SMALLER INSURANCE COMPANY SECTION
"A KNOWLEDGE COMMUNITY FOR THE SOCIETY OF ACTUARIES"

SmallTalk

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Principle-Based Approach—Still A Work in Process

By Norman E. Hill

The Principle-Based Approach (PBA) for reserves (PBR) and Risk-Based Capital (RBC, specifically C3, Phase 3) for life and annuities has been on the drawing boards for about two years. During this time, it has evolved from a seemingly onerous theoretical construct to proposed procedures that fit small insurers' needs more reasonably. To be more exact, the rigor of proposed procedures now varies with riskiness of products offered.

Procedures are more settled for life and variable products than for non-variable annuities. The latter is still in a state of flux, which undoubtedly will not be settled this year. Therefore, this article pertains to life and variable only.

The American Council of Life Insurers (ACLI) made a significant proposal for change. It wishes to introduce a new additional reserve floor computed on a net premium basis. The goal is to make it easier to integrate statutory PBR and federal income tax (FIT) reserve calculations. Testing formulas, (what items to include, such as expenses and commission and what changes, if any), to be incorporated by product, should take most of this year to resolve. The ACLI hopes to be completed during the fourth quarter, but this may be difficult.

PBR—For less risky products, the key test is based on ratios known as the Material Tail Risk (MTR) test, or a revised part of the Stochastic Exclusion Test. If these ratios fall below some threshold (still to be determined), the product is deemed relatively low risk with low volatility. Deterministic reserves, with appropriate scenario testing, would be used. It appears that traditional, less risky products would be able to pass this test.

If MTR ratios are too high, stochastic reserve calculations are required. Reserves would be based on deterministic plus any excess of stochastic over deterministic.

A considerable number of meetings and conference calls have been expended on drafting two documents: A revised Standard Valuation Law (SVL) and a valuation manual (VM), which includes, among other things, the model regulation (VM20) to implement the new SVL. Much has been accomplished, but a great deal of drafting and some unresolved critical issues remain.

There have been some regulator-only drafting calls. Documents that reflect the most current views of regulators may not have not been exposed at the time this article was written. The most recent exposed versions of SVL and VM20 are now both dated 3 29 08. When drafting takes place with tight deadlines, there is always the danger that unwanted or unintended items will be inserted that might negate past gains for small insurers. (Such changes require further review and analysis).

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Editorial

By James R. Thompson

As spring turns to summer once again, Principle-Based Reserves (PBR) is still the hot topic. A document of the valuation manual for life insurance is now being studied by the Life and Health Actuarial Task Force (LHATF) of the National Association of Insurance Commissioners (NAIC). The material for this issue of *Small Talk* was due just before the Spring LHATF meeting in Orlando (March 28–29). Due to some fancy footwork by authors and the Society of Actuaries' (SOA) editorial staff, we have included the decisions of that meeting.

I believe the questions and issues discussed herein will still be relevant to the summer meeting of LHATF, however. The PBR schedule calls for adoption of the valuation manual and SVL II by LHATF and the A Committee at the spring meeting and by the full NAIC at the summer meeting. Will this schedule be adhered to? Time will tell.

Our lead article is by Norm Hill. Entitled, "Principle-Based Approach—Still a Work in Process." He discusses recent progress as well as a recent Treasury notice, 2008-18, which will probably affect the shape of PBR. As a side note, Norm and I serve on Subgroup 4 of the Life Reserves Working Group, a group that has worked on ways of simplifying PBR.

In following PBR, I am reminded of an old cartoon adage I saw in a law office: "No man's life or property is safe while the legislature is in session." Changes can occur one way or another. Big gains can be erased if we are not watchful. Companies cannot wait for a final version or assume someone else is following it.

This is the final year for preparing your 2001 CSO policies for sale, by Jan. 1, 2009 at the latest. Ever since this mortality table was prepared, there has been a concern that the mortality is not sufficient to cover certain kinds of products—preneed and final expense. This often falls in the category of guaranteed issue or simplified issue. It is paramount that special mortality be considered. James Van Elsen has written an article on the NAIC's mortality approach for the preneed marketplace as of Jan. 1, 2009. This should be interesting for those in this market. But I would like to know what will be done for the final expense plans? Or are these just too difficult to define?

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As America ages, the payout options for annuities become more significant. For years, I have read in insurance trade publications that insurance companies

have wondered why they get so few annuitizations. As the market grays, this becomes more important. Could it be the product? The sales approach? Wendy McCullough is an actuary with Thrivent, one of the largest fraternals, and explains what her company is doing to help the baby boomers.

I believe the smaller insurance companies do not have the capacity for the sophisticated system her company has. But they must think through what strategy they will need, to retain money after retirement: No strategy—let them cash out, or create an inflator option (e.g., 2 percent inflator, which I have seen). Can their asset strategy or reserve position sustain this? Hope that their policyholders have contact with a retirement planner who integrates their own annuity in some larger strategy? In any case, I am pleased to see that a fraternal society cares enough about its policyholders to provide the tools. Do commercial companies have such planning tools?

Many of the smaller companies are fraternals. Their trade organization is the National Fraternal Congress of America (NFCA). Allison Koppel, director of Membership and Fraternal Services for the NFCA, has written an article on their Fraternal 100 Section This represents those fraternals with no more than $100 million in assets. She shows how they help each other.

No one needs to belabor the changes in investment market conditions that have occurred over the past year or so. We have all been hit in our own private pockets with this. Our companies are also obviously affected. Arthur Aaronson of GE Assét Management has written an article on risk management. This discussion is well worth it for anyone in a management role at a life company.

No one needs to belabor the changes in investment market conditions that have occurred over the past year or so. We have all been hit in our own private pockets with this.

Reinsurance is always an important aspect of smaller insurance company activity. Without adequate reinsurance, the risk is often too great. Don Walker is director of the actuarial department at Farm Bureau Life of Michigan and has written several articles for *Small Talk*. In this issue, he writes about catastrophe reinsurance, something we should all give some thought to. Although September 11 has obviously brought that into the forefront, he gives other examples of catastrophes which could affect our companies overall.

With the rise in worksite marketing and volunteer benefits, critical illness should become a more prominent product. With less well-known pricing assumptions, a good reinsurance relationship is a must. Sheila Matheson works in reinsurance marketing for OptimumRe. She gives us an overview of this market and its surprising origins in her article, "Critical Illness Insurance—The Opportunity Product for Companies Large and Small." Her account of the origins makes this interesting reading.

Finally, we include descriptions of sessions we are sponsoring at the Valuation Actuary meeting in September and the Annual Meeting in October. Planning is in full swing. Our section, along with others, sponsors various events. The Valuation Actuary meeting is held in September. Don Walker provides information about our two activities there. The annual meeting is in October. Ellen Retz has been preparing some session material. Hope you're planning to join us at both events.

I want to thank the staff of the Society of Actuaries for their fine support in preparing and mailing this issue. I want to thank the authors who have contributed their time to make this issue possible. If you as a reader find any of these articles useful in any way, we would like to hear from you. If you have suggestions or ideas for topics we can cover in our next issue—to be published in November—we'd like to hear about them by late August. Just e-mail them to me at *jimthompson@ameritech.net*.

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At the NAIC meeting in late March, concentration was on SVL, rather than VM. Some areas of SVL were resolved, but key ones were not. Even ignoring the new net premium floor project, the SVL timetable won't meet its June completion goal.

Methodology—Areas that have not yet been completed include mortality and expenses. A mortality approach that seems to have wide acceptance includes a simplification for small blocks. A company can directly use assumptions from a CSO Table if the credibility of its data is low. On expenses, a key question is whether current wording allows a small company without current critical mass to assume sufficient growth so as to reach it.

A proposed portion of VM20 would allow companies the option from three to five years for initiating the PBR process or first including selected plans in it. This portion has not yet been signed off by LHATF, although no objections have as yet been raised.

Another unresolved proposal is to omit policy dividends and other non-guaranteed elements from reserves if other assumptions, such as interest and mortality, are sufficiently conservative so as to provide equivalent PBR reserve levels.

Among regulators, there are serious disagreements with regard to interest assumptions. New York is insisting on an additional reserve floor to be specified in SVL. Besides the current cash value floor, it wants a reserve floor based on cash flows using a risk-free interest rate. This would probably be based on Treasury bill rates plus about 50 basis points.

It seems likely that PBR reserves on permanent policies will not differ much from currently statutory levels, especially if this SVL floor is adopted. Term reserves other than deficiency reserves are still likely to be reduced, due to use of lapse rates.

RBC—The alternative amount was introduced to provide some flexibility in methodology and possible relief from complete stochastic processing on all reserves for all issue years. It appears that a safe harbor to use the alternative amount will be based on the same MTR as for reserves. If MTR ratios are sufficiently low, then current RBC factors for C3, Phase 3, would be retained, rather than use of a total balance sheet or Total Actuarial Reserve (TAR) approach. The latter involves a higher confidence level (CTE) reserve (TAR) and RBC as the difference between TAR and regular reserves.

Regulator Reliance—In December, LHATF removed the requirement for an independent actuarial review. The reason was that many regulators said they could not legally rely on such review. Later, the Commissioner's PBA Oversight Working Group (EX)—which is charged with

supervising the entire PBA process—asked how, without such review, regulators could gain assurance of reserves where assumptions would not be prescribed and could vary each valuation year.

To go with the question of assurance, some actuaries believe that a required independent actuarial review of PBR reserves would enhance the status of the profession. The approach adopted by the Commissioner's EX was to build such a review into the state examination process. This leaves open how frequently actuarial reviews of PBR would be required, and what additional resources would be needed by insurance departments. Either way, PBR review should mean significant additional expense for companies.

Experience Reporting—MIB has proposed that, for all companies, calendar year reporting of mortality experience data, not policy year, would be required. This would be much easier than policy year, but, in most cases, would still involve extra procedures compared to today. Additional simplifications to small company reporting are still possible.

Also, a New York proposed regulation would exempt companies with $10 million or less life premiums. Neither of these changes from the earlier $25 million calendar year reporting threshold has been discussed at LHATF.

Corporate Governance—With PBR reserves and dynamic assumptions, a related question is: What responsibility does senior management have over reserves if they are required? So far, this issue has been less prominent than reserve considerations themselves.

The American Academy of Actuaries (AAA) has submitted a report on governance to the National Association of Insurance Commissioners (NAIC), recommending flexibility in approaches, rather than a rigid procedural approach. After a few conference calls, it is likely that regulators will want some specifics to make sure that review and resolution of issues and disputes have taken place.

In any event, the board of directors, senior management and the appointed actuary will all have to sign off to some extent on PBA calculations. This will likely be in addition to any management signoffs on internal controls and other aspects of financial statements.

... this table should alleviate most, if not all, deficiency reserve and even policy reserve redundancies for new issues.

Significance of New Mortality Table—The Society of Actuaries (SOA) presented its new CSO 2008 Basic Table. Based on actual industry experience, it provides a great many new tables of preferred mortality, corresponding to company underwriting practices. Margins must still be added, so that the table can start the state legislative approval process.

Even more than the preferred version of CSO2001, this table should alleviate most, if not all, deficiency reserve and even policy reserve redundancies for new issues. If the table could be further extended to deficiency reserve tests for old issues, it could wipe out much of total industry redundancies for statutory reserves.

Federal Income Tax (FIT) and IRS/Treasury Notice 2008-18—My comments involve an analysis of this notice itself, rather than of any Society of Actuaries or Academy reactions to the notice.

This notice is quite unusual in that it was issued before any final PBR product was available. It covers three areas related to FIT, tax reserves, qualifying reserve ratios for life company status under FIT, and qualifying premiums under IRS code section 7702. The notice makes no final conclusions or rulings, but mentions several key concerns about PBR reserve proposals to date.

In all three areas, the notice does not say or imply that statutory calculations or assumptions have to correspond to FIT-prescribed assumptions and methods. In other words, PBR methodology and assumptions used in statutory calculations are not dependent on FIT requirements.

But the notice does come close to saying that, for FIT calculations, prescribed methods and assumptions, specified in FIT statutes, and based on Congressional intent when the current tax law was enacted, must still be used. In effect, the notice implies that separate FIT calculations—without integration with any new PBR approach—must still be used.

Some had hoped that, because of the cash value floor in PBR requirements, just as in FIT, tax reserves under PBR might be virtually the same as statutory. The proposed new net premium reserve floor might also serve to achieve this end.

Reserves—FIT reserves are close to current statutory amounts. Only the interest assumption differs, plus the limit on CRVM, instead of net level. A key implication of the notice is that the CRVM definition when the current tax law was enacted must govern. The fact that the NAIC may define PBR as "CRVM" would be irrelevant.

The notice states specific features of proposed PBR reserves that differ from traditional CRVM and might not be acceptable for FIT reserve calculations:

1. Inclusion of policyholder behavior (lapse) rates.
2. Dynamic assumptions that may vary each valuation year for a given issue year.
3. Use of gross premiums in a deterministic gross premium reserve.
4. Inclusion of a great many reserves in a stochastic calculation (although this may reflect a misunderstanding of the stochastic process).
5. Inclusion of expenses and commissions.
6. (Implied but not mentioned)—possible inclusion of dividends and non-guaranteed elements.

Some may argue that the IRS has already departed from such a rule by recognizing reserves under Regulation XXX as CRVM. However, the weakness in this argument is that XXX rede-

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fined reserves on the back end by introducing segments. A plan such as term to age 100—with level initial premiums—followed by YRT premiums, might have to define a segment as the level initial premium period and compute reserves over that period. However, in this period, the same CRVM first year expense allowance and first year reserves equal to ½ the mortality cost, are still used.

FIT reserves have a cash value floor. Also, they have a cap, equal to actual statutory reserves held. This implies that, if PBR reserves were actual statutory, they would serve as an FIT cap. So far, some have believed that PBR reserves would be significantly less than current statutory. If so, for FIT purposes, these PBR reserves would serve as the maximum FIT reserve.

If an additional PBR floor—as demanded by New York— is adopted, then it is less likely that PBR reserves would fall below the current type of FIT reserves.

Some reserve systems simultaneously apply two sets of factors to in force, statutory and FIT. If deterministic reserves are used as PBR statutory, they probably could be applied as factors. This might allow current calculation procedures under PBR, a statutory (deterministic) set and an FIT set. But, stochastic reserves are generally based on an aggregate approach, especially if deterministic reserves plus excess stochastic amounts are combined. This might require a completely separate calculation for FIT.

Life Company Qualification for FIT—The qualification ratio is based on reserves for life products being at least 50 percent of total reserves. The notice implies that reserves used in this test must comply with the type of statutory reserves in effect when the current tax law was enacted. This would mean that traditional statutory reserves would be required for the test, and thus, must still be calculated.

Premiums calculations under Section 7702—Premiums computed under FIT-prescribed assumptions must comply with certain requirements. The notice implies that these must still be used to test premiums, and cannot be superseded by any PBR assumptions.

In summary, the notice does not imply that PBR reserves cannot be used for statutory. But, it does imply that PBR will not shorten any FIT calculations or eliminate the current FIT reserves and their prescribed assumptions. Further, the notice implies that, for certain purposes, current statutory reserves would still have to be calculated. If these conclusions are upheld in a final notice, it would not be fatal for PBR. However, it could make FIT calculations more difficult and duplicative than many had hoped.

Conclusions

Much work remains before we arrive at a stable product. Currently, it is very difficult to judge at all how PBR would change the magnitude of statutory reserves. Small insurers need to keep a sharp watch to see that prior liberalizations are not erased and that final results are still reasonable and, hopefully, provide value to the industry. In any event, they stand to incur significant extra expenses from any PBA conversion.

Catastrophic Mortality Risk and the Smaller Insurance Company

By Don Walker

I am the chief actuary of a life insurance company that is part of a multi-line insurance operation. Compared to my peers who serve our property-casualty operation, I lead a seemingly predictable existence. My life company generates a steady stream of surplus increases; their property-casualty results vary widely from year to year. A report of a new hurricane in the Gulf is a news item to me; it is a major event to my compatriots. I spend my time being concerned with interest-rate risk rather than death claims; they worry about catastrophes. But, should I be that sanguine?

When we price life products, we usually assume that the actual claims will come out close to the expected value, based on the mortality data that we are using. We rarely worry about variance in our claims results. After all, we have the Law of Large Numbers on our side, don't we?

But, guess what? Life may not be that simple. Appealing to the Law of Large Numbers requires a couple of assumptions that might not always be true. First, we need to have genuinely large numbers of policies in our risk pool. If we have issued two policies to 85-year-olds, it is highly UNLIKELY from a statistical standpoint that our actual claims on those two policies will be anywhere close to our expectation. Second, we are assuming that we have identically-distributed, UNCORRELATED lives. Put four insureds in the same car and send it (the car) out on an icy road and maybe the individual risks are NOT so uncorrelated anymore.

Large and small companies may have to look at these situations in different ways.

Regular Reinsurance May Be the Answer

One common method to reduce these kinds of risks is through regular reinsurance. A reinsurer can combine risk pools that are too small on an individual company basis and can spread the risk widely enough to avoid excessive correlations. But even after reinsuring, there is still a risk pool left behind with the issuing company. And, smaller companies may not be able to get the same pricing from the reinsurer that the larger companies can.

I would like to take some time now to discuss other approaches to managing these risk issues.

How Large is My Catastrophic Exposure?

Prior to September 11, many companies would have said "not very big." Perhaps a plane crash with several insureds aboard? That would probably be viewed as nothing that couldn't be handled.

The terrorist attacks changed that. Thousands of lives were lost in a single event, and those lives were certainly correlated. Just ask the companies that had issued group life coverage to companies that had offices in the World Trade Center.

In the last few years, we've discovered that we operate in a more dangerous world than we thought we had 10 years ago. Hurricane Katrina, bird flu and similar catastrophic events have given us lots to think about.

Now you might think my book doesn't have those kind of exposures. But, is that really true?

Start by thinking about whom you sell to and when are there significant gatherings of people in those groups.

Start by thinking about whom you sell to and when are there significant gatherings of people in those groups. My company markets in one state, and has an affinity with a non-profit organization that has thousands of members. What kind of concentration of risk exists when that organization has its annual convention meeting?

My company has a captive field force and gives incentives to them to sell life insurance. A consequence of this is that many of our agents write business on their own lives and the lives of their families. Now, think about the implications of sending your top hundred agents (and their spouses) on an incentive trip to the Caribbean.

Curiously, even this may not be my maximum catastrophic exposure. There's another big group of my insureds who gather in one place

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every day—my home office employees. I self-insure my organization's group life program and, being insurance employees, many of them buy additional insurance from my company anyway. What happens if a tornado comes through?

My worst case scenario involves a convergence of members of all of these groups in one place: an annual tailgate celebration at a Big Ten football game that brings together my top agents, my top management people and top officials of our affinity group. Not only does a potential catastrophe at such an event have serious business continuity implications—which our corporate risk manager has considered—but it threatens a spike in claims as well.

And we haven't even talked about bird flu yet!

Once I Know my Exposure, What Do I Do With That Information?

You need to inform management—first and foremost—about the potential magnitude of the exposure and the uncertainty of the resulting loss. Only management can decide if their risk tolerance allows for the possibility of an unexpected large loss.

In all likelihood, management will come back with questions about how to hedge the risk. So let's look at possible approaches and some of their advantages and disadvantages.

Traditional Catastrophe Coverage

Property/casualty companies decide how much risk they are willing to bear on their own. They then go to the marketplace to find coverage for the excess. They pay a premium to the reinsurer; the reinsurer pays the catastrophic claims that go over the limit. Life companies can do the same thing.

It is possible to go to the reinsurance marketplace and purchase a layer of catastrophe coverage designed to meet the company's risk tolerance. The issue in recent years (since 9/11) has been the cost of such coverage. Big losses in the reinsurance industry drive up the prices and narrow the terms of coverage. Many companies have found that this is no longer an acceptable solution.

Accidental Death Carve-Outs

It has been observed that the level of death claims arising from poor health is much more predictable than the level of death claims resulting from accidents. Publicly-traded stock life companies have an interest in having consistent financials from period-to-period, and the variability in claims from accidents makes that goal hard to reach. So, a number of years ago, a reinsurance market was developed to offer stability for a price—companies could "carve-out" their risk of death from accidental means and place that portion of the total risk with a reinsurer for a fixed cost.

Today, accidental death carve-out offers an interesting alternative to a traditional catastrophe cover. In exchange for carving out the accidental claims (volatile for an individual company but more predictable for the reinsurer who is aggregating many companies) and paying a premium (equal to the expected accidental claims plus a margin) to the reinsurer, a company can, in effect, get catastrophic coverage for accidental catastrophes. At the moment, terrorism isn't being excluded from the typical deal. So, the reinsurers are betting that the margins in their premiums—from many companies over many years—will cover the possible catastrophic claims (from hopefully a few companies).

Rates for accidental death carve-out deals are said to be quite competitive today. However, these are generally one-year deals and the situation could change drastically if there was another 9/11. A company using accidental death carve-out for catastrophic coverage would be well-advised to have a backup plan.

Catastrophic Claim Pools

The concept behind a catastrophic claim pool is simple enough—a number of companies band together to form a group; no premiums are paid. But if a member of the group suffers a catastrophic loss, the other members assess themselves using agreed-upon formulas to contribute toward the payment of a portion of that loss. The details of this can be moderately complex and it is customary to employ an outside party to administer the pool. Fees are assessed to compensate the administrator, who has to keep all of the pool records and handles the claims assessment process, should a catastrophic claim occur. Typically, the administrator also acts as the agent for recruiting new members, who have to pay an additional initiation fee. Pools have rules about

which companies can join the pool and when and how a pool member can opt to get out; these are also handled by the administrator.

As examples, consider the Special Pooled Risk Administrators (SPRA) pools. There are two pools—one for ordinary risk and one for group risk. Pool members have to report their in-force information annually to the administrator. The pools use fairly complex formulas to determine how much share each company has in the total pool. The pools have rules for what constitutes a covered catastrophic event and rules for the maximum payout for a single event.

For many years, it seemed that the only events that were being covered by SPRA assessments were airplane crashes. Typical assessments for a small company were about $100 per event (small company in a big pool). Administrative costs were low. There might be one event every couple of years. Management personnel viewed this as very inexpensive coverage that would almost never be used.

Then came 9/11, and the SPRA world changed. The administrator had to wrestle with important legal issues—were the attacks one event or more than one? This was important because the aggregate claims exceeded the ordinary pool's limit. The payouts were huge—hundreds of thousands or even millions of dollars per company. And, because of the limit issue, only about two-thirds of the ordinary claims were paid (the group pool did not hit its limit and all its claims were paid). Many companies—on both sides of the claim equation—were NOT happy.

A pandemic may not be insurable in the ordinary sense of the word, since, if it happens, it would likely be spread across the entire industry. So, it is difficult to see who would be willing to provide affordable coverage.

September 11 led to a number of important changes in the SPRA agreements, an increase in fees and a new awareness on the part of the participants. Some new companies rushed to join, while others looked for alternatives. Some companies did drop out; some of those companies formed another pool of their own, called SAFE (Shared Adverse Fluctuation Experience), with different formulas and a philosophy of avoiding high risk concentrations in perceived terrorist target areas. (In the interest of full disclosure, the author's company followed this last route).

Catastrophic pooling remains an interesting alternative to reinsurance, but the ramifications are many.

Going Naked

This is certainly an option, and, in some cases, may be the only affordable choice. For example, bird flu is NOT an accidental cause of death in most definitions and would normally be excluded. Catastrophic coverage may be available, but it is alleged to be VERY expensive. A pandemic may not be insurable in the ordinary sense of the word, since, if it happens, it would likely be spread across the entire industry. So, it is difficult to see who would be willing to provide affordable coverage.

Concluding Comments

Protecting the value of your company from extremely low frequency, but high severity events, is a challenge for ANY life company. Only company management can make a determination of how much risk they are willing to run and how much protection they are willing to buy, and at what price. The actuary can help management do their jobs by bringing information to the table.

This article has been an overview of catastrophic mortality risks and the various types of coverage. If there is interest, we will spend more time in future issues looking at some of these possible solutions in greater detail. ●

Smaller Fraternal Benefit Societies Tackle Common Challenges Through New NFCA Section

By Allison Koppel

The 122-year-old National Fraternal Congress of America (NFCA) unites 73 fraternal benefit societies operating in all 50 states, the District of Columbia and Canada. Fraternal benefit societies provide their members with leadership, social, educational, spiritual, patriotic, scholarship and volunteer service opportunities. They are non-profit, mutual aid organizations that insure members and their families against death, disease and disability and maintain an active lodge system.

The NFCA offers its membership many of the same benefits—to learn, lead and connect through its committees and special interest groups called sections. A new section, the Fraternal 100 Section, gives smaller member societies—less than $100 million in net assets—a forum for education, training, information, experiential learning, fellowship and networking opportunities with similarly sized fraternal benefit societies. Known in the past as an informal group called the Fraternal 50, the Fraternal 100 Section was formally recognized and expanded in scope by the NFCA Board of Directors in 2006.

At the 2007 NFCA Annual Meeting in Pittsburgh, Pa., the Fraternal 100 adopted bylaws and elected an interim chair, Timothy L. Kuzma, secretary/treasurer of Polish Falcons of America. Pittsburgh is also home base for the Polish Falcons of America.

"I am proud to serve as interim chair of this NFCA Section. It is important that we recognize that smaller and medium-sized organizations handle challenges differently from our larger counterparts," said Kuzma. "At Polish Falcons, we have a staff of 12, so when something like a compliance issue comes up, our entire staff needs to become informed. This new NFCA Section will help us tackle the nuts and bolts of running our organizations."

Since September, two additional interim officers have been elected: Daniel J. Wenzler, Sr., president of CSA Fraternal Life, headquartered in Oak Brook, Ill., and Jerry D. Boswell, D.B.A., CFA, chair of the Board of Directors, Woodmen of the World/Assured Life Association, headquartered in Greenwood Village, Colo.

"In the past several months, the Fraternal 100 Section has offered several educational webinars that our staff found most helpful," said Wenzler. "I was eager to become more involved in the planning of future educational programs and also to help guide the content of meetings."

These affordable webinars tackled governance issues, the new IRS Form 990-N and the importance of strategic thinking.

"Because of our size, we don't have funds allocated to travel to all of the educational offerings we would like attend. The NFCA Fraternal 100 Section webinars are a very cost-effective way for our society to stay informed," added Wenzler.

Future webinars will tackle other issue-specific topics, with the occasional conceptual program worked into the calendar. One that likely will attract many participants is a

webinar on the significance and implications of the annual financial analysis provided to NFCA members through the firm Tillinghast Towers-Perrin. This member benefit, provided by the NFCA at no additional cost, is a confidential and detailed financial examination of each society, and uses annual statement data to benchmark societies to each other, industry averages and commercial life insurance companies.

Future programming at face-to-face meetings will consist of idea sharing through roundtable discussions. Time-sensitive topics also will be addressed.

"We hope to hold a meeting in Chicago this summer and offer an exciting agenda," said Boswell. "Issues like principle-based reserves are ones we need to cover. Providing these updates, plus sharing our success stories through joint discussions and panels, should make for a compelling event."

At the 2008 NFCA Annual Meeting in September in Washington, D.C., the Fraternal 100 Section will again meet to discuss common challenges facing fraternal benefit societies and how the section can best address them. The locale also will provide a perfect forum for NFCA members to tout their volunteer activities and to expound on the charitable contributions within their communities. In fact, the NFCA is planning an event on Capitol Hill at which attendees will meet legislators and have the opportunity to tell their stories first hand.

At the 2008 NFCA Annual Meeting in September in Washington, D.C., the Fraternal 100 Section will again meet to discuss common challenges facing fraternal benefit societies and how the section can best address them.

"Societies included in the Fraternal 100 Section contribute greatly to the NFCA's combined 10 million fraternalists in 37,000 local chapters, making it one of America's largest member-volunteer networks," said Kuzma. "Speaking directly to lawmakers on how the NFCA's member societies maintain more than $329 billion of life insurance-in-force and, in 2006 alone, contributed almost $410 million to charitable and fraternal programs will be very meaningful. Our Fraternal 100 Section members are a vital part of the fabric of this country and we look forward to telling our stories." ●

Allison Koppel, is director of Membership & Fraternal Services with the National Fraternal Congress of America. She can be reached at *akoppel@nfcanet.org*. Please contact Koppel if you would like more information about the NFCA.

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Sharpen Your Competitive Edge With Retirement Options for Annuities

By Wendy McCullough

There's no doubt that the coming retirements of the 78 million baby boomers present unprecedented business opportunities to the insurance industry. All types of annuities—immediate, fixed and variable—offer unique solutions for helping boomers create income streams for their potential 30-plus years in retirement. But how can small- to medium-size insurance companies leverage this opportunity and sell annuities in a profitable and competitive way?

To answer this question, I reviewed several recent forecasts from leaders in the insurance and financial services industries. Their insightful recommendations included targeting underserved markets (especially the middle market) and differentiating company and annuity offerings through positioning, price and service.

For example, immediate annuities are popular among middle-income households. According to a 2002 survey conducted by Mathew Greenwald and Associates for the American Council of Life Insurance, 64 percent of immediate annuity owners reported annual incomes of less than $50,000 and 63 percent had no pension income. Survey results further revealed that policy owners believe these products make an important contribution to a financially secure retirement; 22 percent rated it as one of the best financial decisions they ever made, while 60 percent thought it was a good financial decision.

The Emerging Opportunity In Retirement Income

At Thrivent Financial, we are pursuing a related, emerging opportunity: retirement income planning and management. With the oldest baby boomers turning age 62 this year, the leading edge of this generation has reached two important milestones: it's time for them to apply for early Social Security benefits and to begin the transition from saving for retirement to spending in retirement. Because many pre-retirees don't realize that *how they spend their savings* is as important as *how much they've saved*, retirement income planning is becoming a dynamic business opportunity area right now.

How Can It Be This Hard To Spend Money?

A recent survey conducted by Thrivent Financial revealed that many Americans aged 60 to 74 are naïve about how much money they will need in retirement, and many are off base with their actual spending in retirement, with some overspending and others underspending. The research found that 55 percent of those surveyed were unsure of how much money they will need to last throughout retirement and 56 percent of those already retired were off target for their monthly spending in retirement.

Without a plan for income in retirement, unknown risk factors like market performance, life expectancy, health issues or changing personal circumstances can prematurely deplete savings.

At Thrivent Financial, we believe that a retirement income plan is especially important for boomers since many of them will not have the pension plans or other secure sources of income their parents may have had to ensure they are not destitute in old age. Without a plan for income in retirement, unknown risk factors like market performance, life expectancy, health issues or changing personal circumstances can prematurely deplete savings.

Thrivent Financial's Retirement Income Platform

Our company is leveraging the boomer retirement income opportunity through multiple, integrated strategies:

- Online retirement readiness assessment.
- Online tool for clarifying retirement dreams and vision.
- Client seminar highlighting the new retirement paradigm.
- Client seminar on creating a retirement income distribution strategy.
- Proprietary strategy for income distribution.
- Annual reviews of clients' retirement income strategies plus recommendations.

New Products Meet Retirement Income Needs

At Thrivent Financial, we've launched several product innovations to help boomers create consistent, lifelong income streams.

The Thrivent Retirement Income Optimizer™ (TRIO) is a customized service to help retirees actively manage their invested assets and spending in retirement. TRIO combines one-on-one consultation with state-of-the-art technology to create a customized framework for each retiree. The TRIO analysis tool, used to determine a retiree's financial strategy in retirement, is a Monte Carlo-based tool using 1,000 market scenarios that, as a set, match average return, volatility and correlation characteristics of historical markets. The service is ongoing throughout retirement; during annual reviews, retirees receive guidelines on reallocating assets into growth and income buckets, holding versus withdrawing invested assets given current market conditions and other factors, and moving a portion of assets into life contingent payout annuities when conditions are right, with the option of choosing a level, fixed-percent increase or CPI-adjusted payment stream . These regular financial checkups help retirees actively manage their income throughout their retirement years.

Leveraging Retirement Income—It's About Service, Service, Service!

Developing new products or repositioning existing ones is just one way to enhance your

company's competitiveness and make the most of current market trends. How else can you maximize the retirement income opportunity? Consider these strategies:

Recommend annuities as part of a retirement income plan versus making a single product-specific sale—Guide boomers in assessing their sources of retirement income and help them determine how much they will need to fund their desired retirement lifestyle and bridge possible income gaps.

Show boomers that annuities can create personal pensions that they can count on in retirement—In meetings, discuss the many factors that aren't guaranteed in retirement such as when someone dies, how many years will be spent in retirement, the costs for health and long-term care and the expenses related to unplanned life events. Point out that while they can't control these factors, their annuity payments are guaranteed for their lifetime. Products with inflation-adjustment payment options offer a powerful hedge against the effects of inflation.

Be prepared to handle the common objections to annuities—Remind boomers that Social Security and pensions are also annuities. If access to assets is an issue, recommend products with liquidity and investment control features. Annuitizing a portion of a boomer's retirement portfolio as a supplement to Social Security to cover basic living expenses in retirement, while leaving remaining assets to cover other retirement needs, may relieve their anxiety and increase comfort.

Recommend annuity solutions for early retirees who have income and health insurance gaps prior to the start of Social Security and Medicare benefits.

Target the unique retirement income needs of women and show how annuity products address them—Women's longer life expectancies and lower retirement incomes make them strong prospects for the lifetime income streams and growth potential of annuities.

Now Is the Time To Seize the Retirement Income Opportunity

Remember this advice from industry leaders: to boost revenue, increase penetration of underserved markets, raise sales to existing clients and utilize alliances to provide access to products that your company is not able to manufacture on a cost-efficient basis. To increase profitability, pursue disciplined pricing for an acceptable return on equity and implement effective risk management programs to realize pricing expectations.

Annuities—and the insurance companies that sell them—are uniquely positioned to help boomers create "personal retirement paychecks" and achieve financial security for a lifetime. As the first wave of baby boomers begins their retirements, the time is right to capture this growing opportunity. ●

Wendy McCullough, FSA, MAAA, is the director of Income Solutions for Thrivent Financial in Minneapolis, Minn. She has 17 years of industry experience primarily in product marketing and development. She can be reached at *wendy.mccullough@thrivent.com.*

Preneed Mortality Road to 26

By James N. Van Elsen

On Jan. 1, 2009, the 2001 CSO becomes the mandatory mortality table for valuation and nonforfeiture purposes for individual life insurance. There has been much activity in developing preferred mortality variations of the 2001 CSO. At the other end of the spectrum, however, is preneed life insurance. The 2001 CSO—as documented in a September 2007 report from the SOA's Preneed Experience Team—is inadequate for this business.

The Problem

As it currently stands, preneed companies will have to convert all their new business to the 2001 CSO at the beginning of 2009. Most will have to set up additional reserves in order to maintain adequate reserves. One approach would be to treat this business as "substandard" and use a multiple of the 2001 CSO as the valuation and nonforfeiture table. This may be satisfactory for statutory reporting. For tax purposes, however, IRC §807(e)(5)(D) limits substandard business to be no more than 10 percent of the life insurance inforce. For many companies that write preneed life insurance, this business represents 100 percent of their business. In this situation, much, if not all, the extra reserves would be non-deductible.

The second solution would be to voluntarily set up additional reserves. Again, this is satisfactory for statutory reporting, but would be likely non-deductible for tax purposes. As such, in July 2004, the preneed life insurance companies began to search for a more acceptable approach to provide for the higher expected mortality of their business.

Phase 1—NAIC Model Regulation

In March 2007, Jay Vadiveloo made a presentation to the National Association of Insurance Commissioners' (NAIC) Life & Health Actuarial Task Force (LHATF) regarding progress on the Society of Actuaries' (SOA) preneed mortality study. In that presentation he pointed out the similarity of ultimate preneed experience mortality to that of the 1980 CSO. This is discussed in the June 2007 issue of *Small Talk* in an article written by Mark Birdsall. With two-thirds of the preneed business being single premium whole life, and almost all the rest being limited payment whole life, this results in the 1980 CSO being a very good proxy for the preneed life insurance mortality in calculating statutory reserves.

A new model regulation has been developed which mandates the use of the 1980 CSO for preneed business issued on or after Jan. 1, 2009. This will affect both valuation and nonforfeiture calculations. Preneed life insurance is defined in the regulation as:

> "any life insurance policy or certificate that is issued in combination with, in support of, with an assignment to, or as a guarantee for a prearrangement agreement for goods and services to be provided at the time of and immediately following the death of the insured. Goods and services may include, but are not limited to embalming, cremation, body preparation, viewing or visitation, coffin or urn, memorial stone and transportation of the deceased. The status of the policy or contract as preneed insurance is determined at the time of issue in accordance with the policy form filing."

The model regulation has a drafting note which suggests that individual states may wish to input their own definition. It also provides for alternative definitions. It is important to note that this regulation does not apply to other forms of limited underwriting business, such as final expense life insurance. This was due to the difficulty in defining the limited underwriting business, and the desire to not affect other life insurance products. Also, the SOA mortality study was of preneed life insurance only. This experience is not appropriate for determining a mortality basis for any other life insurance product. It remains an

open issue to find an appropriate valuation mortality basis for life insurance products other than preneed with higher expected mortality than the 2001 CSO.

The model regulation also has a provision for a transition period. Through the end of 2011, the 2001 CSO will be permitted to be used for valuation and nonforfeiture purposes for preneed life insurance. This was put into the regulation to allow companies which have already converted to the 2001 CSO adequate time to change their products. In order to take advantage of this transition, however, companies must annually submit a notice to their domiciliary commissioner. This notice must:

1. Provide a complete list of preneed policy forms which use the 2001 CSO.
2. Contain a certification from the appointed actuary that adequate reserves are maintained for these policies.
3. Provide supporting information for the appointed actuary certification.

The model regulation was adopted by LHATF by conference call on Feb. 7, 2008. It was adopted unanimously by the NAIC as a model regulation on March 31, 2008.

Phase 2—Road to 26 States

In order to become the prevailing commissioners' mortality table for preneed life insurance, it will be necessary for this regulation to be adopted by 26 states. Of great concern to all companies that write preneed life insurance are the consequences of not accomplishing this by the end of 2008. If this is not accomplished, the companies will withstand the taxation penalty as described in the section of this article entitled "The Problem." Even worse, however, is what would happen in those states that adopt the regulation until 26 states adopt. These companies would be faced with the situation where the policies which they write in conformity with the states' nonforfeiture laws no longer qualify as life insurance. As such, the companies that write this business are working very hard to get the new regulation adopted in at least 26 states by the end of 2008.

What about the states that do not adopt the regulation? If at least 26 states do adopt it, there is no problem. Companies could voluntarily choose to carry additional reserves and higher nonforfeiture values. It would be an easy demonstration that the 1980 CSO will exceed the minimum state requirements.

Phase 3—New Preneed Mortality Table

The SOA's Preneed Experience Team has completed their work and has turned it over to the American Academy of Actuaries' (AAA) Preneed Mortality Working Group, headed by Carol Salomone. This working group is in the process of turning the experience data provided by the SOA into a valuation table for preneed mortality. It is anticipated that this will eventually result in a new minimum standard for valuation and nonforfeiture for preneed life insurance. Until that time, preneed life insurance will continue to use the 1980 CSO. ●

James Van Elsen, FSA, MAAA, CPA, FLMI, is a principal in the Chicago office of Oliver Wyman Actuarial Consulting. He has served as the small company representative to the American Academy of Actuaries Life Practice Council, has twice been a member of the Society of Actuaries Smaller Insurance Company Council and was the founding chairman of the National Alliance of Life Companies' (NALC) Actuarial Committee. He is currently serving on the American Academy of Actuaries Preneed Mortality Working Group. He can be reached at *jim.vanelsen@oliverwyman.com*.

Critical Illness Insurance—The Opportunity Product for Companies Large and Small

By Sheila Matheson

We've all heard the story of the genesis of the critical illness insurance product: More than 20 years ago in South Africa, a successful cardiologist named Dr. Marius Barnard grew tired of seeing the financial devastation suffered by many of the patients in his practice. His and his brother Christian's groundbreaking medical skills were keeping people alive, but in many cases the cost of living with ongoing heart disease was killing them financially. Dr Barnard set out to change this and approached a life insurance company with his own concept for a new kind of insurance—insurance that would pay its benefit not when the person died but when they survived a life-changing diagnosis—heart attack, cancer, stroke and several others. The benefit would be money paid in one lump sum to the insured person so he or she could use it whenever and however they needed—to manage their mortgage and other expenses, pay the many costs of recovery not covered by health insurance, continue saving for important things like their children's education and their retirement and protect their business while they recovered.

The Need is Real and Growing

Though the product is now available around the world, it has been slow to grow in the United States. But current circumstances are driving the need and making this product an essential financial protection vehicle.

Employer health care cost trends continue at unsustainable, albeit reduced levels. According to Robert Laszewski of Health Policy and Strategy Associates in Washington, while private health care cost trends continue in the 7 to 8 percent range, employer health plan trends are more likely to be around 9.5 percent without cost shifting in the form of higher deductibles, co-pays and higher employee contributions. So Americans are paying more for health care but receiving less. The end result of this scenario is that any major illness represents a serious financial threat.

Filling the Gap

Critical illness insurance can fill the gap and we are now seeing it across most U.S. markets.

For the company focused on traditional life and annuity products, a critical illness insurance product that would accelerate a portion of the life insurance benefit in the event of a serious illness or would add a layer of protection payable in the event of a life-changing illness is now an essential part of a comprehensive financial protection package.

For the disability insurer, critical illness is a natural complement to disability coverage, providing cash benefit not tied to inability to work and extra financial support at a time of great need.

In the group insurance arena, the medical coverages sold to employers and to the employee on a voluntary basis are increasingly including small face amount critical illness protection as a financial "safety net" in the face of less comprehensive medical coverage. And critical illness insurance—either on a stand-alone health chassis or as a life insurance acceleration product—is finding significant growth as a voluntary worksite product with higher face amounts available.

Products Features Vary

The "typical" product varies significantly by market. The individual product will usually be the most robust in terms of number of covered events; 15 is not unusual. Available face amounts can reach $500,000. The voluntary worksite offering normally has fewer covered events and face amounts of $10,000–100,000, while the medical product critical illness inclusion is usually a small face amount in the $5,000–10,000 range.

The fact is that the three "core" coverages—for cancer, heart attack and stroke—represent more than 80 percent of the incidence risk even in a comprehensive individual product. But of course, competitive market demand for differ-

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entiated product features has led to the inclusion of more events and a number of new elements. Many products now include multiple payouts that provide benefits by category and keep the policy in force even after benefit in one category has been paid and recurrence benefits providing a benefit for the second occurrence of a covered event.

Defining Covered Events and Managing the Risk

One crucial aspect of a successful Critical Illness (CI) product is defining the covered events. The goal is a clear, easily understood explanation of what is covered and the challenge is to craft a product that includes coverage of the serious life events while preventing the "windfall" of large cash payout for a relatively trivial medical event. A good example of this is the definition of stroke. The stroke coverage should be defined as providing benefit in the event of an acute cerebrovascular accident producing neurological impairment and resulting in paralysis or other measurable objective neurological deficit persisting for at least a defined period of time and expected to be permanent. Minor neurological events such as transient ischemic attack, the so-called "mini-stroke," which typically produces symptoms that disappear within 24 hours, should be specifically excluded.

Underwriting for critical illness events is quite different from underwriting for life insurance. The morbidity versus mortality risk requires a somewhat different set of application medical questions and can result in quite a different decision regarding the applicant. Such factors as family history can have significant impact on eligibility and must be part of the individual underwriting process. It is not uncommon for an applicant who is a standard life risk to be rated for critical illness because the risk of claim may be high for the CI covered events while the life claim risk may fall within standard limits. Worksite underwriting requires simplified issue underwriting and in some cases group business is guaranteed issue. In every case the challenge is to construct a process that minimizes the anti-selection elements.

Underwriting for critical illness events is quite different from underwriting for life insurance.

There is no doubt about the real and growing need for the critical illness product in U.S. markets. This product presents huge growth opportunities for the insurers who recognize its potential. The challenge for all companies is creating a competitive and profitable product suitable for its own markets. The product's newness means that there are very few expert and experienced advisors—reinsurers or actuarial consultants—to assist with the project, but the opportunity is compelling and well worth the investment.

The market is still wide open and the company whose distribution is presenting the Critical Illness product is finding that this is untapped territory with real responsiveness based on the appreciation of the compelling need for this financial protection.

Of special note: *Today, Dr Barnard, now in his late 70s and suffering from prostate cancer, continues to travel the world to promote the value of this financial protection. He will be the keynote speaker in September at the Critical Illness Insurance Conference co-sponsored by the SOA, LIMRA/LOMA and NACII in Las Vegas, September 22–24.*

Sheila Matheson, FLMI, is vice president, Critical Illness Insurance Marketing with Optimum Re Insurance Company. She can be reached at sheila. *matheson@ optimumre.com.*

The Importance of Risk Management

By Arthur Aaronson

The changes in market conditions over the past year have reinforced the need for companies to develop and maintain strong internal control procedures with regard to their investment portfolios. The process of establishing investment guidelines no longer provides management with adequate security that the company's primary assets will be safe overall.

Investment guidelines help a company define its investment goals and parameters in order to back the company's unique liability mix, and help generate income while adhering to its overall goals. The guidelines should allow the managers to incorporate current market conditions and operating needs into this analysis. It has become more evident that in defining its investment guidelines, management must remain vigilant in understanding the risks associated with each of the asset classes considered in all market environments. Well-structured risk management programs should provide management with systems to measure a multitude of risks inherent in their investment portfolios including yield curve, swap spread, systematic (beta) and unsystematic risk. Any lack of comprehension will lead to future pitfalls as the asset fails to meet desired objectives.

Over the past year, conditions in the fixed income marketplace have introduced risks that were unforeseen in regards to several different asset classes. The potential failures of the monoline companies, limited liquidity in the investment grade marketplace and structured products market forced companies to evaluate holdings differently. These disruptions in the market point to the need for a system designed to control risk through careful evaluation, which should allow companies to be better prepared for unexpected developments.

The Uniqueness of Risk Management

Risk management is unique to every entity. Risk is defined, not only as "the chance of injury, damage or loss" subject to management's appetite, but also to its understanding of the total enterprise operations. Risk includes duration exposure, quality, diversity, size, liquidity and credit among others. Management must understand its regulatory and operational limits in order to allow optimal rules, which do not inhibit the portfolio or allow risky exposure in the portfolio. As an example, an investor can purchase Commercial Mortgage-Backed Securities (CMBS) at the AAA, AA and A level but the pick-up in spread in current market conditions—and thus income—between the higher rated paper and lower rated paper may not be incremental enough to warrant the additional risk exposure.

In determining the best management policies to help an entity control its investment risk, early and often are the best policies to employ. Because the investment guidelines establish basic portfolio parameters in terms of exposure limits—by asset class, rating and or security type—it's the job of the risk system to extrapolate these limits and establish systems to prevent deviance or overexposure.

Well-Designed Controls and Systems Are Key

In designing the appropriate controls and risk levels, management must coordinate with their investment personnel to establish reasonable limits that do not hinder the ability to deliver results in conjunction with current market conditions and the organization's goals. If the portfolio is being managed against a benchmark, risk controls should not constrain the portfolio manager's ability to invest in a way that would limit his or her opportunity set versus the index without adjusting the index in a similar fashion. However, risk controls can and should be used to measure how the portfolio deviates from the assigned benchmark.

Systems should be designed that allow for metrics that provide early warnings or set parameters that are both reasonable yet not restrictive in the portfolio manager's ability to control the portfolio in today's dynamic market environment.

Some examples of risk metrics include guideline limits at exposure levels based on benchmark sectors or credit quality. These levels could be measured at any time allowing for

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pre-trade verification and forcing the manager to defend market decisions based on current and proposed holdings. A system to incorporate Credit VaR (Value at Risk) will help managers monitor the portfolio holistically over time, thus adding to the value of a strong control system. (Any downgrades in credit would trigger a review and revaluation that would help keep both the portfolio manager and company management on top of potential issues in a timely manner, instead of retroactively when the market may limit corrective action.)

These risk metrics should not be limited to portfolio exposure at credit levels or sector levels, but instead should be all encompassing to include an analysis of related exposures within the investment portfolio. By example, an evaluation of any monoline exposure, or underlying asset composition, could have prevented or provided management with a warning of potential problems in the resulting structured credit crisis or municipal bond market.

It is imperative for an organization to not only design the controls but maintain them despite disapproving comments from operating personnel. It's far easier to enforce a rule that prevents overexposure than to explain to the company's board an issue and its potential cost, because of the lack of enforcement. In this regard, incorporating portfolio managers into the system design will allow for cooperation and consistent application of the procedure.

In summary, recent market developments have exposed the importance of risk systems to allow both portfolio managers and the organization to understand the dynamics of their investment portfolios. Establishing control systems that provide early warning and comprehensive analysis will help manage the portfolio to meet the organization's goals and not distract from the entity's operations.

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Arthur Aaronson, CPA, is an insurance portfolio manager with GE Assét Management. He can be reached at *Arthur.Aaronson@ ge.com.*

Smaller Insurance Company Section to Sponsor Four Sessions at Annual Meeting

By Ellen Retz

The Smaller Insurance Company Section is tentatively slated to sponsor and co-sponsor four sessions at the 2008 Annual Meeting to be held Oct. 19–22 at the Orlando World Marriott Resort. The proposed schedule includes the following sessions:

Current Topics Affecting Smaller Insurance Companies
(Sponsored by the Smaller Insurance Company Section)

Actuaries in smaller insurance companies, or companies with smaller actuarial staffs, are finding it more difficult to keep up with current developments. Attendees will have the opportunity to learn about current topics, to contribute to the discussion and to network with actuaries in similar positions.

The session will consist of three or more groups at different tables discussing one of the following topics. Note: Attendees will have the opportunity to change tables midway through the session.

- Principle-based approach to reserves and capital.
- Longevity risk.
- Financial reporting issues.
- Product development issues.
- Survival of smaller insurance companies.
- Reinsurance and risk management issues.

Other topics may be discussed, depending on the interests of the attendees.

Principle-Based Approach for Smaller Companies
(Co-sponsored by the Smaller Insurance Company and Financial Reporting Sections)

Attendees will learn high level information about several topics that are critical to the implementation of the Principle-Based Approach for smaller companies, such as:

- Summary of the current situation and prognosis.
- Stochastic exclusion test.
- Experience studies and setting assumptions and margins.
- What statistics do we need to know?
- Systems issues—high level.
- How can companies supplement their resources?

Specific topics may change as events unfold.

Federal Income Tax Implications of Principle-Based Reserves
(Co-sponsored by the Taxation and Smaller Insurance Company Sections)

In January the IRS issued Notice 2008-18 in a cooperative effort with the industry and actuarial profession to provide advance guidance on in-process principle-based reserve development. While providing reassurance in some areas, the Notice identified certain other areas of Treasury/IRS concern. The Notice offered a wide range of potential solutions for consideration. Some of these solutions align well with modifications under consideration to simplify life PBR for certain products issued by smaller companies. This session will discuss the Treasury concerns, and provide an update of what is under consideration by the industry and profession to address the concerns.

Enterprise Risk Management for Smaller Companies
(Co-sponsored by the Smaller Insurance Company and Risk Management Sections)

Enterprise risk management has become the hot topic for actuaries and the insurance industry in general. How are smaller insurance companies implementing an ERM process? How can smaller insurers leverage the required principle-based approaches with their firm-wide risk culture to increase firm value?

After this session, you will have a better appreciation for the types of risk management strategies that can be implemented in a small company environment. You will also gain an understanding of how these techniques and strategies can be performed in a small company environment with limited resources.

Hope to see you in Orlando in the fall!

Ellen Retz, FSA, MAAA, is assistant vice president and actuary at Illinois Mutual Life Insurance Company. She is a member of the Smaller Insurance Company Section Council. She can be reached at *ejretz@illinoismutual.com.*

The Smaller Insurance Company to Sponsor Two Sessions at the 2008 Valuation Actuary Symposium

The Smaller Insurance Company Section will once again be sponsoring two sessions at the 2008 Valuation Actuary Symposium to be held in Washington, D.C. September 25–26, at the Renaissance Washington Hotel. The first session will be the annual Buzz Group Discussion on smaller insurance company issues; the second session will be the highly interactive Corporate and Chief Actuaries Forum for smaller insurance companies. This popular forum, now in its sixth year, has a unique format and focuses on issues faced by actuaries in leadership positions at smaller insurance companies. Both sessions are attendee-driven and will provide opportunities for in-depth discussion and sharing of ideas on the topics of most importance to you.

Don Walker will be coordinating both sessions. If you would like more information about these sessions or have ideas how their value can be maximized, feel free to contact him at *dwalker@fbinsmi.com.* Find his complete contact information on page 8.

(Information provided by Don Walker)

continued on page 26 ▸▸▸

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