



SOCIETY OF ACTUARIES

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# Specialty guides represent opportunities

by William H. Lewis, Jr.

**A** challenge?...An opportunity?...Maybe a challenging opportunity?

Have you ever had these thoughts as you looked at areas outside your actuarial specialty? The Society of Actuaries can help turn a challenge into an opportunity with Professional Actuarial Specialty Guides (PASG) to help pave the way.

Each PASG includes introductory material, a "road map" organizing topics related to an actuarial specialty, and descriptions of carefully selected papers, articles, books, and government publications. Guides are edited by one or more actuaries and then reviewed by experts in that specialty. They make sure that what's included is accurate, up-to-date, and useful for an actuary at any level of involvement.

Eight new PASGs covering U.S. and Canadian topics are available now or will be available soon. The new guides, as well as previously issued ones, are available from Donna Klehr at the SOA office. Single copies are free to members; multiples are available at reasonable cost. The SOA staff will help members obtain references mentioned in the guides.

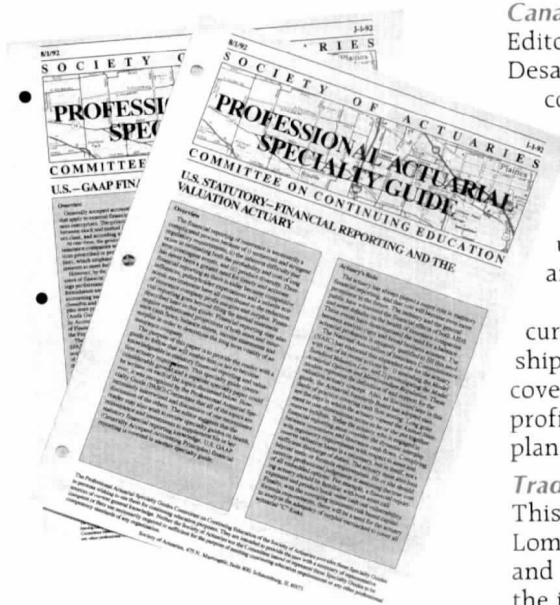
The new PASGs include:

## *U.S. Statutory Financial Reporting and the Valuation Actuary*

Editor Marc F. Pitoniak has collected a thorough bibliography of readings on financial reporting for U.S. insurance companies.

General categories covered include statutory financial reporting, regulation and professional standards, valuation methodology, and the valuation actuary.

In this guide, the editor states that financial reporting of insurance is complicated because of the many stringent regulatory requirements, of the inherent difficulty in estimating both the probability and cost of long-term contingent events, and of product diversity. "The purpose of this guide is to enable a reader to become knowledgeable in statutory financial reporting and valuation actuary requirements," Pitoniak writes.



## *U.S. GAAP Financial Reporting*

Bruce R. Darling's guide provides an overview of generally accepted accounting principles (GAAP) as they apply to external financial reporting of publicly owned business enterprises. GAAP principles vary from product class to product class and according to the purchase status of the business.

The introduction reviews material that describes the evolution of GAAP principles as they apply to stock life insurance companies. Darling also covers sources on the range of authoritative accounting guidance (AICPA, FASB, and others).

He also describes where to obtain information on actuarial standards of practice and principles not easily gleaned from original guidance. As he explains, "...Widespread adoption of such interpretations in practice may result in de facto recognition as being generally accepted."

## *Financial Reporting and the Actuary — Canada*

Ken McFarquhar provides a quick summary of the volatile environment faced by a valuation actuary and the difference between Canadian and U.S. requirements. He also provides a comprehensive list of relevant government regulations and requirements and published professional papers that touch on Canadian financial reporting, including the 1991 law expanding the role of the actuary.

## *Canadian Pensions*

Editors Malcolm Hamilton and Paule Desaulniers have put together a comprehensive reading list related to pensions in Canada. This guide covers taxation, minimum pension standards, accounting for pension costs, valuation of defined benefit plans, and design of retirement programs.

Information also is available on current issues such as surplus ownership and inflation protection. Also covered are multi-employer plans, profit-sharing plans, and pension plans for public sector employees.

## *Traditional Marketing*

This guide, assembled by Lucian J. Lombardi, covers marketing "how to" and legal aspects related specifically to the insurance industry. A sample of sections include: "Understanding the Process," "Evaluating a Marketing Strategy," "Managing the Marketing Effort," and "Regulation of Marketing and Sales Promotion." This PASG, because of its topic, uses sources from within and outside the insurance industry.

## *Mergers and Acquisitions—Employee Benefits*

According to Editor Curtis Morgan, "Recent promulgations regarding the accounting for post-retirement pension and welfare benefit programs have clarified the importance of these programs as company obligations....A company considering the acquisition of, or merger with, another company or the divestiture of an operation may find that issues regarding employee benefit programs have a profound effect on the viability of the transaction.

"...Recapture of pension and surplus has both raised the visibility of benefit programs as corporate assets and increased employee concerns regarding benefit security in the face of corporate restructuring."

This guide offers readings in due diligence, the assimilation process, and using employee benefit programs as takeover defenses.

## *Individual Disability Income*

Editor Robert Beal has collected a comprehensive selection of readings. He sees the actuary's involvement in this product as crucial to the success

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## Guides cont'd

of any company marketing this highly focused product.

According to Beal, "The complexity of the business and the potential volatility of the results demand that the actuary be proactively involved in most aspects of the business, including marketing, underwriting, claim management, product design, pricing, valuation, financial reporting, and analysis."

Readings are divided into sections related to the actuary's role, individual markets, product design and pricing, experience, reserves, underwriting and claim management, and reinsurance.

### **Individual Medical Expense Insurance**

Editor Anthony Houghton focuses on pricing, reserving, and complying with regulations for health insurance.

The SOA Continuing Education's Professional Actuarial Specialty Guide Committee is charged with developing guides for all major actuarial specialties. All guides and updates are routinely sent to actuaries in related specialties.

SOA members with topic ideas or who are interested in editing a guide should contact Louis M. Weisz, chairperson. SOA members are already editing other specialty guides for release in the near future.

William H. Lewis, Jr., is president, Lewis & Ellis Inc., and a member of the Professional Actuarial Specialty Guides Committee.

## New journal seeks authors

SOA member Colin M. Ramsay, associate professor of actuarial science at the University of Nebraska-Lincoln, will serve as editor of a new journal to begin publication in April 1993. *The Journal of Actuarial Practice* will be published twice a year.

Ramsay is asking for "practical and readable" technical and nontechnical articles on all aspects of actuarial practice. Submissions will be reviewed for content, originality, and clarity. For more information, write *The Journal of Actuarial Practice*, c/o Absalom Press, P.O. Box 67175, Lincoln, NE 68506, or call Ramsay at 402-472-5823.

## Election results cont'd

Insurance and Pension Research, University of Waterloo; Paul R. Fleischacker, vice president with Towers Perrin, New York; John H. Harding, president and chief operating officer with National Life Insurance Company, Montpelier, Vermont; Daniel J. McCarthy, consulting actuary with Milliman & Robertson, Inc., New York; Patricia L. Scahill, principal with William M. Mercer, Inc., Baltimore, Maryland; and Robert D. Shapiro, president of The Shapiro Network, Inc., Milwaukee, Wisconsin.

As a result of Section elections, nine special interest Sections have added new Council members with three-year terms:

**Education & Research Section** — Sarah L. M. Christiansen, Charles S. Fuhrer, Aaron Tenenbein

**Financial Reporting Section** — Frank J. Buck, Bradley M. Smith, Michael L. Stickney

**Futurism Section** — Paul A. Gewirtz, Kenneth E. Polk, Dennis R. Barry

**Health Section** — David S. Helwig, Joan E. Herman, Nancy F. Nelson

**Investment Section** — Cindy L. Forbes, Robert R. Reitano, Bruce F. Vane

**Nontraditional Marketing Section** — Jeffrey C. Harper, Jay M. Jaffe, Nancy A. Manning

**Pension Section** — Silvio Ingui, Judith E. Latta, Neil A. Parmenter

**Product Development Section** — Bradley E. Barks, Timothy C. Pfeifer, Klaus O. Shigley

**Reinsurance Section** — Wayne D. Bidelman, Kin K. Gee, John E. Tiller, Jr.

## Amortization cont'd

$(R - P_i)$  interest payments equals the present value of the interest payments required on outstanding principal. Such payment for the end of interval  $h$  is  $i[A - (P_1 + P_2 + \dots + P_{h-1})]$ .

Despite the wealth of choices, we believe the actuarial view would be to require that each payment  $R$  be first applied to pay interest on outstanding principal and the balance of the payment be applied to principal repayment. This is a well-defined and widely understood amortization process, because it synchronizes the interest payments with the outstanding principal. A process using  $P_i$ 's is more complex but seems to be acceptable to the accounting profession.

Analogously, one can decompose life annuity payments into a principal repayment amount and a residual growth amount. Our actuarial view would lean to first determining the growth (under interest and survivorship) of the outstanding principal and using the remainder of the annuity payment to repay principal. Such a process has been followed in our life annuity illustration to provide the analogue of our actuarial view of compound interest amortization.

Cecil Nesbitt is professor emeritus, Department of Mathematics, at the University of Michigan. Marjorie Rosenberg also is with the Department of Mathematics at the University of Michigan.

## Seminar Calendar

Cash Balance Plans (8 hours of EA credit)	October 21-22	Arizona Biltmore Phoenix
Annual Meeting (12 hours of EA Credit)	October 26-28	Washington Hilton Washington, D.C.
Symposium on Current Issues under IRC Regulations 7702 and 7702A	November 5-6	The Willard Inter-Continental Washington, D.C.
Critical Issues in Contemporary Risk Selection	November 16-17	San Antonio Hyatt San Antonio
Teleconference: 401(a)(4): Amended Regulations (4 hours of EA Credit)	November 19	Various locations

For registration information, please call the Society of Actuaries Continuing Education Department at 708-706-3545.