

theactuary

year in review

2001 | 2002



SOCIETY OF ACTUARIES



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this issue

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Membership Statistics—Nov. 1, 2002

Membership -11/1/01

Fellows 9,393
Associates 7,611
Total 17,004

Membership -11/1/02

Fellows 9,723
Associates 7,341
Total 17,064

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Actuarial images

by W. James MacGinnitie —Address at Presidential Luncheon October 29, 2002, Boston Annual Meeting

I want to spend the next few minutes talking about the image of the actuarial profession. Let's start with Hollywood. Last year, we were approached to consult on a major motion picture featuring an actuary as the hero. The film is—as they say—“in the can” and is slated for a pre-Christmas release.

[The audience was shown a slightly modified video clip of “About Schmidt,” starring Jack Nicholson. The clip was humorous, including gently poking fun at some popular misconceptions about actuaries.]

For those of you who aren't yet convinced that we need to take a good long look at our external image as a profession, I offer this film as evidence to the contrary. Although I suppose any movie chronicling the life of a retired actuary and still rated “R” can't be all bad.

Aside from working on blockbuster movies, we have had a very busy and very productive year. So, let's start with some good news. Our society has regained its growth momentum. For a few years, from 1995 to 1999, we actually shrank by 3.5 percent. The primary cause was the low number of new Associates due to the 1995 increase in exam requirements. But 1999 was the low, and by last year we had made up the loss and grown to a new high in total membership. This year is not quite complete, but a good actuarial projection shows a growth of more than 3 percent—our largest growth rate in seven years.

And the future looks even better. The number of candidates taking exams this year is up about 30 percent for the first four courses. The steady nature of actuarial employment and the No. 2 ranking in *Jobs Rated Almanac* appears more attractive than ever, especially in the wake of the bursting bubbles of dot-coms, telecoms and the ongoing difficulties in consulting and investment banking.



James MacGinnitie

The global reach of our society has also grown. Ten years ago, fewer than 2 percent of our fellows resided outside Canada and the United States. Now that figure is approaching 5 percent, including 47 different countries, with concentrations in Southeast Asia and the United Kingdom, and rapid growth in such financial centers as Bermuda and Switzerland.

The breadth of our members' work has also grown significantly. The vast majority of our membership continues to work in insurance companies and consulting firms. Ten years ago, about 7.5 percent of our working members were employed somewhere other than an insurance company or a consulting actuarial firm. Now that figure is more than 11 percent, and the

variety of those positions has increased substantially. Even within the traditional employers, the scope of actuarial work has broadened, as many of you know from personal experience.

In addition to the good news, though, we also have some actuarial news. During the past year, we have conducted some extensive market research, particularly among major employers, both current and prospective.

There is a perceived shortfall in two critical skill areas: communication and business acumen.

While they indicate that actuaries continue to be valuable employees, there is a perceived shortfall in two critical skill areas: communication and “business acumen.” The research highlights the risk that we could become lower-level functionaries in a smaller sector of the economy.

Also, during the past year, we asked you to provide us with input on your view of the Society, its challenges and your level of satisfaction. Nearly 4,000 of you responded, for

which I thank you. And nearly 3,000 pre-ASA candidates also responded.

Here, the news is mixed. Members report that the most important function, or service, of the Society is to maintain and enhance the value of our credentials. It is also one of the areas with the largest gap between “importance” and “performance.” The other large gaps concern my topic here this afternoon—image: promotion of our image among employers, and among the public at large.

And, as Jack Nicholson showed a few moments ago, and Peter Bernstein so eloquently told us yesterday, we need to do a much better job of communicating our image. It's unnerving to think that a serious research author could write more than 300 pages about the history of risk with but a single mention of actuarial science—from the 18th century, to boot.

There is, though, a tension between improving, enhancing and promoting our image, on the one hand, and maintaining the value of our credentials, on the other. And, as the great economist says, “there are no solutions, only trade-offs.”

If we want more savings, there will be less spending. If we want shorter travel time in our exam system, then we have to cover less material. If we want more practical material

covered, then we have less room to cover the theoretical basis of that material. If we want more general business material, there is less room for the purely analytical. If we want to be global, then nation-specific material is pushed out. But when we put it back in, students in other countries complain that it's not relevant to their needs. And if we want to resolve the tensions between image and valued credentials, we need to look more closely at what gives the credential its value.

For example, one tension that shows up repeatedly is between initial education and continuing education. Some argue that we shouldn't award an FSA until the student has shown mastery of a full range of actuarial practice, and a great depth in a specialty.

This, in turn, leads to piling more and more material into the system, to longer travel times and to pressure on the examiners to make sure that all topics are covered each time the exam is administered.

Others say that a lot of the specialty education is better left to continuing education, which in turn leads to discussions about mandatory continuing education. And it also

There has always been a need to understand the financial impact of the future and to plan and manage accordingly.

feeds back into the tension between theoretical and practical, with those who support a stronger theoretical course arguing that it better equips young actuaries for future continuing education.

Looking at the value of the FSA, in our member research, respondents noted that the most important job for the Society is to maintain the value of our credential. To some, this implies keeping the exams as tough as when they came through, and focused on the same material, while to others it implies new material, usually with a larger theoretical component, that will keep the profession relevant in a rapidly evolving environment. But this tension creates difficulties in pushing out the frontiers of actuarial work.

Historically, we have required extensive knowledge and understanding of traditional practice areas, insurance and employee benefits. If we are to apply our skills in wider fields, such as financial engineering and risk management of a broad range of financial institutions, then deep knowledge of insurance and pensions is not as relevant, and making everyone master those subjects will prevent us from attracting good candidates to the profession—candidates who would excel in these wider fields.

Earlier, I referred to the more than 11 percent of our working members whose employer is nontraditional. We have some examples to look at here this afternoon.

[The audience was shown video interviews of actuaries working on “nontraditional” areas, including an individual in marketing, an investment banker/portfolio manager and an entrepreneur. These individuals described how their actuarial background helped them in their careers.]

As you can see, our abilities open the doors to a wide spectrum of opportunities in the marketplace. There has always been a need to understand the financial impact of the future

and to plan and manage accordingly. This demand exists now more than ever, and actuaries are the most logical choice to meet that need.

As Peter Bernstein said yesterday, business should be run by professionals who can evaluate and manage risk, not those who can count beans. What are the options?

Let's ask the people who are out on the frontier.

[The audience was shown additional video interviews with the aforementioned “nontraditional” actuaries. These individuals provided their assessment of the many possibilities in the marketplace for actuaries—even those typically outside the usually considered areas.]

The future holds many possibilities, and I urge all of you to examine and entertain thoughts both about what being an actuary means to you, as well as what it means as a profession.

We have 16 sections of the Society, each successful in its own way. But the one that has focused most on finding and developing the new frontiers is the Actuary of the Future Section. One of the things our Actuary of the Future Section does is support pioneers. But, I submit, this is something that the whole organization must support. We need to identify the pioneers and ask them: “What can we

do to help you? What research do you need?” We need to encourage them with publicity, and to help them extend the beachhead.

Let's return to our education and examination (E&E) system. This is a hallmark of our profession. It has served us well for over a century. It is built on the dedication of countless volunteers who have provided their time and energy unstintingly to pass on to the next generation the knowledge and expertise required to be a good actuary and a good professional.

We have made many changes in the system over the years. We have added more exams and additional specialties, such as finance and investment. In 2000, we made several major changes, including the removal of nation-specific material, the re-aggregation of the small pieces into larger courses and the use of professional development to tailor the education to the specific needs of the student.

But, in retrospect, it appears that some of the changes may have gone too far. The removal of nation-specific material reduced the practical value of the exams in the eyes of many—including major employers. The professional development course was not fully utilized by many students and their mentors, and too often became just a question of what was available that would satisfy minimum requirements in the least possible time.

Back when we implemented those changes, we also formed a task force, under past president Steve Radcliffe, to look at changes five years down the road in 2005. Last year at this time, we reported that the 2005 Task Force had recommended some changes to the early education system and the creation of a new credential, the Quantitative Risk Analyst (QRA), that could be used by other professions in the risk management world, such as bank risk officers. But feedback both from our members and from employers suggested that we needed to put the QRA designation on the back burner and take a harder look at the current system.

During the past year, dozens of our members have been working under the leadership of vice-president Stuart Klugman on a signifi-

continued on page 6

Actuarial Images *continued from page 5*

cant reengineering of the E&E system. Our Web site has plenty of information about it. We need member input, so I encourage you to keep abreast of this work, and to provide your comments and observations.

I'm convinced that the result will be a much stronger system, one that will attract and

apprentice system to a university base—law, medicine, engineering, accounting—the list goes on. But we cling to our self-study, private-examination system, and every time someone proposes something that looks—or even smells—a little like college credit, the membership raises a hue and cry about weakening standards. Well, those same col-

The challenge for the actuary is to communicate effectively with the audit committee.

retain entrants to the profession who will be better communicators, who will develop better business acumen and who will improve the profession's reach and image.

This brings me back to the topic of maintaining the value of our credentials, particularly the FSA. In my view, too many of us have fixated on the difficulty of obtaining the credential, the long hours of study, the complexity of the modeling and the volume of material to be mastered as the way to define and maintain the value.

The danger is that we could end up with a credential that remains difficult to attain, but that is losing its relevance—master engineers in the design and manufacture of buggy whips, if you will. Today, we require mastery of continuous approaches to contingencies, when nearly everyone uses discrete approaches, because that's what spreadsheet technology enables.

To some, it appears that we are promoting difficulty for the sake of difficulty. Our challenge is to resolve these tensions in a way that will provide a rigorous system of education and examination, but also address concepts and capabilities that will enable actuaries to provide real value in a rapidly evolving environment over their working lifetime. And that, in turn, will contribute to an improved image.

Before I leave this subject, I must mention an unmet challenge that contributes to our image problem. We need, we must have, a stronger base in the academic world. Most other professions have migrated from an

leges and universities are turning out lots of qualified lawyers, doctors, engineers and accountants. And the actuaries in Australia and Britain are succeeding in migrating to a university base. In Canada, even with the same exam system as the United States, a large fraction of the actuaries come from university training. Until the U.S. branch of the profession can overcome this irrational fear of "weakened standards," we will not be able to take our rightful place at the table, in universities, with the other professions.

In the two years since I became president-elect, the world has changed in major ways. Dotcoms and telecoms have crashed—as has a major accounting firm. Terrorism has shown how much destruction and chaos it can generate. Man-made events now exceed earthquakes and windstorms in the calculus of catastrophe reinsurance. To respond to these events, the actuarial profession has a strong tradition to draw upon. We are the experts in the measurement and modeling of risk, particularly financial risk.

And, as actuaries, we have a long history of financial stewardship, and of taking a long-term view of financial institutions. Perhaps most importantly, we have a long history of unflinching integrity, which, now—more than ever—is a touchstone in the marketplace. In the wake of Enron and 9/11, I believe there is a specific opportunity to do something positive about our image, and to demonstrate the communications skills and business acumen that many actuaries possess.

In my semi-retired status, I sit on three boards of insurers, and chair the audit committees of two of them. Meeting with the actuary was not part of their agenda historically, something that I have changed. I think that the audit committee of any firm that employs or retains an actuary should get to know him or her. That includes most, if not all, insurers, and those who have significant self-insured exposures, including their benefit plans. The actuary should have an excellent understanding of the risks that the firm faces, and how they are dealt with.

The challenge for the actuary is to communicate effectively with the audit committee. In a recent article, "The Actuary and the Audit Committee," I developed the theme of effective communication in this extraordinarily important—and currently extremely sensitive—setting.

It draws on our emerging work in enterprise risk management (ERM), and on the concept of the actuarial control cycle. ERM has made great strides in the SOA and elsewhere in the actuarial community. The actuarial control cycle was first articulated by my former partner and counterpart at the Institute of Actuaries, Jeremy Goford, and then developed by our Australian colleagues. It will be a centerpiece of our revised education syllabus that the working groups are developing for 2005 and beyond. Utilizing these two concepts—ERM and the Actuarial Control Cycle—together helps an actuary look and talk like a professional with business acumen and solid communication skills—exactly what the employer community indicated we too often lack.

I think all of us agree we should work to embrace and promote a better image of the actuarial profession. I've tried to suggest some ways that we can do that, including better encouragement and support of pioneers, reengineering our E&E system, and working with audit committees.

I'd like to close by thanking all of you who have helped the Society continue its ongoing success. □

SOA posts 8 percent gain for 2001, expects to surpass 2002 budget

by Sue Ann Collins, SOA Vice President/Secretary/Treasurer

The SOA's 2001 financial results showed a favorable management basis gain of \$1,447,000. This represents a gain of 8 percent. These favorable results improved upon the 6 percent gain in 2000. The continuing improvement is attributable to an increase in the number of exam candidates for the early exams, as well as several of the cost-saving initiatives implemented early in the year by the Board of Governors and senior staff. A continuation of these initiatives led to a year 2002 budget calling for a gain of \$530,000. Our current expectations are that this year will end with a favorable variance to budget.

Dues

A budget policy, which the Board has continued from the last several years, is that future dues should increase consistently with general inflation. For 2003, dues for Fellows and for Associates who became ASAs prior to 2000 will increase by \$10 to \$365, while dues for those who became ASAs after 1999 will increase by \$5 to \$185.

Results and next year's budget

The summary of the budget for 2003, as approved by the Board in October, is compared below with the 2001 actual and 2002 budget:

Amounts (in \$1000s)		
Revenue	2001 Actual	\$18,139
	2002 Budget	20,314
	2003 Budget	20,312
Change In Net Assets	2001 Actual	1,447
	2002 Budget	530
	2003 Budget	(5)
Budgeted Member Equity as of 12/31/2002		\$9,487

The figures listed above are on our management basis of accounting, which is slightly more conservative than GAAP.

The current budgeted membership equity position of \$9.5 million is about 47 percent of annualized expenses, compared with a targeted range of 30-50 percent. As previously

noted, the actual results for 2002 are expected to exceed budget. This surplus position does not include the additional \$1.7 million of restricted funds (mostly sections' surpluses).

The Board and management have been developing in the recent years a more robust strategic planning process, the outcome of which is a strategic plan that will serve the SOA over a number of years. As this initiative has been under way, the Board has recognized that some of the buildup in surplus will be used to fund the plan as it is implemented. Therefore, the fact that the surplus is at the high end of the guideline is not a cause of concern.

Four service segments

For financial management and budgeting purposes, the operations of the SOA are broken down into four service segments:

- Basic education (E&E).
- Continuing education (meetings and seminars).
- Research (basic research and experience studies).
- Member services, marketing, general overhead and other activities.

Historically, basic and continuing education have been expected not only to be self-supporting, but also to contribute to research and to help cover overhead. Membership dues have been allocated partly to research and mostly to member services.

Basic education results were strong for 2001 due to the higher number of candidates in the early exams. Continuing education results were slightly higher than budget for the year. Service areas, such as research and member services, as well as marketing and general overhead were within budget and consistent with the strategic plan.

Strategic planning

A highlight of the past year has been the implementation of the SOA Strategic Plan. With the current strong planning process, each new president will have less freedom to

deviate significantly from the strategic initiatives the Board has agreed upon, making the implementation of the plan by the staff more effective and its financial impacts easier to budget and more consistent on a year-on-year basis.

The future

We approach the new year with increased uncertainty as a result of the softening economy. However, despite this uncertainty, the Board believes that the financial condition of the organization remains strong. In fact, that uncertain economy—combined with “actuary” being once again named as one of the top five jobs in the country—seems to be behind an increase in exams being administered.

Additionally, we have seen a marked increase in the international segment of the SOA's population. For example, of the current Course 1 exam takers, approximately 20 percent reside outside of Canada and the United States—an increase from 10 percent less than three years ago.

Continuing education continues to show upward trends for attendance and, perhaps even more importantly, increased professional diversity among attendees. In fact, some recent CE events had 50-percent attendance levels of nonmembers. Concerns over the fact that attendance at CE events may be inhibited by travel costs for far-flung members have been addressed by adding more webcasts. The webcasts of CE events have initially proven extremely popular, and it is expected that the trend should only continue.

In conclusion, the budget for 2002, as it was drafted, was felt to be fiscally responsible while meeting two key objectives: provide significant value to members and other financial supporters and provide the needed resources for the organization to achieve its core goals and objectives for the coming year. As the year draws to a close, we expect the actual result to exceed the budget, a significant achievement given the difficult external economic environment. ☐

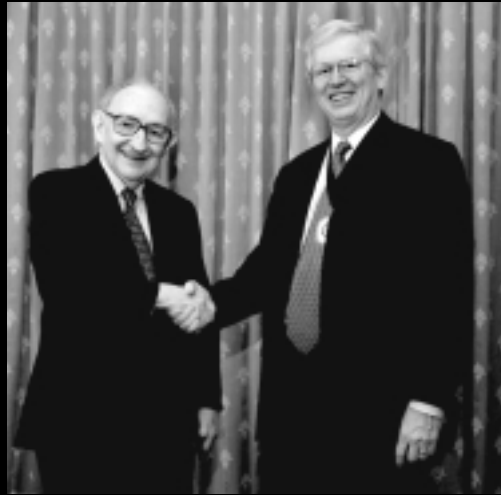
2002 annual meeting

Boston hosts this year's confab

The 2002 SOA Annual Meeting and Exhibit took place from Oct. 27-30, 2002, and was held at the Boston Marriott Copley Place and The Westin Copley Place. Organizers took advantage of the many features Boston offered; for example, the International Section hosted a reception at the Old South Meeting House, a gathering place of Bostonians since 1729, where attendees could listen to and participate in a "Tea Tax" discussion.

Session topics ranged from "Actuarial Employment in the New Millennium" to "Implementing Quick-Issue Programs: The Product Development Process." One new feature the SOA introduced at the Annual Meeting was Cyber City, a small bank of computers allowing attendees to stay connected by accessing their e-mail accounts during the meeting.

The Keynote speaker was Peter L. Bernstein, president of Peter L. Bernstein Inc. In addition to lecturing throughout the United States and abroad, Mr. Bernstein is the author of *The Power of Gold: The History of an Obsession* and *Against the Gods: The Remarkable Story of Risk*.



2001-2002 President Jim MacGinnitie (right) welcomes legendary investment guru and Keynote Speaker Peter L. Bernstein.



Benjamin Franklin (?) and Sam Gutterman chat at the Monday evening reception.



This year's meeting activities provided members with much opportunity to meet and network with their peers. Pictured left to right: Ronald Poon-Affat, Shumei Kuo, President-elect Neil Parmenter and Cuqui Moreno.

2002 annual meeting



2001 - 2002 President Jim MacGinnitie (right) passes the gavel to incoming President Harry Panjer.



President-elect Neil Parmenter welcomes Jennifer Anderson, technology teacher from Prosperity Heights Elementary School in St. Paul, Minn. The Actuarial Foundation was asked to present its Advancing Student Achievement Program at the SOA Presidential Luncheon.



Incoming President Harry Panjer (left) presents Mo Chambers with a special recognition award for his years of service as international vice president.



A few attendees of the Smaller Insurance Company Section council meeting included (left to right) Julie Hunsinger, John Gately, Tammy Kapeller and Dale Hall.

The 2001 CSO Mortality Table

by Micheal S. Taht

Editor's Note: The new 2001 CSO Mortality Table is a hot topic and this was evident at the 2002 SOA Annual Meeting in Boston. "Implications of the New CSO Mortality Table" was one of the highest attended sessions at this year's meeting. We asked Michael Taht, head of the SOA committee that developed the table, to shed some light on its impact to the life insurance industry.

In September 2002, the NAIC Life and Health Actuarial Task Force (LHATF) adopted the 2001 CSO Mortality Table (2001 CSO table). This is a giant first step toward providing life and health insurers in the United States with a new valuation mortality standard, replacing the current valuation mortality standard, the 1980 CSO Mortality Table (1980 CSO table). As states begin adopting the 2001 CSO table, the impact on the life insurance industry will be significant.

To understand the impact of the 2001 CSO table, one should first examine the table itself. The 2001 CSO table was created in a two-step process. First, an SOA task force created the 2001 Valuation Basic Table (2001 VBT) and then an AAA Task Force added margins to the 2001 VBT to create the 2001 CSO table. The 2001 VBT and, therefore, the 2001 CSO table, are based on SOA experience from the period 1990-1995 (with provision for mortality improvement to bring it up to 2001).

The 2001 CSO table encompasses multiple mortality tables that vary by gender, smoking status, ultimate and select and ultimate table structures, and age-last and age-nearest birthday bases. However, it should be noted that there is no separate valuation mortality table for extended term insurance. The 2001 CSO table has a 25-year select period, consistent with the latest SOA experience tables, and has an omega of 121.

In comparing the 2001 CSO table to the 1980 CSO table, males generally show greater improvement in mortality than females, and nonsmokers show greater improvement than smokers. In fact, at certain ages, female smoker mortality is higher under the 2001 CSO table than under the 1980 CSO table.

The 2001 CSO table is a valuation mortality table and, as such, its primary impact is on reserves, both statutory reserves and tax reserves. The impact on reserves varies by factors including issue age, policy duration, gender, smoking status and product. As the 2001 CSO table is significantly lower than the 1980 CSO table for most ages and risk classes, statutory basic reserves calculated utilizing the 2001 CSO table are reduced by approximately 30 percent in the aggregate for term insurance,

over statutory basic reserves calculated utilizing the 1980 CSO table. The reduction for whole life insurance is in the range of 10-20 percent, while the reduction for universal life (UL) and variable universal life (VUL) is modest, as statutory basic reserves for these products are often at or near the cash value floor. The impact of the 2001 CSO table on tax reserves and cash values for life insurance products is similar to the impact on statutory basic reserves.

Although the 2001 CSO table provides significant reduction in term insurance basic reserves, there is relatively little change in the level deficiency reserves for term insurance. Regulation XXX, through the use of X-factors, already provided insurers with the ability to use mortality at or near current experience in the calculation of deficiency reserves. However, differences in slope between the 2001 CSO table and the 1980 CSO table result in differences (either higher or lower) in the level of deficiency reserves calculated. This is especially true for longer guaranteed periods and at older issue ages.

Once adopted by at least 26 states, the 2001 CSO table becomes the prevailing table for use in both the calculation of tax reserves and the calculation of guideline premiums and cash value corridors for compliance with Sections 7702 and 7702A. Sections 7702 and 7702A define the amount of funding that a life insurance contract can have to maintain favorable tax treatment under the IRS tax code. As the 2001 CSO table is generally lower than the 1980 CSO table, the amount of funds that can be in a life insurance policy while still maintaining favorable tax treatment is reduced. For example, the AAA 2001 CSO Implications Working Group estimated that Guideline Single



Premiums will reduce by 5-20 percent for male nonsmokers, 10-20 percent for female nonsmokers, 5-20 percent for male smokers, and 0-5 percent for female smokers.

All of this activity will result in stress on companies' administrative systems.

The 2001 CSO table will reduce the potential tax effectiveness of life insurance policies. It should be noted that, as with the 1980 CSO table, it is expected that the ultimate version of the 2001 CSO table will be the prevailing table, and that either smoker distinct or composite (unismoke) versions of the table may be used.

Another impact of the new table is that the maximum level of cost of insurance (COI) rates for UL and VUL will be reduced. Typically, guaranteed COI rates have been capped at the 1980 CSO table, ultimate version. As the 2001 CSO table is less than the 1980 CSO table, guaranteed maximum COI rates will reduce. This cap may force a reduction in current COI rates at certain issue ages and policy durations. In order to maintain profitability levels, companies may need to restructure policy loads on these products.

The 2001 CSO table's impact is broader than just statutory reserves. Knowing when and


where the table is adopted and transition rules are very important. Assuming that the first state adopts the table in 2003, the earliest that a company will be able to utilize the table

for statutory reserve or nonforfeiture purposes is January 2004. The Model Regulation provides for a transition period up until January 2009, when companies must utilize the 2001 CSO table with new issues for statutory reserve and nonforfeiture purposes.

For tax reserves and Sections 7702 and 7702A, the 2001 CSO table does not become prevailing until 26 states have adopted it. We expect that this might happen some time during 2004. An explicit three-year transition period exists for tax reserves. It also appears that the three-year transition rule for tax reserves applies to Sections 7702 and 7702A, but a 2001 CSO table requirement for guideline premiums/cash value tests could conflict with 1980 CSO table non-forfeiture requirements.

Given the impact that the 2001 CSO table has on different products, we expect that the use of the table will vary during the transition period. Companies issuing term insurance and UL products with significant secondary

guarantees should be quick to utilize the table on these products, but may utilize the 1980 CSO table for whole life and VUL products until the end of the transition period. Even though there is a significant transition period, there will probably be a product filing rush upon each individual state's adoption of the table and at the end of the transition period. Companies also will be maintaining portfolios of products based on both the 1980 CSO table and the 2001 CSO table, as state adoption of the 2001 CSO table will not occur uniformly. In addition, companies will need to assess how changes in individual policies will be treated from a tax perspective. All of this activity will result in stress on companies' administrative systems.

The creation and subsequent adoption of the 2001 CSO table was the product of a significant amount of volunteer effort by members of the SOA and AAA and represents a major achievement for both of these organizations. The adoption of 2001 CSO table results in a significant amount of work for the industry both to understand and react to, its impact on life insurance products in the United States. 

Michael S. Taht is a consulting actuary with Tillinghast-Towers Perrin in Atlanta. He can be reached at mike.taht@tillinghast.com.

Expected investment returns

Given the current economic environment, how can actuaries set expectations for long-term returns on various asset classes?

This was the main topic of discussion at the "Expected Investment Returns" session, which took place at the 2002 SOA Annual Meeting in Boston this past October. Moderator Joe Koltisko from the American International Group's Market Risk Management Group led the discussion that included panelists John Ryding, the chief market economist for Sterns, and Richard Urbach, a senior partner with GFA Capital.

Koltisko opened the session by talking about the relationship between realistic investment returns and stated liabilities for pension and insurance, and how both sorts of analysis have their role and place.

According to Koltisko, actuaries are generally interested in expected returns in financial markets because today's market value is less useful than a point of view or a model for how and why such values change. To use such a model ought to be grounded in macroeconomic relationships in fact. Rather than being a snapshot of the value, Koltisko believes it is more effective for us to have working models that behave like the model we are trying to measure. And with these

models, we can have a sound basis for risk and returns.

Actuaries are generally concerned about projecting investment returns in order to recommend asset allocations for GAAP income reporting purposes. Pension people are generally interested in trying to set new targets for their pension plans. Development actuaries are generally concerned about sources of profit and the level of flexibility that they expect in their nonguarantee elements. So, to a varying degree of accountability, one has to start with an expectation for returns in various asset classes.

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Expected investment returns

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Ryding continued the discussion by explaining why our current economic situation may be a poor guide for what happens over the next decade. Instead of basing our predictions on the current economic state, we need to look and think about the long-term regularities and try to build a bridge between the two. He believes that we need to think about what the real rate of return in the economy is going to look like, because financial markets do not exist independently of the real economy. And, while the reverse is also true, productivity gains are most likely going to remain elevated as we go forward. This is something we need to consider when thinking about where underlying real interest rates need to be for short-term rates, for conducting fed funds policy and also where the market is going to put long-term yields.

Ryding spoke about credit risk and how, as it eventually becomes better borne by the private market, rates decline and the nominal yields on corporate bonds may not rise in a higher Treasury rates environment. He also discussed the many “exceptional” things about our current market, including the methods in which corporate risk is priced. Going forward, we may need to have some kind of mean reversion in credit risk if we hope to have a slightly better than average economic environment in the next decade.

It may appear to be a bad time to contemplate investing in the equity market, but Ryding believes that this is where some of the better longer-term rewards may be found. Real rates may move higher as the rates return on capital rises, which could inevitably go hand in hand with a better performing equity market.

Looking at the current economic situation and vying it with current interest rates makes little sense to Ryding. He believes it is important to track the share of profits in the economy. The recovery and ultimately the longer-term performance of the economy depend upon a rebuilding of the whole economy profit margins, and thinking about the economic story is

very important because the long-term regularities are much more predictable than what may happen next week or next year.

Urbach addressed the practice of creating realistic distributions for possible economic futures, called artificial economies, or GEMS. GEMS helps evaluate the impact of changing strategy in a business whose success or failure is contingent upon an uncertain economic

We may need to have some kind of mean reversion in credit risk if we hope to have a slightly better than average economic environment in the next decade.

future. To meet that goal in the insurance context, GEMS must incorporate all the financial and macro variables in the economy that have a material impact on insurance company operations.

According to Urbach, bringing the GEMS structure alive is a matter of parameter estimation. You can have a very robust model and, if it's poorly dramatized, it will not perform well. You can have a mediocre model that's well dramatized and it will perform a lot better. So proving that GEMS possesses the desirable behavior is a matter of comparing simulations with the historical record, or validation. And validation starts with the estimations, then moves on to stimulation and, finally, that stimulation is analyzed in great detail.

Urbach believes that a benchmark is necessary in all validation processes. We need to make some sense out of the historical records to compare them to any kind of simulation of the future economic environment. In the context of


investments, an important characteristic is the joint distribution and dynamics of the returns of the major financial assets. In the broader context, we need to be concerned with the joint

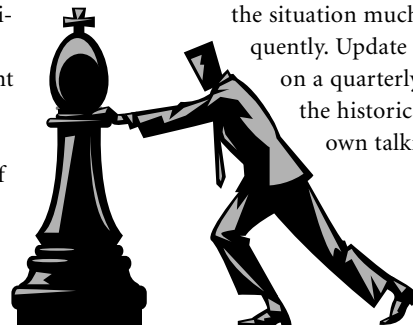
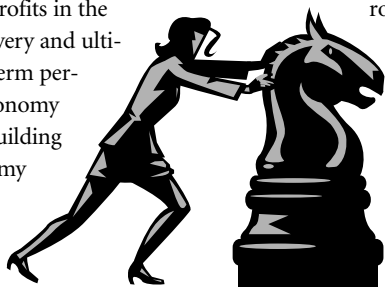
behavior of returns, price levels and other indicators of economic activity.

The one step in the validation process that is not automated is arguably very important. According to Urbach, the statistical and graphical analysis should be examined in great detail. Univariate and multivariate behavior as well as correlations should be examined, and one of the most critical aspects of the model

to get right is the joint distribution and dynamics of the returns. Comparison of model returns and standard deviation with history is vital. Deviations between historical records and simulations should be understood and may be appropriate, depending on the current economic environment.

Urbach also emphasized that calibration of models to reflect realistic historical returns is a challenging task. The periods of history for which key financial variables deviate substantially from the recent past can create substantial model difficulties. And the manner in which such difficulties are resolved directly determines a model's performance.

The session concluded with Urbach's reminder that it is probably best to stay away from speculations in these types of environments. He advised us to stick with the historical record and update the perimeter estimation. If time horizons are short, you should be prepared to reassess the situation much more frequently. Update the simulation on a quarterly basis and let the historical data do its own talking. 



Actuarial leaders reflect on past year, look to future

The editor of *The Actuary*, Jay Novik, and the SOA invited four prominent leaders of actuarial organizations to participate in a telephone panel discussion addressing key issues in the past year and the year ahead for the actuarial profession. The discussants are: Dan McCarthy, immediate past-president of the American Academy of Actuaries; Harry Panjer, president of the Society of Actuaries; Gail Ross, president of the Casualty Actuarial Society; and Stan Samples, president of the Conference of Consulting Actuaries.

What important event(s) of this past year had the greatest impact on the actuarial profession and why?

Ross: Enron—because the impact it has had on the accounting profession should be a wake-up call for the potential of the same kind of event impacting our profession.

Panjer: I think the ongoing response to 9/11 is good news for the insurance industry. Very few things happen in a single year, and their effect doesn't show up in a single year. The other thing I see is the continuing decline in the stock market and its impact on pensions and insurance companies.

Samples: I'm not sure there is one particular event, but a combination of events: the stock market being down, the interest rates being down, health care costs increasing significantly and the increased emphasis on financial disclosure integrity.

McCarthy: Accounting and auditing scandals in the United States had an impact.

Samples: The combined effects on sponsors of benefit plans, especially public companies will be significant over at least the next couple of years, and we haven't even begun to see the impact of this yet. We're going to be seeing it more and more toward the end of the year and especially into next year. Given that actuaries are the primary professionals who calculate the liabilities of these retirement and health care plans, I think we're being given opportunities to step up to the

plate and truly help these plan sponsors, as well as the public, understand and manage these liabilities.

McCarthy: One other thing is the insolvency of Reliance [Insurance Co., currently in liquidation]. And I mention that because we have no idea where that whole subject is going, but that and other concerns about the solvency of insurance companies and the adequacy of their liabilities pose a potential risk for the profession in black-eye terms.

Panjer: That is exactly true, if you consider what has happened in the United Kingdom with the fallout of The Equitable [Life Assurance Society, which was unable to honor its annuity guarantees] and the potential changes in the range of statutory responsibilities for the actuary under the new FSA.

McCarthy: I must say that proposed change, which basically says that they should rely on trusted professionals, but it's the Board of Directors that's really in charge, is a smart

Panjer: Any single event could trigger a whole change in a profession.

change. What gave rise to it is unfortunate, but I happen to think that where they came out isn't all bad.

Panjer: My real point was that any single event could trigger a whole change in a profession, as Enron and other scandals have demonstrated for the accounting profession. We have to be very, very vigilant.

Ross: I want to go back to what Dan had talked about in terms of the overall adequacy of reserves. I'll focus on the Property and Casualty (P&C) side of the industry. I've read that the U.S. P&C industry could be as much as \$120 billion or so deficient. That's a huge amount of total surplus.

I think that could be close to 30-40 percent of the total surplus. If that's the case, we have the potential for a real disaster on our

hands. Asbestos is supposedly only reserved to half as much as it should be, based on some studies that I've read in A.M. Best. These are real concerns, certainly for the industry, but also for the actuary. Actuaries definitely need to step up to the plate on an individual company basis, starting from the ground floor, to get their companies to do the right thing and recognize the liabilities on the balance sheet, or else we could have a meltdown at some point in the future.

Samples: Do you think we need our own definition of "core earnings," taking steps similar to the way the S&P recently developed their definition?

Ross: I hadn't thought about it from that perspective, but I do know that there are likely to be situations where internal earning pressures at companies might cause an internal company actuary (focused on job security) or an outside actuary (fearful of losing a client) to soften assumptions to get a comfort level to sign off on the opinion. I

think it's so important for us as a profession to stay true to our standards and be diligent about explaining to our employers and our clients that they need to do the right thing and what the right thing is.

Panjer: Those are important issues internationally. We are in a changing world at the moment, in terms of the actuary and industries that we serve, particularly with changes in the accounting standards and potential solvency standards as well internationally.

Ross: You're right. I've spoken only of U.S. P&C because that's where most of my reading seems to be these days, but clearly this is a global issue and clearly this is not a uni-disciplined issue. This is across the entire

Actuarial leaders reflect on past year, look to future

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business, and we operate very globally in our profession.

Samples: The guest speaker at the recent Academy luncheon, an attorney, spoke about us regulating ourselves and continuing to regulate ourselves. We not only have to have the rules, but we need a separate group of us that would be willing to enforce those rules and demonstrate that we do so.

Panjer: I assume that this is in response to the accounting and auditing issues in the United States. As I see it, this issue puts all professions on notice that they have to have effective standards and must be vigilant about the practices of their members. To the extent that we are vigilant, we are better able to regulate our own professionals.

McCarthy: One of the points that the speaker made was that the legal profession had always had the rules but, by virtue of lax enforcement, what ultimately happened was that the enforcement, power got moved from the legal profession itself, the bar associations, to the courts, because the courts basically said, "Well, if you're not going to do it, we are."

Samples: Now the same thing seems to be happening with the accounting profession, where they were self-regulated until just recently.

What do you see as the biggest challenge facing the profession in the coming year?

Panjer: I see the issue of building a better set of risk management tools and skills within our profession that address a broader set of risks than we have traditionally addressed. I think that, within our profession, it's recognized that so-called financial risk management is the exciting area—it's the area of growth in terms of the intellectual content, new responsibilities and new challenges for the profession. Within both the CAS and the SOA there are groups working on this; the level of interest is very high in both organizations.

McCarthy: I was thinking in particular that with the sharp up-turn in people taking the early examinations and, thus, entering or

considering entering the profession, we have a challenge. We have an opportunity, by virtue of the influx of candidates, that is more significant than we've had for several years, because it provides the profession with an opportunity to select, train and position from a much broader group of candidates and, I think, improve our situation in the future.

Samples: I agree. I think we have a tremendous challenge, and we've talked about this at the Council of Presidents (COP) meetings and brainstorming sessions, about changing the current perception that actuaries are just technicians. There seems to be that perception, not only with our companies and our clients, but with the public we serve, and, very importantly, with ourselves. We need to let the public know, and convince ourselves, that we are businessmen and businesswomen who have unique skills, and we can use those skills to help our companies and clients solve business problems, not just actuarial problems.

Ross: Yes, we need to develop more broad-based businesspeople.

Samples: I think we have a unique opportunity, because of all of these events that are happening out there are getting public attention. We should be out there with our best business-oriented actuaries to present some solutions to some of these issues.

Ross: And we need to grow our ranks with better businesspeople and not just back-room technicians.

Panjer: And that's up to us, in terms of the way we design and run our qualification processes. Both Stan and Gail mentioned better businesspeople and that's absolutely right. But in the marketplace we'll still have to differentiate ourselves in terms of the special skill set that we bring. We have to bring that strong actuarial training and perspective to the kinds of problems we address.

Samples: I agree. We cannot let up on the technical skills development. If anything, they probably need to get stronger over

time. But we need to complement those skills with other, nontechnical skills.

McCarthy: If you think about the best professionals that you work with, people in other fields, people in the legal profession, for example, and, to a considerable extent—even though it may sound ironic—in the medical profession, they are highly skilled, highly trained people who also have business and human skills that really lift them above the rest.

Market research sponsored by actuarial organizations indicates that the image of actuaries among employers is one-dimensional. How should the collective actuarial organizations work together to create a consistent image in the marketplace and what is your view of the image?

Panjer: Our image, like the images of lawyers and accountants, often takes a bad rap. But to some extent, the surveys that the SOA has conducted show that the perception is reality. But unlike accountants and lawyers, we don't generally sell our professional services directly to the person on the street. And that means that the kind of marketing or image building that we do, in terms of direct marketing, will have to be different and we'll have to segment our market carefully. Blanket marketing, like the accounting profession has done, will certainly make actuaries feel good, but it won't necessarily get to the potential customers of actuarial services. We really need to sell the image of the actuary on the basis of the broad skill set that the actuary brings to a problem, directly to the market segments that we want to serve.

McCarthy: In the first place, we need to face the fact that, if the image is one-dimensional, we did it to ourselves, collectively over a long period of time. Getting beyond that is partly a matter of intake and selection; it's partly a matter of education; and, as Harry suggests, it's partly a matter of marketing, which I would tend to call "outreach." That's both to direct clients whom we want to serve, and it also—and I say this particularly with my Academy hat on—relates to centers

of influence who aren't necessarily people who hire us, but people who have a lot to say about the way our work product is viewed—governmental organizations, major nonprofits, think tanks, that sort of thing. I agree very much with the way Harry described it, but in thinking about markets, I would focus not just on people who pay us money, but people who look at what we do and have a view about it.

Samples: In terms of the actuarial organizations working together, we have basically been doing that. The COP collectively has worked on the visioning initiative over the past year. I see that as a way we would continue to work together to develop our plan of action to present to the public not only what actuaries are today, but what we believe they should become.

Panjer: Dan mentioned external relations. In the SOA we've recognized this issue and this year we've created a new external relations function, which is to make sure that our actuaries are at the table with organizations that have similar interests, such as think tanks that affect public policy. The idea is that research support and actuarial thinking need to be at the table at the front end of all these issues and not at the back

end in terms of public policy development in the United States and anywhere else.

Ross: The SOA had sent its annual meeting speaker, Peter Bernstein, author of *Against the Gods*, a number of different pieces of information regarding some of the research that we've done in the area of risk as a profession. He was surprised to see the depth of analysis that the actuary gets into, in terms of risk. It seemed like he had never really even heard of the profession.

McCarthy: I didn't get the impression that he had never heard of the profession, but I certainly got the impression that he was surprised and impressed about the work the profession is doing and the depth of analysis.

Ross: If a man like this, an esteemed author on the topic of risk, who has received many awards and designations, wasn't really aware of our skill set, we have a lot of work to do on getting our image out there. I don't mean just to our own constituents, our employers, the regulators and all, but to other professions, and to the "common person" out on the street. I found that to be a very eye-opening assessment of how people don't really know what an actuary is.

That's another way to broaden what actuaries do.

Ross: When I think about the concept of enterprise risk management, I picture a chief risk officer at a company looking at the financial, strategic, investment, operational, and hazard risks facing the company. I really believe that the actuary, trained through our examination system, gets involved with all of these areas. I think the actuary gets more involved with the full spectrum of risk than CFAs or MBAs. The hazard risk is one that jumps out at me, certainly on the non-life side. This is an area where the average MBA training is not going to help focus in on companies' hazard risk or strict insurance risk. I like the idea of embracing the other disciplines, but I also think that we do bring a broader skill set to the table, and we should promote that and differentiate ourselves.

Panjer: Actuaries really bring together a set of skills and a broad financial framework to make them effective. The key is getting in and demonstrating. One way is to encourage our members to complete complementary qualifications that help them get in there, like CFA, FRM, etc. One way to encourage our members is to embed some of these complementary qualifications into our own qualification process, so that we have the incentives to end up with actuaries who have a wide range of skills. The same goes for MBA programs, which is a different orientation really—the orientation there is much more professional development in the area of management.

Samples: Perhaps one way to do that would be to have on some of your exam committees, both SOA and CAS, someone with a CFA or a CPA, or a financial engineer.

Panjer: That already exists for some of the specialty exams. My thought was a little bit more aggressive. In the area of our current professional development component within the SOA exams, people should have a lot of flexibility in terms of what professional development they choose. Recognizing complementary qualifications within that professional development component would be a good way of incenting people to seek these other designations.



When it comes to general risk management practices, actuaries face challenges posed by competing professions, such as MBAs, financial engineers, CFAs. Should actuaries be the first choice for risk management? If so, how can we reach the point at which actuaries are considered the first choice for these roles?

Samples: We should embrace these other professions. If we continue to compete, we are going to risk perpetuating this image that we're one-dimensional. Why not engage them, learn what they do? Let's incorporate some of their best practices into our profession.

Actuarial leaders reflect on past year, look to future

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Ross: We had an agenda item at the Council of Presidents/Council of Presidents-Elect (COP/COPE) of trying to work with the MBA designation and the CFA designation in some fashion in conjunction with the actuarial designations.

McCarthy: Gail, you said that actuaries in many of these areas have skills and training that the other professionals don't have. I would agree with that, and that certainly gets you to the proposition that actuaries should be involved in the risk management process. It doesn't necessarily, of itself, get you to the proposition that an actuary should be, say, a risk officer or a leader of the team, because to get to that level you need not so much somebody who has all that specific training, though that's nice, but you need somebody who can manage the process and ask the right questions. I wouldn't say that actuaries can't do that, but I would pick up on Stan's point in saying linking our specific training with other forms of training that are broader, I think gives you the best of both worlds.

If you could see ahead five to 10 years, what do you think the actuarial profession would look like?

Panjer: We'd like to see a very robust profession, serving a wide range of financial services—health management, insurance, pensions and other areas.

Samples: We'd like to see a robust and growing profession.

Ross: I envision a larger profession around the world. When I think of how the profession is exploding in China, for example, and the potential for the number of actuaries that ultimately will be in China, it's pretty mind-boggling. And I think about other emerging nations around the world. I see a really robust, growing and vibrant profession.

McCarthy: I think that's a really good point, because, to the extent that free or freer markets and more market-based systems emerge in these huge population centers in parts of the world that are coming out of other

financial systems, that's just a tremendous opportunity for the profession.

What are the top three initiatives that the collective organizations can undertake to advance the profession?

Ross: Collectively, I think there's so much research that is being done and more that can be done, and we'll do well if we work together.

Panjer: I think it's very important to invest in our intellectual capital within our profession. It's research not only into numbers; it's also research into ideas and methodologies. We're in a very competitive environment, and we continually need to broaden that skill set to compete effectively. Another item is to make our qualification process attractive to potential candidates. Even though we're experiencing explosive growth at the moment, we still need to make sure that people see an actuarial career as an attractive career relative to other careers that attract the same types of candidates. In the last few years, the average age of completion of the Fellowship in the SOA has gone up significantly and, to the extent that that is a useful measure of the attractiveness for a younger person entering the profession, we should be very cognizant of it and try to drive it down to a level that we think is appropriate.


Samples: Collectively, if we continue our cooperation within the COP/COPE and develop strategies to achieve our vision, we are going to accomplish many of these things. Speaking especially on behalf of the Conference, one of my goals for next year is to help actuaries develop and hone skills that help them beyond the technical—presentation skills, communication skills, relationship skills—skills that aren't necessarily tested by exams, but are tested in meetings.

Ross: I'm in agreement with Harry and Stan because the three top initiatives I listed were research, business acumen and promoting an exciting career. In those areas, I feel that collectively we can and should continue to work together.

McCarthy: The one thing that I would add is that, if you're not careful, that list can sound very internally focused. To me, being able to take the results of our research, being able to showcase our people and being able to show people in the public—the business public, the government public, whatever—that we can really make a difference is really key, or else we run the risk of just talking to ourselves and among ourselves.

Ross: We would be remiss if we got through this conversation without somewhere mentioning that we want the public to recognize the actuary as the architect of financial security. That's the vision that has been developed by the COP/COPE.

McCarthy: The mission statement goes on to say, and this ties in with a lot of the things we've talked about, to develop and market actuaries in order that the public will have that recognition. We've been talking a lot about developing both actuaries, and, as Harry says, our intellectual capital, and I've tended to focus on the fact that we also need to be marketing that, not only in terms of individuals, although that's the way you do it sometimes, but in terms of the profession.

Samples: If you think about everything we've talked about and the responses to each of these questions, I believe we are moving toward our vision. 



Practice areas report past progress and future goals

Finance Practice Area

In these busy times, recruiting volunteers can sometimes be a wearisome process, but that was not the case for the finance practice area's fast progressing Risk Management Task Force, one of the area's greatest accomplishments in 2002. When SOA members were invited to join in the group's work, the task force garnered over 200 volunteers! The new recruits are working on any of the 10 subgroups the task force has formed, including: RBC Covariance Factors, Policyholder Behavior in the Tail, Extreme Value Models, Enterprise Risk Management, Economic Capital Calculation and Allocation, Pricing for Risk, Equity Modeling, Health Risk Management and Risk Management Future and Strategy. Groups met during a Buzz Group session at the Annual Meeting in October and are working to address their issues via new research proposals, surveys, CE ideas and a task force Web site (being created with the help of the practice area).

Another finance area group, the Committee on Finance Research, chaired by Sarah L. M. Christiansen, has committed funds for a new vatical research project to study viaticals, determine where vatical companies need actuarial expertise, what new expertise actuaries might need to enter the vatical market, and whether or not actuaries are disadvantaged legally. In addition to committing to a \$10,000 contribution to the SOA library project, the committee has issued an RFP for a user's survey (census style) of cash flow testing software and an RFP from the Risk Management Task Force. The new Risk Management RFP addresses correlations in the tails of distributions, relative to RBC and other risk management activities. For additional information, visit the SOA Web site at: http://www.soa.org/research/rbc.covariance_rfp.html.

Another finance area research initiative resulted in this year's publication of the 1986-1998 Credit Risk Loss Experience Study: Private Placement Bonds, published by the Private Placement Experience Committee, chaired by

Nicholas Bauer. The report, which measures incidence rates, loss severities and economic loss rates associated with credit risk events for privately placed debt during 1986-1998, is downloadable from the SOA Web site.

Looking toward achieving even greater productivity in 2003, the Finance Practice Advancement committee recently adopted the same strategic meeting format (using both consent and business agendas) as the Society's Board of Governors. The group hopes the new format will reduce the time previously spent reviewing committee reports, affording them more time to address emerging issues and new initiatives. Among the area's key initiatives for 2003 is the identification of issues facing the actuarial profession in general and, more specifically, finance/investment actuaries. Among these, the committee is currently considering:

- Advancement of the profession and improved professional recognition of actuaries in the broader financial services industry, including the establishment of external relations with other actuarial/finance/investment/risk management organizations and increased visibility of actuarial credentials.
- Increased actuarial knowledge in the arena of risk management, with particular attention to the emerging issues of enterprise risk management and operational risks, the Chief Risk Officer concept—opportunities and challenges for actuaries, and rising professional liability claims against the actuarial profession.
- Improved educational opportunities for actuaries on the emerging issues facing the industry, including fair value accounting for liabilities and a stochastic approach to modeling.

Once finalized, these objectives will help guide the finance practice area's priorities to manage the workflow of its committees, task forces and staff more effectively in 2003.

Health Practice Area

The health practice area continued progress on several activities related to its key issues for 2002, including:

- *The troubled health care system:* In 2001, the health practice area initiated a literature review as the first phase of a research project to provide for some of the current needs in terms of modeling, assumption development or perspectives on the current healthcare reform debate in the United States. The research objective for the initial phase is to provide a general overview of the current state of research on various aspects of and challenges to the U.S. health care system. Work groups have already met to discuss the researchers' findings related to rising prescription drug costs, the impact of medical technology, and the use of risk assessment and risk adjustment. Literature results available to date were posted on the Health Section's Web page for the use of the general membership late in the year.
- *Education on the need for disability insurance coverage:* The health practice area has been actively at work in developing a disability "Chartbook" in cooperation with the Health Insurance Association of America. The Chartbook is designed as a consumer, policy maker and media-education piece, highlighting the risks of disability and the various public and private sources of coverage available to mitigate those risks. Various sections of the Chartbook are planned to focus on "Risk and Disability," "Financial Risk Resulting from Disability," "Public Disability Income Coverage," "Private Coverage" and "Met and Unmet Needs."
- *Issues for the profession:* A 20-plus member health practice area E&E advisory group was established to provide feedback to the four health practice area representatives to the Preliminary and

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Practice areas report past progress and future goals *continued from page 17*

Actuarial Education Working Groups. The advisory group has been quite active this year in defining the principles that should form the foundation of a health actuary's education and proposed structure for a health actuary's education. This group will continue its deliberations into 2003 as the work of the Preliminary and Actuarial Education Working Group continues to ensure that the needs of health practitioners and employers are appropriately considered in the next version of the SOA's E&E system.

Life Practice Area

The various sections, committees and working groups affiliated with the life practice area consist of members volunteering their time to advance the life practice area. They worked on a number of initiatives that enhanced basic education, research, continuing education and communication opportunities for SOA members.

The leadership of the life practice area reviewed its mission and undertook an analysis of the categories of professional needs of life practitioners.

In addition to the Spring and Annual Meetings, about 25 seminars, forums, symposia and conferences were conducted, ranging from "boot camp"-type offerings (basic GAAP, introduction to life reinsurance) to specialized topics (7702/7702A tax issues, M&A in the life industry) to special interest group sessions (Chief Actuaries Forum). Several of the programs were offered for the first time in 2002, including a very successful Mini Product Development Symposium held in July in four countries in the Far East. In addition, the Spring and Annual meetings had "embedded" seminars, deepening the education experience of attendees.

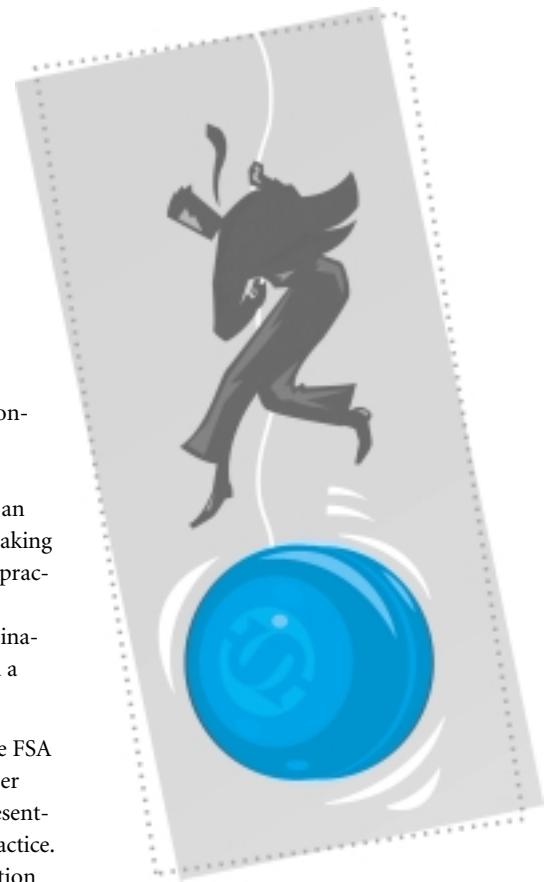
Research efforts resulted in the "Living to 100 and Beyond" conference, which brought together experts in many fields to exchange ideas on this important topic. The practice

area completed surveys of life insurance companies on topics of interest, such as XXX practices, preferred underwriting practices and a technology survey. The Mortality and Morbidity Liaison Committee published the "Liver Enzyme and Alcohol Abuse" and the "Elevated Blood Pressure" studies and continues to pursue other research projects. The Committee on Life Insurance Company Expenses completed work on an update to GRET and is currently undertaking a survey of companies on their expense practices. Late in 2001, the Valuation Basic Mortality Table was published, the culmination of a long and arduous effort to find a replacement for the 1980 CSO.

On the basic education front, a complete FSA syllabus in the Life Track was put together from scratch by a group of experts representing the full range of specialties in life practice. This was in connection with the "Education and Qualification 2005" initiative of the SOA

Board of Governors. The detailed topic outlines developed for the Life Track constitute a comprehensive document of fundamental knowledge in the life practice area. The Committee on Individual Life and Annuities Professional Development worked with the Product Development and Reinsurance Sections to develop one new and one revised professional development model plan. In addition, the E&E committees associated with the practice area performed their usual, tireless "labor of love" in preparing study materials and exam questions and grading papers.

The leadership of the life practice area reviewed its mission and undertook an analysis of the categories of professional needs of life practitioners. This initiative was complemented by the comprehensive online member survey conducted by the SOA earlier this year, which has provided valuable information on



what members expect of the SOA and how they rate its performance. In addition, the life practice area is participating in a board-level initiative to improve the operations of the practice areas of the SOA.

The task force on Sections and Practice Areas, which spearheaded this effort, published a report on its findings, which was accepted by the Board. Currently, a successor task force is working on implementing the earlier task force's recommendations.

In the year ahead we look forward to strengthening the life practice area identity, fostering a greater sense of community among life practitioners and addressing unmet needs identified in the member survey. These goals top the agenda for next year. Initiatives include (1) launching a practice area newsletter that will provide timely information on emerging issues, (2) holding a Spring Meeting session to describe life practice area services and seek input on member needs, (3) developing a strong two-way communication between members and the life

practice area by exploring other media such as a list serve that will also provide a tool for actuaries to exchange professional ideas and discuss topics of interest and (4) taking a more proactive, strategic approach to professional leadership, following the enhanced role the SOA has defined for itself in guiding the profession as a whole to a more promising future.

As part of the last initiative above, a strategic planning group of life practitioners will be formed to identify and prioritize the environmental trends shaping the life practice area, as well as the surface opportunities and threats implied by these trends. This, along with similar intelligence directly gathered from the

The new emphasis on identifying emerging issues is expected to improve continuing education programs, which can be expected to address the newly identified issues.

membership, will be used by the leadership to set a direction for the practice area and develop programs and services that will serve current and future needs of life practitioners. Also, the practice area will put in place better tools for tracking its service to members relative to their needs.

In addition to these targeted initiatives, work will continue to enhance offerings in all the usual areas, such as basic and continuing education and research. Nation-specific material will be returned to the Course 8 Life Exam, and the Life FSA syllabus for 2005 and beyond will be fine-tuned. The new emphasis on identifying emerging issues is expected to improve continuing education programs, which can be expected to address the newly identified issues. The process that we put in place with respect to strategic and emerging issues will also give a boost to research efforts. The goal is to make new research projects more relevant and for those efforts to impact members in a meaningful way.

We look forward to hearing from our members as to how we can better “shape the game” for the future. Additional details on many research projects, continuing education programs, surveys, publications and SOA initiatives referenced above can be found on the

SOA Web site, or can be obtained by contacting Karen Gentilcore, kgentilcore@soa.org.

Retirement Systems Practice Area

The retirement systems practice area embarked on many new endeavors in the fields of E&E, research, joint efforts and continuing education in the past year. Many of these projects and accomplishments will be ongoing in the year 2003.

The Retirement Systems Practice Advancement Committee, chaired by Neil Parmenter, solicited feedback and proposals for the relevance of E&E to practice area members and their employers, including the

need to address nation-specific material in basic E&E.

The advisory group expanded its May consensus document with a post-ASA practice area exam structure and learning objectives for each section.


The coordination of the Pension Section and practice area joint efforts continued. There was joint support of research on public attitudes of DB and DC features. This was also cosponsored by the American Academy of Actuaries. With the growth in education on financial economics, there is considerable debate on the approach taken in the traditional actuarial pension valuation model. A working group comprising SOA and AAA representatives is working on bringing this debate to the attention of most pension actuaries. The group is beginning with a call for papers, which is hoped to lead to a symposium offered within the 2003 Spring Pension meeting. It will also be discussing a webcast and further research that may be needed.

External relations and cooperation with related nonactuarial professionals were other priorities for the practice area. This resulted in a new call for papers sent to members of RIA and to the Social Science Research Network, as well as the recruitment of speakers from

AARP and the International Longevity Institute to speak at the Annual Meeting. The Retirement Systems Professional Education and Development Committee, chaired by Joseph Applebaum, sponsored 14 sessions at the Annual Meeting.

Efforts continued in the area of retirement systems research. The Retirement Systems Research Committee, chaired by Robert C. Campbell, oversaw a number of important projects in the past year. The committee is providing the financial support for the Retirement Implications of Demographic and Family Change project. The Social Security—Retirement and Disability Income Committee, chaired by Sam Gutterman, sponsored the Symposium on Retirement Implications of Demographic and Family Change, held on June 25-26 in conjunction with the San Francisco meeting. Its summaries have been in journal articles, presented at an actuarial club and were presented at the annual meeting. The papers have been gathered in a monograph, which is available on the SOA Web site at www.soa.org.

Another important research project for the Social Security—Retirement and Disability Income Committee has been “Factors Affecting Retirement Mortality.” This is a joint effort with the Research Committee. The initial phase (a literature review) is complete. The full report is posted on the SOA Web site. An RFP for phase two of this project has been drafted and released. It will review relevancy of factors and how they might be reflected in assumptions.

The Post Retirement Needs and Risks Committee, chaired by Anna Rappaport, began meeting this year as a follow-up to the Retirement Needs Framework working group. The Committee includes 27 interested parties representing approximately 22 outside organizations. The committee undertook a Retirement Risk Survey this year. This survey considered the public’s perceptions of their retirement needs and how they’ve prepared for them. The results had government and media interest and were presented on Capitol Hill and covered by C-SPAN. The results are posted on the SOA Web site. The survey will be improved and repeated in 2003. 

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Board Furthers Strategic Initiatives

The Board of Governors implemented a strategic governance model this year. Strategic governance focuses on establishing a similar level of knowledge before decisions are made, optimally leverages Board expertise and time, and reinforces the Board's role as caretakers of the profession.

Four strategic issues are under way, each with specific objectives:

1. Actuarial Education and Preliminary Education Working Groups: seek to provide final recommendations for the next evolution of the education and qualification process, establishing desired paths to the ASA and FSA.

2. Long-Term Growth and Vitality: evaluation of issues related to multiple dimensions affecting the profession including attracting the best and the brightest, skills actuaries need to maintain relevance, incursion of other professions into traditional actuarial practice and roles actuaries can serve in the marketplace.

3. Implementation Task Force on Practice Areas and Sections: seeks to determine a structure for the SOA that will leverage the strengths of the Sections, incorporate the long-term perspective of the Practice Areas, and provide a link to the governing bodies.

4. International Strategy: examining basic education, international credentialing, international practice standards, and promotion of profession in emerging economies to build an effective global actuarial community that supports the needs of members, regulators and students.

The main theme of the strategic direction is to ensure that the SOA is creating value for members, candidates and employers in

order to broaden and strengthen the actuarial profession. As such, the Strategic Planning Committee (SPC) conducted several research initiatives among our members, candidates and employers to identify their needs.

Results are being evaluated by the SPC, as well as other committees within the SOA, to develop action plans for improving our products and services, enhancing the identity of the SOA and the actuary in the marketplace, and ensuring the skills we teach and credential will be valued in the marketplace. Look for further updates in the *Actuary* in 2003.

Continuing Education

The close of 2001 did not augur well for any enterprise that depended on business travel for its sustenance. However, the SOA Continuing Education department shrugged off the economic doldrums and travel fears brought by 9/11 to post a record year in the area of seminars. Forty-three events were held in 2002, the most ever in one year. CE brought training to the membership in new ways, utilizing web-based technology for seminars and partnering with private companies to bring relevant content more quickly to market. Technology also played a role in producing the first-ever "paperless" spring and annual meetings, which allowed the department to utilize its human and financial resources more efficiently, and in helping the SOA launch the first-ever distance learning subscriptions for FSA candidates and Enrolled Actuaries.

Section-sponsored activity

Without question, the largest share of CE's success must go to the SOA section cosponsors that developed world-class programs. The Long-Term Care Insurance Conference had an increase in attendance of over 100 in 2002 and received extremely good press. The Product Development Symposium in June also exhibited a healthy increase in attendance over the previous year, as did the

Investment Actuary, Beginning and Advanced GAAP and Risk Management Seminars. Cosponsored webcasts on "Pension-Asset Smoothing" and "International Accounting Standards" had high attendance and were exceptionally well-received.

Collaborative success

The SOA secured a number of additional sponsors for events in 2002, most notably, the "Living to 100 and Beyond: Survival at Advanced Ages" and "Retirement Implications of Demographic and Family Change" Symposia had attendance, scholarly contributions and cosponsorship from outside the actuarial community. "Critical Illness" and "Trends in Provider Contracts" are two other health-related seminars that deserve special mention given the high number of nonactuaries in attendance. This year, the SOA conducted the first-ever jointly sponsored seminars with private companies, collaborating with Milliman USA on "Appointed Actuary" and "Mergers and Acquisitions in the Life Industry"; with PolySystems on a series of courses on statutory reserving; and with Aon Consulting on the "7702 Product Tax Issues" and the "CSO 2001 Table." Other topics and other partners are in the offing for 2003.

Major meetings

While attendance at the Colorado Spring meeting was lower than expected, the San Francisco Spring Meeting and the Annual Meeting in Boston posted very good numbers. The program committees did an outstanding job of recruiting excellent speakers and identifying relevant topics. This year, attendees could review and print the session handouts in advance and bring them to the meeting, and the entire membership gained access to all the handouts at the conclusion of the meeting. The "paperless" meeting allowed SOA to provide a luncheon keynote at both spring meetings. While not all are sold on the concept, most attendees realize that the electronic age gives new options for

delivery of materials that help the SOA be more efficient.

If 2002 is a pleasant surprise, who gets the credit? Clearly, it is the membership, who supported CE activities in record numbers and who made programs of such high quality; they are both great teachers and willing students. With more innovations from CE in the areas of web-based registration, course evaluation and cosponsorship, the path should be clear for an even more active 2003.

Core Studies and Global Initiatives

Education and examination

The Education and Examination arm of Core Studies and Global Initiatives at th SOA has seen meaningful accomplishments and developments during 2002.

The number of candidates taking examinations has increased appreciably this year. The increase is most striking on the first three examinations, where registration increased by 25-35 percent from 2001. We also experienced increased enrollments on the higher examinations of 6-12 percent. We are very pleased at this demonstration that candidates are increasingly interested in pursuing the profession.

In the past year we have seen progress made by two working groups established to explore the education and qualification needs of future actuaries. The first working group is focused on determining the content, delivery and competencies to be addressed within the early courses (preliminary education). The second working group is charged with determining the ASA requirements beyond preliminary education, and the FSA requirements, including the specialty tracks (actuarial education). The working groups have strong formal representation from each of the major practice areas, as well as from our major organizational partners (CAS, CIA, Faculty/Institute, Institute of Australia, IAA). The process being used involves consultation with advisory groups for each of the practice areas to ensure a range of perspectives is considered and included.

Within the working groups over the past year we have seen the early development of proposals outlining content and structure of

preliminary education, education to ASA and specialty education to FSA. Proposals involve making better use of formal university education for prerequisites such as accounting and calculus and verification of experiences for important but not specifically actuarial subjects, such as economics and statistics. A set of distance learning modules with assignments, followed by a weeklong intensive seminar, forms the ASA course as currently envisioned. The use of modular assignments and the seminar format provides a means of concentrating more on communication, business acumen, the use of realistic business situations and cases and the like.

The working groups are pursuing interesting possibilities, exploring ways to enhance the educational experience for candidates, while ensuring that they emerge from the experience with the professional knowledge and tools needed to practice effectively. A report issued by the working groups in August 2002 is available on the SOA Web site at www.soa.org/eande/report_membership02.pdf.

The SOA reintroduced nation-specific (United States and Canada) testing on certain Fellowship exams (Course 5s and most of the specialty 8s) in response to concerns expressed by members and employers. For 2003 and beyond, the treatment of nation-specific content/applications will be enhanced through the addition of study material tailored toward the nation-specific perspective.

In addition, progress was made in shaping an international syllabus for the early subjects (e.g., mathematical actuarial subjects, economics and finance), to promote consistency and enable sharing of resources. This is a joint effort among the SOA, CAS, CIA, Institute/Faculty and the Institute of Actuaries of Australia. The International Actuarial Association (IAA) is participating in this effort as well.

Successful use of consultation with and input from practice areas in determining direction of specialization in Course 7 was another milestone for us in 2002. In response to the strong interest and perceived need, the SOA will be able to continue to offer retirement benefits focused seminars. Major employers of retirement actuaries

have committed to assist us in the effort through recruiting/providing suitable expert faculty to present them.

For 2003, the Core Studies and Global Initiatives foresees a continuation and expansion of the effort to define, design and implement the education and qualification system for 2005 and beyond. Significant efforts planned include the exploration of new possibilities in terms of process models and the use of technology (e.g., computer-based testing, distance-learning methods). We need to ensure that we have the commitment and involvement of the volunteers needed to ensure the quality and rigor of the system is maintained at the appropriate and desired level. The success of a number of planned developments is dependent on large-scale definition and development of high-quality content, and that effort will call for careful management of process and other resources.

Another important initiative envisioned for 2003 is the consideration of alternative paths to ASA to address legitimate employer/candidate needs. Employers have advised us of their concern that existing requirements have the effect of postponing an individual's practical effectiveness on the job, or even discouraging the individual from pursuing ASA where another professional designation is required or more relevant (prime example, the EA). Accordingly, we will be looking at possible alternatives that would retain the professionalism and standard of achievement while allowing candidates to exercise some choice in the requirements constituting their ASA.

International highlights

Certainly, the highlight of the international calendar was the 27th International Congress of Actuaries held March 17-22. Twelve hundred delegates representing five continents and 63 countries attended. The Congress was also host to the first International Health Seminar, which alone drew 300 actuaries. Members from all of the North American associations, including the SOA, participated in the planning of many of the sessions. The delegates were also treated to the Mayan Spring Equinox Festival at the celebrated ruins of Chichen Itza.

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The SOA was pleased to welcome new Ambassadors from Mexico, Bermuda and the Middle East. It also continued its support of candidates and members in many emerging economies.

The SOA continued its active participation in matters involving international standards by reviewing statements of public opinion issued by the IAA in the areas of fair values, public sector accounting and social security.

SOA Immediate Past President Jim MacGinnitie will not be resting for long, as he will assume the presidency of the IAA on Jan. 1. He will continue the work begun by his predecessors on the creation of a strategic plan for the IAA.

The SOA Board of Governors, with the guidance of our International Policy Committee and Global Initiatives staff, will be conducting a thorough review and redesign of our international strategies and goals. One aim is make the most effective use of our alliances with other actuarial organizations in order to strengthen the profession on a global level.

The International Education Syllabus Committee will continue its work of developing common syllabus topics and sharing of educational materials, wherever possible. The SOA representatives on this group will also be charged with reviewing the work of the 2005 Education and Qualification working groups to ensure that the SOA maintains compliance with the IAA's own 2005 education guidelines.

Research Accomplishments

Finance

A focus of the Finance Practice Area continues to be on providing relevant finance research for its members. Consistent with this, a research team composed of representatives from LIMRA and INFRE explored the methodologies used in financial planning software to address post-retirement risks. In addition to

the actuarial community, this research should prove to be of great interest to financial planners, providers and software developers as well as consumers. The results of the research were presented at a session during the 2002 Annual Meeting in Boston, and the final report of the findings is expected near the end of the year. Follow-up activity includes presentations of the results at several industry meetings and a special report tailored for consumers in partnership with the Actuarial Foundation.

A call for papers on "Intra-Company Capital Allocation" yielded two papers that were awarded prizes. The papers, "Measurement of Risk, Solvency Requirements and Allocation of Capital Requirements within Financial Conglomerates," by Harry Panjer, and "Allocation of Required Capital by Line of Business," by Anthony Zeppetella, can be found on the SOA Web site. The papers have also been submitted to the *North American Actuarial Journal* for publication consideration.

A hot topic in finance research is regime-switching models. Mary Hardy of the University of Waterloo adapted the work she has done in this area and created an Excel-based application for use by SOA members for educational purposes. A beta version of this software was placed on the SOA Web site to coincide with the Investment Actuary Symposium in Chicago on Nov. 7-8, 2002, which included a session on this topic by Hardy. An enhanced version of the software is also planned.

Health

The future of actuaries in the health care arena is a major concern for the Health Practice Area. As a result, a team from Indiana University was contracted to perform a literature review on the current state of

research related to the health care reform debate in the United States. Portions of the completed report are being placed on the SOA Web site as they become available. As of this writing sections dealing with (1) risk adjustment, (2) the impact of technology and (3) rising prescription drug costs can be found on the Web site. The end result of this important research initiative will be to provide strategic direction for the future involvement of actuaries in the health care reform debate.

Research continues to be a high priority for the Health Section. In each of the past two years, the section has invited researchers to submit proposals on a health-related topic.

One of the projects resulting from these requests for proposals produced the report, "A Comparative Analysis of Claims-Based Methods of Health Risk Assessment for Commercial Populations" authored by Robert Cumming of Milliman USA and David Knutson of the Park Nicollet Health Research Center. This report, which compares the predictive accuracy of various risk adjusters, has generated much interest among practicing health actuaries as evidenced by a session presenting the



results at the San Francisco Spring Meeting that was packed to full capacity. In addition, portions of the report have been quoted in several health care journals. The full report can be found on the SOA Web site at www.soa.org/sections/riskad/jfinalreport1.pdf.

As a result of the increasing interest in alternative and integrative treatments as seen in both the scientific community and popular media, a project oversight group was formed to design and oversee a study with the goal of analyzing health care claim data on these treatments. As of this writing, data has been received from three contributors.

A report describing the data from the first contributor prepared by the research team of Kyle Grazier and Bill G'Sell of the University of Michigan, with commentary from the project oversight group can be found on the SOA Web site at: www.soa.org/research/po_alternative_medicine.html.

Although the group was unable to develop any credible conclusions from the first contributors' data alone, a framework for future analyzes has been created and additional contributions are expected.

Life

Will greater numbers of human beings live to age 100—and beyond? What will be the societal impact of increasing numbers of people living to (and past) age 100? And, given dramatic advances in science and medicine versus any inherent constraints of a human body, is there a fixed upper age limit to life or is it continually shifting?

These and other fascinating questions were considered when actuaries, demographers, physicians and other scientists from around the world gathered in Orlando, Fla., in January for the “Living to 100 and Beyond—Survival at Advanced Ages” Symposium.

This tremendous effort, which began as a call for papers, was a resounding success and provided a unique forum for interested parties to network and exchange ideas. The papers presented at the Symposium and discussants' comments can be found on the SOA Web site.

Retirement systems

The Retirement Systems Practice Area turned in another year of research projects characterized by high relevance and broad outside interest. The year began with completion of a survey conducted by Mathew Greenwald and Associates that tracked American workers' (both preretired and retired) attitudes and behaviors toward various post-retirement financial risks. As a result of this study, a press conference broadcast live on C-SPAN was held in Washington, D.C., on Feb. 25, 2002, with Mathew Greenwald, Anna Rappaport and John Parks of the AAA discussing the findings. The full report of the study can be found on the SOA Web site. Another survey initiated this year on retirement plan preferences, also being conducted by Mathew Greenwald and Associates, promises to be of great interest as well.

The impact of the baby-boom generation on retirement and other related issues was the focus of a call for papers that yielded 16 papers on the “Retirement Implications of Demographic and Family Change.” This call for papers, in turn, resulted in a symposium held concurrently with the San Francisco Spring Meeting that provided a forum for professionals in many disciplines to discuss the ways the aging population and changing family structures are changing retirement today. The results of the symposium can be viewed on the SOA Web site at www.soa.org/sections/pension.html.

Mortality assumptions are a basic input to valuing life insurance, annuities, pension plans and even Social Security. Generally, mortality rates differ by only age and gender, but what other factors that can influence mortality experience are appropriate to include in rate development? This and related questions were the motivation behind a literature review conducted by Rob Brown and Joanne McDaid. The authors reviewed 45 papers addressing 12 different risk factors that can influence mortality after retirement. The summaries of the research papers and the summaries of the different risk factors are available at www.soa.org/sections/farm/farm.html. A second phase of this ongoing project is currently under way.

Experience Studies Accomplishments

Finance—1986-1998 Credit Risk Loss Experience Study: Private Placement Bonds

The SOA's Private Placement Experience Committee has completed its latest report, which measures incidence rates, loss severities and economic loss rates associated with credit risk events for privately placed debt during the years 1986-1998. One of the values of this report is the comparison between private placement bond default experience and that of publicly traded bonds. In this edition of this ongoing study, migration rates for internal and NAIC credit ratings of assets are tabulated for the first time and the relative predictive power of different kinds of ratings is examined. This report can be found on the SOA Web site under “Research.”

Health—1984-1999 Long-Term Care Intercompany Study

The SOA's Long-Term Care Experience Committee has completed its latest report. This is the third intercompany study of this committee. Previous reports were published in January 1995 and February 2000. The three reports of this committee are the only publicly written reports of experience on lives insured under private insurance plans in the United States. It is available on the SOA Web site and can be found in the Special Interest Area under “Long-Term Care.”

Life insurance

A subcommittee of the SOA's Committee on Life Insurance Mortality and Underwriting Surveys has completed its Regulation XXX Survey Report, and it is now available on the SOA Web site under “Research.” This survey examined the early responses, including pricing methodology changes, to the Regulation XXX term reserving requirements.

The SOA's Individual Life Insurance Valuation Mortality Task Force has prepared a final report on the 2001 CSO Basic Tables,

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and it is on the SOA Web site under “Research.”

The 2001 Manulife Reinsurance Mortality Studies, which contain the 1997 and 1998 Experience of Older Age and Large Amount Mortality studies are now available on the Reinsurance Section Web page at www.soa.org/sections/mrms_2001.html.

This is the study that was summarized in the June 2002 issue of the “Reinsurance Section News.”

The Mortality and Morbidity Liaison Committee has finished its Alcohol Abuse and Liver Enzyme Study. This study examined cases with admitted alcohol abuse or with an abnormal liver enzyme test. It was published in the 2001 *Journal of Insurance Medicine*, No. 3. A link to this report can be found on the SOA Web site under “Research.”

Retirement systems — 1997-1998 Group Annuity Experience Study

The SOA’s Group Annuity Experience Committee has completed its 1997-1998

Report, which presents the 1997 and 1998 calendar-year experience of retired individuals in the United States who are covered under group pension contracts. This report can be found on the SOA Web site under “Research.”

Committee on Academic Relations

The joint partnership of the SOA, CAS and CIA’s Committee on Academic Relations, chaired by CAS actuary, Dale Porfilio, has created the *Actuarial Research Exchange*. This project is the creation of a marketplace and matching service between research entities and qualified researchers. The Actuarial Research Exchange can be found on the AERF Web site at www.aerf.org.


Committee on Knowledge Extension Research

It has been a productive year for the Committee on Knowledge Extension Research grant recipients.

Jan Dhaene, Michel Denuit and Marc Goovaerts studied the consequences of the

introduction of dependency relations in actuarial models and considered the problem at both the portfolio level and the individual risk level. This research resulted in two papers, “The Concept of Comonotonicity in Actuarial Science and Finance: Theory” and “The Concept of Comonotonicity in Actuarial Science and Finance: Applications” being accepted for publication in *Insurance: Mathematics & Economics*.

Professor Robert Serfling researched parametric modeling of loss distributions. A paper, “Robust and Efficient Fitting of Loss Models,” based on this research, has been published in the *North American Actuarial Journal*.

Five additional reports resulting from CKER projects have been submitted to the *North American Actuarial Journal* for publication consideration. Updates on the status of these papers will be provided in the research corner of *The Actuary*. 

Section Year in Review

The 16 sections of the SOA had a busy year in 2002, and are looking forward to accomplishing more in the year ahead. Many sections share some of the same goals and accomplishments, but some have unique objectives for the year ahead. Below are updates and projections from all 16 of these sections, including the newest SOA section—Smaller Consulting Firms Section.

Actuary of the Future

The key accomplishment of the Actuary of the Future Section in the past year was the kickoff of the Ambassador Program. The objective of this program is to support the mission of the Actuary of the Future Section Council in implementing an

ambassador program to new business and industries. The section hopes to identify new businesses and industries for actuarial work and ambassadors within some of these industries to serve as resource contacts for information and answer questions on opportunities in their respective fields. The section has currently identified two ambassadors—Abraham Gootzeit and Eric B. Feinstein. Eric will be the section’s ambassador for the corporate actuary role and Abe will serve as an ambassador for other roles in new business and industries.

In the coming year, the Actuary of the Future Section plans to implement and expand the Ambassador Program. The section has identified Dorn Swerdlin to be

its liaison with the Strategic Planning Committee. The section is considering sponsoring sessions that will meet needs of actuaries of the future and the skill sets identified in the 2002 SOA research. The section wants to work closely with other sections and capture synergies so that it can be more effective in meeting the needs of the profession.

Computer Science

The Computer Science Section continues to make excellent progress on its initiative to develop a format standard for table-type data. With the shift to an XML-based standard, ACORD, a national standards organization, was very receptive to pursuing management of the standard. In June, sev-

eral members of the council exposed a draft to ACORD's membership and a working group was subsequently approved. When finalized, ACORD will publicize and promote the standard to its member organizations. The Computer Science Section, in coordination with the SOA research department, will similarly promote the standard to its members.

The Council has gradually shifted the focus of the spring and annual meeting sessions sponsored by the Computer Science Section from general interest themes to more technical and in-depth treatment of topics. Feedback from attendees has been positive and reinforces this direction. The council recently committed funds to two projects. Jointly with the SOA research department, it is supporting a proposal to implement the table data standard. Along with other sections, the section is sponsoring the actuarial library redesign project.

For 2003, the Computer Science Section has three key initiatives. The first is supporting projects undertaken to implement the new SOA/ACORD XML Table Data Standard, including a project to make existing tables available on the SOA Web site in the required format. The next initiative is the fifth Speculative Fiction Contest, which provides an opportunity for actuaries to develop their written communication skills, and also share with fellow actuaries what they think might happen to the actuarial field and technology in the future. The last initiative is a rebirth of *CompAct*, the newsletter of the Computer Science Section, with a plan to coordinate a regular release schedule as in the past.

In addition, ongoing initiatives, such as coordinating sessions at SOA meetings and contributing to funding of projects related to the technical aspects of the actuarial field, will continue.

Education and Research

As one of the (if not THE) smallest sections in the SOA, the Education and Research Section nevertheless sponsored 13 sessions at the regular spring and annual meetings, as well as three section breakfasts. Mostly non-section members

attended these sessions. In addition, a very successful 37th Annual Actuarial Research Conference, hosted by the University of Waterloo, and attended mostly by members of the section, was conducted in August. The section started an initiative, with funding from many of the sections, to improve the efficiency and ease of using the actuarial library search function on the SOA Web site.

All publications of the section, both the newsletter, *Expanding Horizons*, and a companion piece supported by the section on behalf of the academic community's Faculty Forum, *Conversations*, are now provided on-line to all SOA members. A hard copy with highlights from the past year is also distributed.

The section council remains committed to being an active participant in the SOA's ongoing discussions about changes to the educational curriculum by 2005. As the representative of most of the academic actuaries, there are a number of forums available to discuss the issues and then report the results to the SOA leadership.

The section is planning on having more teaching sessions at regular SOA meetings in the future—to give the section's academic members an opportunity to

present their current research results and to help bridge the gap between the academics' and the practitioners' communities.

The 38th Annual Actuarial Research Conference will be hosted in 2003 by the University of Michigan in celebration of the first 100 years of actuarial education at the university, with a goal of actively getting more participation from the business community.

Financial Reporting

Celebrating its 20th anniversary this past year, the Financial Reporting Section continued with its commitment to deliver timely and relevant technical forums to its members. The section continued its sponsorship of 12-15 sessions at each SOA meeting as well as hosting several seminars covering such topics as international financial reporting, impact of codification on statutory

accounting, FAS 133, FAS 141/142, GAAP basic and advanced, and financial reporting for reinsurance. Three issues of the popular "Financial Reporter" newsletter were published, containing a mix of technical and update articles. Some of the topics covered were:

- Economic Value Added
- Fair Value Accounting
- VA GMDs: Impact of Proposed SOP
- Risk Management
- SFAS 141/142
- Relationship of Pricing IRR to GAAP ROI.

The Council placed much emphasis this past year on enhancing membership participation within the section and identifying ways in which to enhance communication with members. The section kicked off four new list serves to allow section members and others to communicate more easily on financial reporting topics: Corporate and Chief Actuaries; U.S. Statutory Current Issues; U.S. GAAP Current Issues and International/Fair Value Accounting. Each of these list serves has several hundred subscribers.



The Futurism Section "Got It!" Legendary investment guru and 2002 Annual Meeting Keynote Speaker Peter Bernstein autographed a copy of the March 2002 *Actuarial Futures* section newsletter for outgoing chairperson Steven Eason.

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Looking forward, the section will continue to support a variety of seminars and sessions at the annual and spring meetings. The section intends to expand the utilization of new mediums, such as webcasts, to deliver important technical updates to the membership on emerging issues. Given the current environment within which corporations must operate, the section anticipates placing additional emphasis on professional standards and the ethical issues that financial reporting actuaries face on a daily basis and how this new environment will affect their work.

Futurism

The Futurism Section has been active and successful this past year, culminating in its receiving a ringing endorsement from the legendary investment guru Peter Bernstein during the General Session at the Boston Annual Meeting. Bernstein cited a phrase from the Section Council's minutes

(March 2002 newsletter, Minutes of October 2001 meeting):

"For all our newsletters, seminars and research projects, we should continually reinforce the central concept of disruption and discontinuity." He then said "... and having read, I thought, I wonder why I am going to give this speech. They got it."

Futurism techniques are well suited to identifying the plausible future "three to four outliers" that Bernstein stated should be the focus of financial professionals.

The section released two excellent newsletters during March and September 2002. The section also had successful sessions at the SOA Spring and Annual meetings. Peter Bishop (a professional futurist) and Council members Mark Rowley, Phil Cernanec and Steve Easson, plus Dorn Swedlin, FSA, participated in sessions. The section also updated its Web site to include links to two external futurist organizations and to include its Course 7 Study Note on Applied Futurism. In addition, the section had some success doing a Delphi study on the potential impact of various factors on mortality at advanced ages.



Members of the Health Section council participate in a conference call at the Annual Meeting in Boston. Counterclockwise from top right: Kara CLark, Bryan Miller, Darrell Knapp, Dan Wolak, John Cookson and Dan Skwire.

For next year, the Futurism Section plans to build on its success of this year. It plans sessions at the Washington, D.C., and Vancouver, B.C., meetings, and it will distribute two newsletters. The section wants to build stronger ties with other sections and practice areas to demonstrate the benefits of applied futurism. It also plans to continue work on the Delphi study of economic variables (see lead article in Issue 25 of *Actuarial Futures*).

The section is exploring participating in the Actuarial Research Conference, as well as having a webcast. The section will continue to improve its Web site and the Futurism library at the SOA. Books are available for checkout by all SOA members. The section welcomes suggestions from all SOA members as to how the section can be helpful to actuaries in their daily work.

Health

The Health Section had a successful year, its 21st since being formed in 1981. It sponsored 44 health and seven disability sessions at the spring meeting, and 16 health sessions and six disability sessions at the annual meeting. The *Health Section News* was produced three times during the year and in each case had at least eight authors contributing articles. The section had a notable year with the completion of two research projects and presentation of the projects'

final reports. The projects, where funding began in 2001, were: (1) Analysis of Claim-Based Risk Adjusters Study and (2) the Health Project to Investigate Aging Curves for Older Americans. Due to the positive feedback, two other projects were approved for funding in 2002 and currently are in progress. The Health Section Council (HSC) remained active and committed during the past year holding at least one conference call each month.

For 2003, the HSC looks forward to continuing the good work that has gone on in the past. The three major areas of focus continue to be: (1) practical research that will directly benefit members, (2) development of agendas and recruitment of speakers for SOA spring and annual meetings and seminars that are both relevant to and timely for members and (3) development and distribution of three *Health Section News* newsletters per year with timely and useful articles for members. In addition, the HSC also provides research support on some of the projects initiated by the SOA and Academy Health Committees. The HSC is also trying to foster a greater interaction between its members and academic and other researchers in the areas of health-insurance-related topics. One step it has taken is to open Health Section membership to nonactuarial researchers.

International

In addition to “business as usual”—coordinating and recruiting sessions for the Spring and Annual meetings and publishing three information-filled section newsletters per year—the International Section completed the following special initiatives in 2002:

- Jointly sponsored two seminar webcasts—Fair Value in October 2002 and Merger & Acquisition in December 2 2002. The section is very excited about the webcast as a new medium to provide up-to-date continuing education opportunities to its far-flung membership on a cost-effective basis.
- Organized a networking reception at the annual meeting.
- Worked on enhancing the International Section Web site.
- Supported the Clearinghouse Scholarship Program.
- Participated in the E&E Committee, to ensure international SOA exam candidates have the opportunity to obtain ASA and FSA designations locally (e.g., Course 7, PD credits).

The International Section’s special initiatives for 2003 expand on the themes of providing continuing education opportunities and reaching out to section members. Specifically, the section plans to:

- Sponsor or cosponsor seminars, possibly one in the United States and one in Asia.
- Continue the use of seminar webcasts on timely topics.
- Leverage the Ambassador Program to understand and serve members outside of North America better (e.g., by sponsoring conference calls of ambassadors to share info, cross-support and provide feedback to council).
- Possibly support and participate in the creation of the “International Practice Specialty Guide” led by the practice area.

Investment

The Investment Section was very busy in 2002, focused primarily on helping to create the future actuary’s tool kit. Working with the Finance Practice Area, the Risk Management Task Force was created. To date, there are 10 (and growing) subgroups and over 200 volunteers. This is a growing field, and actuaries have the basic skills to succeed. The section has kept this in mind as it participated in the E&E 2005 and Practice Area/Section discussions, encouraging everyone to focus on key actuarial skill sets like discounting cash flows. In addition to supporting sessions at the spring and annual meetings, the Investment Section sponsored a number of seminars and networking opportunities for its members in San Francisco and Boston. Congratulations to Richard Wendt as winner of the best article in *Risks & Rewards*.

One of the first things Douglas George did as Investment Section incoming chair for 2003 was to review the minutes of council meetings for the past few years. He was quite surprised to see how its workload has increased over this time period. The section currently has about two dozen initiatives in place, more than double the number the section had undertaken only three years ago. Some of these are listed below. The Risk Management Task Force will kick into full gear this year, and the section plans to work closely with the task force and each of its subgroups. It will sponsor the basic and advanced Risk Management Seminars, Investment Actuary Symposium and Advanced ALM Seminar, which has historically been held at the Wharton School. It will participate in the SOA Task Force on Sections and Practice Areas. This year the prestigious Redington prize will be awarded to the actuary who published the best paper on an investment topic in a recognized journal or publication during the 2000-2001 time period.

Long-Term Care Insurance

In 2002, the LTCI Section has done an excellent job of delivering educational opportunities for its members. In addition to a full slate of well-received LTCI sessions for both the SOA spring and annual meetings, the Intercompany LTCI Conference is

quickly becoming an LTC industry centerpiece. This conference provides an unprecedented opportunity for LTC specialists of various disciplines to come together and exchange ideas in over 45 sessions in six specialty tracks. Networking opportunities are also abundant.

On other fronts, the LTCI Section newsletter is back on schedule after an extended hiatus. It has also struggled with establishing a more informative LTCI Section Web page and more research initiatives. The LTCI Section Council has recently established additional structure within its ranks to spread responsibilities better and to define accountabilities. The purpose is not to squelch creativity or spontaneity, but rather, to provide better support to develop ideas and bring them to fruition.

The LTCI Section is still a young section with relatively few active participants and even fewer people able to commit the time necessary to lead initiatives. In 2003, the initial challenge will be to develop and implement the structure that has been outlined to support section initiatives. LTCI Section membership has grown to over 900, with almost 10 percent of those members being non-SOA members. There is a desire to bring together the resources of both the

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Looks like a fit! Outgoing chairperson Barry Shemin passes the “infamous” green Financial Reporting sportscoat onto new chairperson John Bevacqua.

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Members of the International Section discuss the history of Boston's Old South Meeting House.

SOA members and non members to make the LTCI Section a significant industry advocate.

With the section's growth have also come additional financial resources. The section desires to identify issues critical to the continued growth of the market, and to encourage and support actuarial and market research that facilitates that growth.

Management and Personal Development

During 2002, the Management and Personal Development Section continued to bring unusual sessions to SOA meetings. This is a core goal for the section. For example, it sponsored sessions on strategic leadership, dealing with excessive stress on the job and bringing the best people. In years past, the section used outside speakers for probably 90 percent of its sessions. This year fewer than 50 percent of the speakers were from outside the SOA. The section stressed having these sessions brought to attendees by members of the SOA. Boston was a good example—half of the section's speakers were FSAs. The section is very proud of that development.

The Management and Personal Development Section's two main goals for 2003 are to gain CE credit for its sessions and to run more sessions in partnership with other sections. Getting CE credit for its sessions will send a message to the members that it is important to develop their management, leadership and communications skills further. One of the top-10 imperatives of the new SOA strategic plan is that "more actuaries need to develop a broader skill base, especially in areas such as general management, business operations, interpersonal communications, and leadership." This is precisely what is done in M&PD sessions. Regarding running sessions in partnership with other sections, jointly many of the Management and Personal Development Section's sessions bridge the gap from technical knowledge to decision making and implementation. A great way to achieve this is to run sessions jointly with technical sections. For example, the section is currently planning a session on the effective presentation of financial results.

Nontraditional Marketing

In the past year, the Nontraditional Marketing Section participated in the first Far East Product Development Symposium

with the Product Development and Reinsurance Sections. This was a very successful networking session with actuaries in China and Korea, and hopefully will be the "First Annual" symposium. In addition, the section moved to an electronic version of the section newsletter, *NewsDirect* and continued the development of a new and revised (and electronic) version of the section's *Product/Channel Directory*.

Continuing education efforts included recruiting for and participating in the 2002 spring and annual SOA meetings and participating with the Product Development and Reinsurance Sections in the Product Development Symposium (U.S. version). The section also participated in the following SOA groups: Health Practice Area, Life Practice Area, Course 7 Committee, Continuing Education Coordinating Committee, Task Force on Sections and Practice Areas and Advisory Group to Exam Working Group.

The initiatives going forward for the Nontraditional Marketing Council include continuing efforts to facilitate communication around nontraditional products and channels by: supplying topics and speakers for SOA meetings and cosponsoring seminars as appropriate, updating the section Web site to make it more usable by members while continuing to provide timely and interesting articles through that medium, supporting SOA committees and continuing its development of the *Product/Channel Directory*. The section has chosen to focus meeting sessions for 2003 around a theme of "The Middle Market." The section will also be looking for other ways to expand its role in bringing information on nontraditional marketing to the membership.

Pension

During the past year the Pension Section provided extensive opportunities for continuing education and knowledge extension through sessions at the SOA Spring Meeting, articles in the *Pension Forum* and *Pension News*, the SOA on-line university

and seminars and webcasts. Special areas addressed included *Pension Forum* papers on actuarial asset valuation methods, a new on-line university course on experience studies and a webcast on E&O issues.

To provide more tools for practitioners, the section continued projects to provide training for newly hired actuarial support personnel (the Pension Basics course on the SOA Pension Section Web site) and to provide a source of historic investment returns (Investment Statistics for Actuaries).

In the research area, the Pension Section funded and oversaw projects (generally with the Retirement Systems Practice Area) addressing topics such as risks and rewards of voluntary annuitization, DROPs and a survey of participant retirement plan design preferences.

The section will continue its efforts to provide practitioners with support in the areas of continuing education, staff training, database information and research. Seminars will be offered on the upcoming GASB exposure draft on OPEB, international issues and pension forecasting models. Investment Statistics for Actuaries will

The reinsurance industry has historically faced many regulatory, tax and accounting issues from a variety of bodies.

become available on the SOA Web site with quarterly updates. Most of the research projects embarked on in 2002 will be completed—including the optimal lump-sum annuitization project, which will include software for practitioners on the SOA Web site to aid in consulting regarding the annuitization decision.

Product Development

The Product Development Section has just completed its 20th year, and in recognition of the event is holding a papers competition on “Product Risk and Its Management”. Entries are being accepted through

April 1, 2003. During the past year it sponsored the Second Annual Product Development Actuary Symposium jointly with the Nontraditional Marketing and Reinsurance Sections. More than 150 persons attended the two-day seminar. On the day prior to the symposium, it presented “Tying Together Profitability Measures,” a seminar on the relationship of various profitability measures.

The section organized and recruited speakers for 30 sessions at the Spring and Annual SOA meetings. The Council set a direction for sponsoring research that would be of value to product development actuaries and began the process by soliciting suggestions from section members.

In the coming year, the winners of the papers competition will be awarded prizes of \$5,000, \$3,000 and \$1,000, and the best papers will be made available for the benefit of SOA members. The Third Annual Product Development Actuary Symposium will be held as its highlight event on June 12-13. Again, it will be a two-day seminar consisting of panel discussions and workshops. The process has already begun for developing sessions at the SOA meetings.

At least two research projects will be funded and started during the year; however, the topics have not yet been determined.

The publication of the *Product Matters!* newsletter has been stepped up to three times per year and began with a jumbo 32-page edition. Finally, the section Web site already is of a high quality, but the section will be working to make it even broader and more attractive for frequent visits. With all of these activities, the section’s objective is to provide resources to product development actuaries through the most effective channel.

Reinsurance

The Reinsurance Section introduced Correspondent Membership in 2002. The nature of the life reinsurance industry has led to many nonactuaries participating in the activities of the Reinsurance Section, such as attending section meetings or serving as presenters at section sessions and seminars. Since announcing correspondent membership in June, the section has approved more than 30 applications for correspondent member status.

The section was a sponsor of the well-attended Product Development Symposium in June. In conjunction with that symposium, the section developed and produced the Introduction to Reinsurance Seminar. The seminar had almost 40 attendees—far more than initially anticipated. Feedback from participants was exceptional as well, especially the participative “game shows” that were developed by section member Al Klein to reinforce understanding and learning on the subject matter. In conjunction with the Valuation Actuary Symposium, the section cosponsored a seminar on Financial Reporting and Reinsurance with the Financial Reporting Section. Again, attendance exceeded expectations by a wide margin.

The Reinsurance Section has been a leader in providing SOA meeting sessions that are less traditional in format. The just-completed annual meeting featured reinsurance sessions in debate, interactive, and mock-trial formats.

In the next year, the section will continue to implement its correspondent member practice. Providing the correspondent members the ability to stay informed of current reinsurance topics should enhance the Reinsurance Section’s ability to serve the entire reinsurance community, both actuarial and nonactuarial.

The section will build on the success of the first Introduction to Reinsurance Seminar,

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and provide further opportunities to enhance the understanding of reinsurance topics through such seminars, as well as participation with other sections.

The reinsurance industry has historically faced many regulatory, tax and accounting issues from a variety of bodies. Keeping track of the key issues can often be overwhelming and confusing. The Reinsurance Section will work over the next year to assist the Section Members in understanding the various entities that govern and affect the reinsurance business.

The SOA has been working on developing learning objectives and syllabus outlines for actuarial education, taking a fresh look at the entire system covering exams at all levels (ASA and FSA). Each practice area has developed its own syllabus for FSA education, with a separate group focusing on ASA education. In the next year, the Reinsurance Section will work with the SOA to develop the reinsurance topics and materials for future changes in the exam syllabus.


Smaller Consulting Firm

Clearly, the Smaller Consulting Firm Section's major accomplishment of 2002 was getting started. The section gathered its first 200 members and officially became the newest section in the SOA at mid-year. With that step, the section had its first Section Council election, electing nine individuals who will guide the section over the next year. That was also when the section said "thanks" to the members of the organizing committee, particularly those whose other commitments precluded their service on the Section Council. The section has set up a presence on the SOA Web site and is working on the first issue of its section newsletter.

One of the main tasks for 2003 will be a survey of all of the section members to determine which of the various areas of activity that were discussed by the organizing committee are the most important to them. The section's goal is to service its members' needs. Based on the results of that survey, the Section Council will focus attention on the areas that are the most important to members. The section also plans to expand its Web pages, to involve more people in writing for the newsletter, and to work with the program representatives for the various sections and practice areas to cosponsor meeting sessions of particular interest to those in smaller consulting firms.

Smaller Insurance Company

The 2001-2002 year started with the First Annual Smaller Insurance Company Symposium held during two sessions of the SOA Annual Meeting in New Orleans last October. Over 60 attendees had an opportunity to listen to topic experts and share their personal experiences on items such as the Actuarial Opinion and Memorandum Regulation (AOMR), investment operations for small companies and reinsurance.

The section has made a commitment to assist the SOA to enhance its Web site library and search capabilities. In addition, it's worth noting that many more people ran for Section Council than in recent memory and "voter turnout" in the Smaller Insurance Company Section was higher than any other section within the SOA. Three new section council members were elected this summer to serve a three-year term. After some close balloting, Steve Frechtling from Cincinnati Life, Julie Hunsinger from Investors Heritage Life, and Susan Keisler-Munro from Woodmen Accident & Life joined the council. At the section's September 10, 2002, conference call, the officers for next year were elected. Sue Reitz from Illinois Mutual is the incoming chair. Pete Hitchcock from Motorists Life is the new vice-chair. Julie Hunsinger is the new secretary/treasurer. Section members can always keep up to speed on section activities by reviewing the minutes and treasury reports at <http://www.soa.org/sections/small.html>. 







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