?
 - **What lessons have you learned?**



Actuarial Communications – things to think about

- Communication = Written, electronic or oral communication
 - Clear and appropriate
 - Issued by an actuary with respect to actuarial services
 - Identify responsible actuary and Principal
 - Disclose financial and organizational conflicts of independence



Actuarial Communications – things to think about

- Written: Attention to detail reflects upon your work!
 - Documents that have errors or are poorly written can completely negate the impact of excellent work
 - Pretty is important, even if we would prefer that our work speak for itself



Actuarial Communications – things to think about

- Oral
 - Phone calls can make it difficult to gauge the level of audience understanding
 - Usually best to follow up oral advice in writing
 - ◆ May clarify something that wasn't understood
 - ◆ Helps you to document what was said in case you need to refer back to it in the future



Actuarial Communications – things to think about

- Electronic
 - Emails can be **too** easy to send
 - ◆ Make sure you adhere to actuarial communications standards even in simple emails
 - ◆ Always review an email before you hit the send button
 - ◆ Emails are frequently SAOs
 - Assume everything you put in an email will be seen beyond the Principal
 - Beware the “Reply to all” button!



Actuarial Communications – things to think about

- Clear
 - Know your audience (the Principal)
 - Do not underestimate the power of charts and tables
 - Consider whether bullets vs. prose might help with clarity
 - Seek peer review



Actuarial Communications – things to think about

- Appropriate
 - Is the form of communication appropriate for the content?
 - ◆ More substantial and material findings may indicate more formal communication
 - ◆ When in doubt, put it in writing
 - Again, know your audience



Actuarial Communications – things to think about

- Actuarial reports – general rule
 - Disclose methods, procedures assumptions and data with sufficient clarity that another qualified actuary could make an objective appraisal of the reasonableness of the work



Reality TV Part 2

