Article from:

The Actuary

February 1989 – Volume 23, No. 2

A perspective on the CPE requirements for U.S. pension actuaries

by Vincent Amoroso

Final regulations imposing Continuing Professional Education (CPE) requirements for enrolled actuaries in the United States were promulgated recently by the Joint Board for the Enrollment of Actuaries. The Joint Board was established by federal law (ERISA) in 1974 to regulate pension actuaries. Certain pension actuarial certifications required by ERISA must be performed by an enrolled actuary. As described below, the CPE requirements will cause some administrative inconvenience for enrolled actuaries but – with certain notable exceptions – will not affect our behavior. I view the Joint Board's action, however, as more than a nuisance. It is another instance of an outside agency supplanting pension actuaries' judgment with theirs.

In recent experience the federal government and the accounting profession have rejected actuarial judgment or replaced it with mechanical tests. For example, the pension accounting standard issued by the Financial Accounting Standards Board in 1985 specifies market-driven interest rates that change daily rather than relying on actuarial judgment. And, changes in the pension funding rules codified in 1987 rely on a prescribed interest rate standard tied to market-driven rates.

I am hopeful, however, that recent actions taken by our profession – especially the activities of the Actuarial Standards Board – will send the right message to our publics. Comprehensive professional and ethical standards that are monitored effectively should stem the erosion of the esteem in which we are held. Concerning education in the pension field, where exogenous forces are having an accelerating effect on practice, the Joint Board's requirements are less than what most of us already ask of ourselves. Some of us, therefore, think that the Joint Board's rules are an unwarranted intrusion – we do not need them. Others might view this as an opportunity: we could adopt stricter professional standards. After all, the CPE requirements for the accounting profession are considerably more onerous.

The requirements

Individuals enrolled before 1990 must renew their enrollment before March 1, 1990, and triennially thereafter. Qualifying CPE subject matter consists of core and/or noncore content. Ten 50-minute CPE "hours" completed by December 31, 1989, are required for 1990 renewals. At least six of those hours must satisfy core requirements, and the rest can be noncore. Thirty-six hours completed during a pertinent three-calendar-year period are required for triennial renewals; at least 18 of these hours must satisfy core standards.

Core content is defined in terms of subject matter that is directly related to ERISA requirements affecting practicing actuaries. Mastery of core material is necessary for the performance of enrolled actuary services. Accordingly, content that deals with pension actuarial methodology, ERISA funding standards, plan tax qualification rules, and requirements related to the termination insurance program administered by the PBGC qualifies as core material. Noncore subject matter is comprised of important background material such as pension accounting, computer programming, and finance. Credit can be earned by attending a formal meeting or teleconferencing event, such as those sponsored by the Society, or by completing a correspondence program (or audio/video taped program). Program speakers or instructors earn additional credits.

Certain schools qualify as program sponsors. Other organizations – such as employers of enrolled actuaries – can seek approval for a specific program directly from the Joint Board. Certain specified administrative requirements apply to both program sponsors and individual enrolled actuaries. Sponsors must provide certificates of completion, programs must include some means for evaluation of technical content and presentation, and records verifying these and other requirements must be maintained. Enrolled actuaries must retain information pertaining to claimed CPE credits for three years following the end of the enrollment cycle. Such information includes the program's sponsor, location, title and content description, dates attended, number of core and noncore hours claimed, names of the discussion leaders, and certificate of attendance.

Waivers from the CPE requirements will be granted in limited circumstances such as physical incapacity, military duty, and certain overseas assignments.

Sanctions

The regulation specifies an administrative review process for individuals who do not comply with the CPE requirements. If the Joint Board determines after review that an enrolled actuary has failed to satisfy the CPE requirements, consequences follow in two stages. First, the actuary is placed in a three-year period of inactive status, during which the individual is ineligible to perform enrolled actuary services. If the CPE requirements are not satisfied during this inactive period, the individual's enrollment will then terminate, and eligibility for enrollment must be reestablished. An individual who, in good faith, claims CPE credit for a program later judged by the Joint Board to be inadequate will be given time to make up those credits. Of course, the Joint Board retains the right to review program sponsors' and individual actuaries' records.

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In establishing the Joint Board, Congress decided that extant professional actuarial safeguards were inadequate. In promulgating CPE requirements the Joint Board has echoed that sentiment. Actuaries in other disciplines should take note. Under the Internal Revenue Code,

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actuarial certifications are already required in connection with prefunding certain medical claims reserves. Not having a Joint Board for group actuaries is one reason that implementing regulations have not been issued yet.

CPE standards are worthwhile, especially in a volatile field like pensions. The substance of the Joint Board's rule, therefore, is not troublesome. The fact that the requirements are not being imposed from within our profession, however, is disturbing. The Society could seize the moment and consider promulgating its own CPE standards, which might ultimately be accepted for Society members by the Joint Board.

Vincent Amoroso is a Principal at KPMG Peat Marwick, specializing in employee benefits. He is Vice Chair of the SOA Pension section and served on the SOA Task Force that recommended ways to strengthen the syllabus with regard to pensions.

New AIDS papers available

Two new papers on AIDS written by David M. Holland, who was chairperson of the AIDS Task Force, have been released. Members of the Life Insurance Company Financial Reporting Section, which sponsored the printing of the papers, automatically will receive them. Others interested in obtaining copies should send $5.00 to the Society office (ATTN: Research Dept.) to cover printing and mailing charges. The papers are entitled "The HIV Epidemic and Topics for the U.S. Valuation Actuary" and "Observations on the Human Immunodeficiency Virus Epidemic and Managing Uncertainty in Insurance."

Editorial

Actuaries and national problems

by Daniel F. Case

People often describe the actuarial profession as dealing with risk. That is true, but in the case of life and health actuaries, another element may be even more important. It is the management of liabilities that accrue over time. For example, the liability associated with a group of individual-life insureds increases as the group grows older. Actuaries are skilled at mapping the accrual of that liability and arranging for income, sometimes on a levelized basis, to meet the outgo. They have an acute sense of time.

Actuaries tend to think in terms of time spans that fit the types of product they work with. Individual-life actuaries calculate prospective asset shares from issue age to the end of the mortality table. Model-office calculations may involve even longer periods. Health and pension actuaries may deal with similar time periods. Casualty actuaries, presumably, often deal with much shorter periods.

What is the appropriate time period with which to work in guiding the affairs of a country like the United States or Canada? This question gets debated actively with reference to the U.S. Social Security system. The Social Security Administration has been making 75-year projections for OASDI, presumably because the average U.S. resident lives for about 75 years. Some observers argue that OASDI should be financed on something close to a pay-as-you-go basis; others (predominating in recent years) hold that it should be financed on something like a 75-year accrual basis; and a few may feel that a period longer than 75 years should be taken into account. This last group points out that if a large surplus is first built up and then used up by the end of 75 years in accordance with current projections, at the end of the 75 years the trust fund will be heading into deficit.

Various problems that beset the United States (Canada, too, in somewhat the same degrees) are assigned various time spans. For example, estimates may call for $100 billion over 20 years to clean up and shape up the Energy Department's nuclear-weapons plants and other facilities. Bailing out insolvent savings and loan associations may be estimated to take $85 billion over 10 years. The target for balancing the federal budget may be about five years.

These time periods are arbitrary, chosen by the people who have decided to address the problems. Natural time periods underlie the real problems that we must face sooner or later. The natural time periods involve the depletion of natural resources, such as fuels, soil, and fresh water; the rising levels of pollution; the rate of population increase; the greenhouse effect, and so forth. We do not know enough to project these trends reliably, but we know they point in dangerous directions.

Elected government officials (in the United States) are sometimes said to think in time frames of two, four, or six years. Many corporate executives think largely in terms of immediate "bottom-line" returns. Economists and accountants may use somewhat longer periods, such as the useful lives of specific assets. Some actuaries use periods longer than those. Ecologists take into account even longer periods, such as the lifetimes of whole classes of assets – fuels, soil, wildlife species, etc.

Do actuaries, with their acute sense of time and their expertise in managing the accrual of liabilities, have a special contribution to make to the debates of national problems? Granted, most actuaries are not economists, sociologists, defense experts, or even health-care experts. No single discipline, however, embraces the scope of all a nation's problems.

One does not have to be directly involved in government or politics to help find solutions. If you think you have a potentially useful observation or idea, why not write to your federal government representatives and your newspaper? Of course, active involvement in some way is even better, if you can manage your time so as to include it!