Society of Actuaries

november 2002

theactuary

the newsletter of the Society of Actuaries

Silver bullets for outpatient cost increases?

by Bruce Pyenson, Patricia Zenner and Pang Chye

Overview

Health plan financial managers—spared in the early 1990s from nightmares about dramatic increases in health care—are probably not sleeping at all these nights. They have good reason for concern. Current cost increases remind us of the high-trend 1980s. Increases due to outpatient costs often exceed increases from prescription drugs. Many of the strategies that plan managers embraced to improve quality and control costs now drive outpatient cost increases and traditional line-item reporting gives little insight into the problem or what to do about it.

The widespread recognition of high outpatient trends is even more troublesome because "outpatient" means different things to different organizations—and to different areas within the same organization. To understand why hospital outpatient costs are increasing, it is necessary to look at all the care patients receive—including inpatient and physician care. That is, it is useful to think about the total care that patients receive, and what might be driving cost increases, rather than focusing on a particular silo or line-item definition of cost.

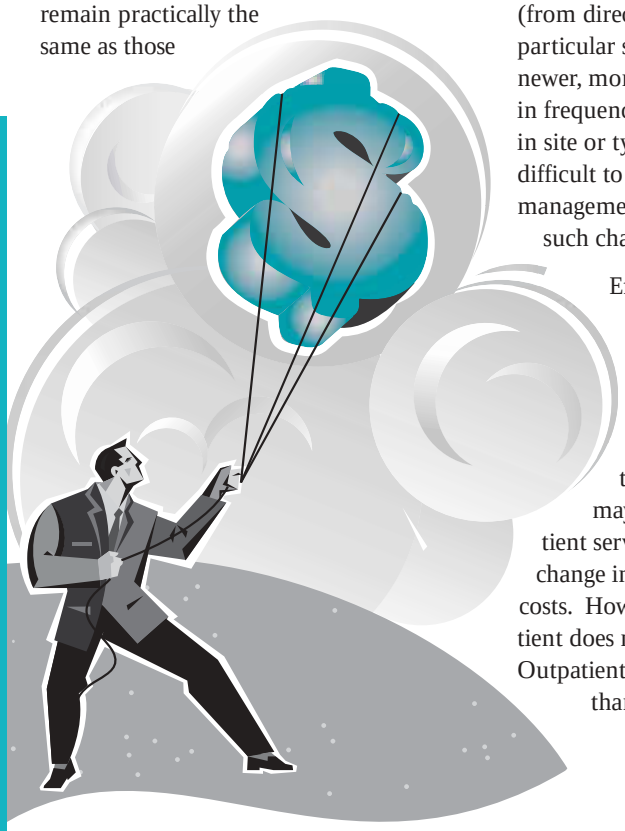
Care itself has changed rapidly, but available outpatient management techniques remain practically the same as those employed by health-care management organizations five years ago. Effective management today requires that organizations take what they have learned in the past, creatively adapt those strategies to the new outpatient environment and coordinate the strategies across departmental silos.

Understanding today's outpatient cost trend

In simplest terms, outpatient costs are rising because of an increase in outpatient service frequency (from increases in total health-care services rendered and shifting of care delivery to the outpatient setting) and growth in the unit cost of services (from direct increases in fee levels for particular services and shifts toward newer, more expensive services). Increases in frequency or unit cost caused by shifts in site or type of service are especially difficult to detect without special management reports designed to identify such changes in a timely fashion.

Efforts to move services from an inpatient to outpatient setting have been in place for over a decade. As a result, acute inpatient admissions and lengths of stay have consistently decreased. Some payers may accept the increase in outpatient services because they expect this change in care setting will reduce total costs. However, the shift toward outpatient does not always reduce total costs. Outpatient services can be more costly than inpatient services.

continued on page 3



inside

theactuary

the newsletter of the
Society of Actuaries
Vol. 36, No. 9 • November 2002

editorial

Welcome to the world of regulation

by Craig Kalman

Craig S. Kalman
Editor responsible for this issue

The fallout of Enron and WorldCom have cast a shadow over financial reporting, particularly on how the average investor relies on financial reporting by publicly traded companies. As a result, we will likely see additional regulatory oversight on financial reporting. While too late for companies like Enron and WorldCom, their employees and their investors, hopefully it will reduce the chance of other companies being similarly affected. Regulation is often a result of being re-active instead of pro-active. Welcome to the world of regulation.

As a regulatory actuary and a prior insurance company actuary, I have the opportunity to have been on both sides and have a better understanding of the need for regulation and the impact on resources at both the regulatory and insurance company level. The insurance industry has had its own versions of Enron and WorldCom. A combination of strong regulation on insurance company financial reporting and regular financial audits by insurance departments have—or at least we hope have—kept the insurance industry from experiencing the same types of problems that plagued Enron and WorldCom.

Yet, insurance regulation encompasses much more than just the financial reporting of insurance companies. Certain regulations deal specifically with actuaries. Why is that? Obviously, it is because those items are best dealt with by an actuary.

Yet, in my role as a regulatory actuary, I've seen company executives who just don't understand the value of an actuary. Let me discuss two such cases. The first was a company officer who made a reference to me that the only reason the company has an actuary to determine the rates and prepare the rate filing is because it is required by law. The second was a discussion with a compliance coordinator regarding their Actuarial Certification under Small Employer Health Insurance Availability Act. There was an exhibit requiring correction, and the person said the company would prepare it without it having an actuary's signature. The person then said that the actuary was a consultant and those inside the company knew their business better than the consulting actuary. I was explaining that it is called an Actuarial Certification for a reason. I also find times when I receive questions from para-professionals (such as actuarial students and others who work in actuarial departments without actuarial accreditations) that they should be able to discuss with the actuary who is responsible for the project.

When I started work as an actuary, when someone asked me what type of work I did, I said, "I'm an actuary," and would be asked, "What is an actuary?" In the past few years, most people already know what an actuary is. And during that time I have changed my answer to "I've been doing it for years, and I still don't know." More so, I'm trying to imply that there is a range of work that actuaries do, much the same as different doctors have different specialties and sub-specialties. While more people know—or at least have a vague idea—of what an actuary does, I find it interesting that insurance companies are sometimes undervaluing their actuaries. As I write this, I remember a contrasting story that involves a presentation made by the president of the health insurance company I was working for at the time. He was talking about the focus on the organization being on underwriting policies and paying claims; he asked how many of us did NOT work in underwriting or claims; a show of hands showed a high proportion of the employees. His comment was that in order to perform our basic functions, we needed expertise in other areas. Just think about handling claims without a computer system; not having a policyholder services area; not having an accounting department to financially handle the claims and premium; not having an actuarial department to do pricing or reserving.

Silver bullets for outpatient cost increases?

continued from page 1

Diagnostic and treatment enhancements, mostly through advanced procedures, equipment and pharmaceuticals, can cause average unit costs to increase. Most new technology costs more than old (e.g., an MRI is more expensive than a CT scan, which costs more than an X-ray).

Therefore, unit costs can increase even when a new procedure completely replaces an old one and neither the service volume nor the fee schedule increase.

Cost drivers for a health plan

In determining what is driving the cost increases for a health plan, the following questions should be asked.

1. Which service and clinical categories have growing unit costs?

2. Are there changes in how particular diagnoses are being treated in terms of the setting of the treatment or the procedures performed?

3. Which procedures have increased in frequency?

Typical standard management reports do not adequately answer these questions. Rather, they usually show high-level trends in broad service categories (i.e., pharmacy, pathology, radiology, etc.) defined by place of service and professional/facility splits (i.e., hospital inpatient, hospital outpatient, physician office, etc.). These reports cannot easily identify the relationship between rising costs and use of new technology, shift in services from the inpatient to outpatient setting or the increase in the number of services provided during a procedure or case.

To overcome the limitations of traditional reporting, we developed a new way to look at trends in the collection of services surrounding an event, which we call a "Clinical Treatment Cluster," or CTC.

A CTC combines facility and non-facility claims, and includes inpatient and outpatient services. Each CTC can be further itemized into typical financial management categories to understand the types of services contributing to the CTC's cost trend. Summarizing service trend results across CTCs enables the health plan manager to determine whether the trend is limited to a small number of CTCs or is an across-the-board issue. Analyzing site cost trends within a CTC can help identify if shifting of services from inpatient to outpatient settings is actually reducing overall health plan costs or not.

Traditional cost analyses evaluate service utilization and average cost per service.

Traditional cost analyses evaluate service utilization and average cost per service. Payers can further analyze average cost per service by looking separately at service intensity and cost per "work unit." Many payers have adopted Medicare's Resource Based Relative Value System (RBRVS) for professional reimbursement. RBRVS uses relative value units (RVUs) that measure service intensity and a conversion factor that indicates cost per work unit. Management often reacts to increased unit costs by instructing the network managers to negotiate lower payment rates.

However, dramatic increases in average service intensity might indicate the use of higher technology, an abuse of services or upcoding, rather than a simple increase in unit fees or conversion factors. Examining payment increases by service intensity helps management decide whether the appropriate action is to require pre-authorization for particular services, manage specific providers or improve billing audit systems, and not automatically focus on negotiating lower payment rates.

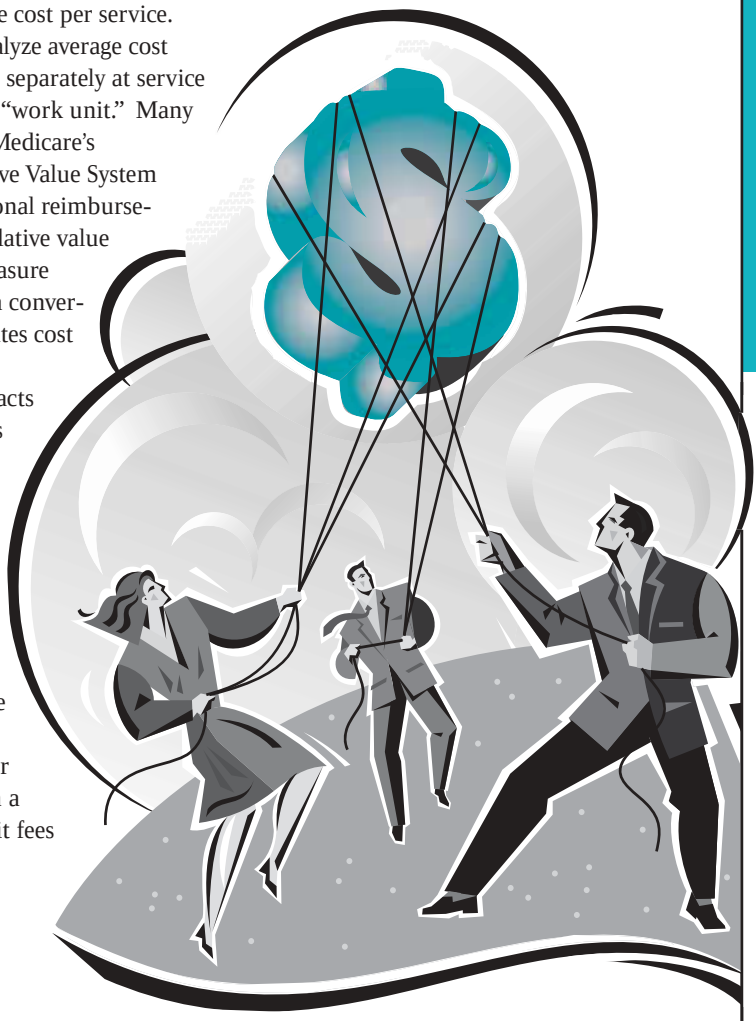
What organizations can do

In the absence of a silver bullet cure to the problem of rising outpatient costs, health plan managers need to figure out when, where, how and if to use the well known cost management techniques, including the following:

1. *Provider Profiling:* Build a more efficient provider network.

2. *Provider Reimbursement:* Limit costs through provider reimbursement

continued on page 4



Silver bullets for outpatient cost increases?

continued from page 3

contracts; use provider performance incentives to encourage substandard providers, identified through provider profiling, to leave the network.

3. *Utilization Management:* Avoid inappropriate services, with primary focus on managing high volume, high cost and clinically risky services.

4. *Benefit Management:* Increase cost sharing through deductibles or coinsurance and/or provide carrot/stick incentives for plan members to use certain providers.

5. *Claims Adjudication:* Adhere to provider or policyholder contracts.

6. *Budget Adjustment:* Increase the outpatient budget and find needed savings elsewhere.

Organizations must understand the causes and components of outpatient cost trend if they are to manage it. These old techniques do work if applied to the right problems, although they may cause more harm than good if misapplied.

The outpatient environment demands active management by health plans. Changes in health care will accelerate in the future. A one-time analysis and fix of outpatient problems—even if done with insight—may soon become obsolete. Today's solution may become tomorrow's problem, just as the management of yesterday's hospital inpatient problems spurred some of the growth in outpatient services and costs. Continuous reassessment of health plan cost trends and their root causes is required to manage plans effectively and, hopefully, profitably.

For a full copy of the Milliman Research Report, "*Silver Bullets for Outpatient Cost Increases?*" e-mail *bruce.pyenson@milliman.com* or call Bruce Pyenson, FSA or Pat Zenner, RN at (212) 279-7166.

***Bruce Pyenson, FSA, MAAA, is a principal with Milliman USA in New York. He can be reached at* bruce.pyenson@milliman.com. *Patricia Zenner, RN, is a consultant with Milliman USA. Pang Chye, FIA, MAAA, is a consulting actuary with Milliman Asia in Hong Kong. He can be reached at* pang.chye@milliman.com.**

Health Risk Management Subgroup addresses SOA members' needs

by Megan Potter, SOA associate editor

The SOA addressed the interests and needs of its members by forming the Risk Management Task Force earlier this year. There are currently nine subgroups under the task force, which focus on different aspects of risk management and even different practice areas. One of the goals of the task force is to promote the visibility of actuaries as natural leaders in the field of risk management, as their special sets of skills are uniquely suited to handle the risk management efforts of their employers. The most recently formed subgroup is the Health Risk Management Subgroup.

Among other things, the subgroups of the task force are responsible for the development of risk management educational opportunities. The task force will remain involved in the subgroups to the extent that it will monitor their progress, oversee the addition of additional subgroups as needed and prioritize conflicting projects if necessary. The nine subgroups, totaling approximately 200 people, are as follows:

RBC Covariance—*Leader: Jim Reiskytl*

Policyholder Behavior in the Tail—*Leader: Jim Reiskytl*

Extreme Value Models—*Leader: Ruth Sayasith*

Enterprise Risk Management—*Leader: Ruth Sayasith*

Economic Capital Calculation and Allocation—*Leader: Hubert Mueller*

Risk Management Metrics—*Leader: Dave Ingram*

Pricing for Risk—*Leader: Todd Henderson*

Equity Modeling—*Leader: Josephine Marks*

Health Risk Management—*Leader: John Stark*

John Stark, head of the Health Risk Management Subgroup and director and actuary with Trigon Blue Cross Blue Shield in Richmond, Vir., feels that health insurance deserves a subgroup of its own. He explains, "I feel that the risk that managed care companies and health companies face is probably similar to life and P&C in some cases, very different in other cases. And in the cases where they may be similar, there may be more emphasis on a certain aspect—health

insurers don't really worry that much about investment risk, whereas life insurers are consumed by it." Another aspect in which risk management for health actuaries may differ from that for actuaries in other fields is in keeping provider networks together. "There can be significant risks around trying to maintain a network with all the dissatisfaction that you have. The risks were just different enough that we decided to have a subgroup to list and to look at those," adds Stark.

The subgroups will:

- Investigate the role of the Chief Risk Officer in a health insurance company
- Develop a risk management practice guide for health actuaries
- Explore solvency issues in health insurance
- Address tools and modeling.

Depending on the level of interest, more subgroups may be formed in the future.

Stark believes that actuaries' impartiality should help recommend them to business leaders as risk managers.

And the response has been overwhelming. After sending out a blast e-mail, the second conference call of the subgroup boasted 26 participants, with more still responding. The size of the group has Stark looking at ways to maximize volunteer time and effort. Stark worked with Valentina Isakina, staff actuary for the Finance Practice Area of the SOA, to formulate a survey regarding goals to send out to those interested in participating in the subgroup. "We have such a wide group—we have managed care people, we have disability income, long-term care—and with that wide a range, we might end up splitting the group, or having group leaders for each type," Stark states. Isakina adds, "With such a big group it will be a challenge to organize our efforts. The survey will help us identify critical issues and work-related matters for those involved in the subgroup and, based on the results, finalize the direction of the subgroup's work."

The subgroup had its third meeting on August 27th. The results of the survey were discussed, and four subgroups were organized according to the hot topics identified.

Isakina is impressed by the composition of the subgroup. "We have a very good mix of participants: experts, who are eager to give guidance, as well as people very interested in learning. This is an ideal mix." Kara Clark, staff fellow for the Health Systems Practice Area, will be the SOA liaison for the subgroup in the future. The Health Risk Management Subgroup will work closely with the other subgroups and the Risk Management Task Force to ensure that efforts are supported, but not duplicated, between groups.

Stark has some words of advice for his fellow actuaries: "Get involved in your companies' risk management efforts, as risk management is a very important part of business right now. As actuaries, we've been left out in the cold on a lot of things, and this is an area that we really need to participate strongly in because MBAs, CPAs, you name it—they're in there and actuaries should be able to contribute quite a bit." Stark believes that actuaries' impartiality should help recommend them to business leaders as risk managers. "Hopefully the actuaries will be viewed as impartial because after all the things that have happened with Enron and WorldCom, there are people who are not impartial. I read an article about accountants and MBAs—the accountants have more loyalty to the profession than the company. Considering how long it takes us to become actuaries, this is true of us as well. Our loyalty to the profession would be something people could look to as for keeping us impartial." Recognizing the timeliness and importance of this, the task force has determined that one of its major goals is the advancement of professional recognition and opportunities for actuaries in the arena of risk management. The task force is working on achieving this objective through promoting the concept of a Chief Risk Officer and the fact of how actuaries are naturally fit to hold these positions.

For more information on the Risk Management Task Force and Health Risk Management Subgroup, please visit *http://www.soa.org/sections/rmtf.html*.

Commission seeks to compensate Holocaust-era insureds

Editor's note: This article is intended to provide a general overview of the work of the International Commission on Holocaust Era Insurance Claims (ICHEIC) and some of the recent developments surrounding its efforts.

The ICHEIC was established in October of 1998 by the National Association of Insurance Commissioners (NAIC) in cooperation with several European insurance companies, European regulators, representatives of several Jewish organizations and the State of Israel. The ICHEIC is charged with establishing a just process that will expeditiously address the issue of unpaid insurance policies issued to victims of the Holocaust.

Prior to the Second World War, many Jewish families purchased insurance policies, including dowry, education and life. Then came the war. Many of those policies were inevitably lost or destroyed, whether in the mass genocide and destruction of the Holocaust or in the sea of bureaucratic red tape and international regulations that followed the fighting. For over half a century, no process was put in place to locate beneficiaries.

For the past several years, the ICHEIC has sought to repair some of the damage. In late 1998, the NAIC, in conjunction with several European insurance companies, representatives of Jewish organizations and the State of Israel established the ICHEIC. Subsequently, several European regulators, as well as representatives of some governments, joined the ICHEIC as observers. The ICHEIC, chaired by former U.S. Secretary of State Lawrence S. Eagleburger, is charged with establishing a just process that will expeditiously address the issue of unpaid insurance policies issued to victims of the Holocaust. The insurance companies participating in that process have agreed to resolve the outstanding claims submitted from February 15, 2000 until March 30, 2003.

Under the claims resolution process begun in early 2000, there is one place where interested parties can seek out information about unpaid life, education and dowry policies issued by companies that are members of the ICHEIC. The ICHEIC is investigating all claims and, if payment is due from a participating company, is seeing that it is made. The service is provided without charge to the claimants.

Relaxed standards of proof will apply in cases where relevant documents no longer exist or the policy was issued by a company that is no longer in business or was nationalized by the governments in power. Trained staff will be available at a help center to answer questions and assist in filling out the paperwork.

Jewish organizations around the world are part of an outreach program that includes the publication of the names of a number of policyholders on the ICHEIC Web site, toll-free telephone numbers to obtain information and help and a worldwide publicity campaign announcing the launch of the claims process. A significant component of the outreach is to assist potential claimants to remember the past—where their families were during the war, how they fared, what their businesses or occupations were, what institutions they dealt with—and try to locate documents or recall incidents and circumstances that might reflect the purchase of insurance policies during the pre-war period.

**The previous portion of this article was reprinted with permission from the ICHEIC Web site.*

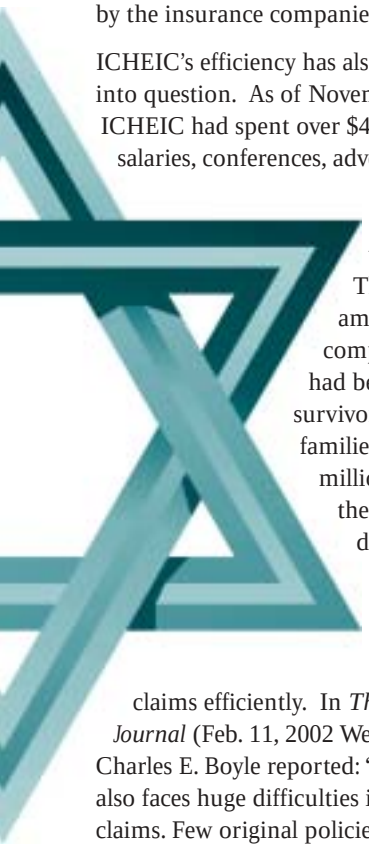
Hurdles to an effective claims process

The ICHEIC is investigating all claims and, if payment is due from a participating company, is seeing that it is made.

The claims process as envisioned by the ICHEIC has run into many hurdles in the past two years. The U.S. Congress has even been involved in a review of the ICHEIC. In November of 2001, the Committee on Government Reform (U.S. House of Representatives) held the first congressional hearings on the efforts of the ICHEIC to ensure efficient and appropriate resolution of Holocaust-era insurance claims. As the document, "The Status of Insurance Restitution for Holocaust Victims and Their Heirs" November 13, 2001, by minority staff reveals, the hearing provided an opportunity to review the progress of ICHEIC in resolving the insurance claims of Holocaust survivors and their families.

Some problems included the inability, in many instances, of survivors and their families to name the insurance company that provided the Holocaust-era insurance. However, fewer than 10 percent of the claims submitted by families and survivors that did name specific insurance companies have been approved. The ICHEIC was founded in part with the

intention that the European insurers provide a list of possible policyholders to ICHEIC to publish on its Web site. However, as of November 2001, they had provided the names of only 9,000. According to an ICHEIC task force, Jews were three times more likely to hold insurance policies than the population as a whole. There were six million Jews killed in the Holocaust and between 3 and 3.5 million survivors. In addition, many insurance companies are requiring that claimants provide an unreasonable level of proof of their claims. Due to the age of the policies, their possible destruction during WWII and the advanced age of many of the claimants, ICHEIC had set forth relaxed standards of proof in the Memorandum of Understanding signed by the insurance companies.



ICHEIC's efficiency has also been called into question. As of November 2001, ICHEIC had spent over $40 million on salaries, conferences, advertising and other administrative expenses. The total amount of compensation that had been paid out to survivors and their families was just $12 million. Some of the problems detailed above have affected ICHEIC's ability to resolve the claims efficiently. In *The Insurance Journal* (Feb. 11, 2002 West Issue), Charles E. Boyle reported: "The ICHEIC also faces huge difficulties in verifying claims. Few original policies survived the war. Most of the original signatories, if they didn't perish before 1945, have since died or are in their 90s. The deaths of an overwhelming majority were never officially listed; their remains were either cremated or thrown into anonymous mass graves. In addition, many of the towns, villages and cities they came from were destroyed by the war, along with any records." The ICHEIC's relaxed standards of proof include the consideration of diary entries, premium receipts, private correspondence and statements from friends and relatives in determining the validity of the claim. There is some question regarding which level of proof needs to be attained before the claim can be approved for compensation. Boyle notes, "Even though the insurers have repeatedly proclaimed their good faith, only 1,000 claims, out of 79,000 presented, have been offered a settlement. Worse, only 275, less than .01 percent, have been accepted."

In addition, many of the towns, villages and cities they came from were destroyed by the war, along with any records.

According to Insure.com (February 21, 2002), "Neal Scher, chief of staff for the ICHEIC acknowledges that the ICHEIC's expenses have been high, but he says that 75 to 80 percent of the claims forms submitted could be 'more accurately described as inquiries' and the 'overwhelming' majority of money spent by the commission has gone to claims-processing efforts and a $10 million outreach program to make the public aware of the commission's efforts."

Legal considerations

One of the most compelling reasons for European insurers to reach an agreement with the ICHEIC for the settlement of Holocaust-era insurance claims involved the dismissal of legal liability outside of the ICHEIC's efforts. Many state insurance commissioners in the United States were bringing action against the European insurers on behalf of their constituents. The insurance companies joined the ICHEIC on the condition that legal proceedings against them in the United States be referred instead to settlement by the ICHEIC. Not all states have agreed to this trade-off. In a report by Morris A. Ratner in the National Association of Independent Insurance Adjusters News, he reported on a decision on September 25, 2002 by Judge Michael B. Mukasey in the U.S. District Court of the Southern District of New York. Mukasey denied an effort by Italian insurer Assicurazioni Generali S.p.A. and Swiss insurer Zurich Life Insurance Company to dismiss claims that those companies refused to pay benefits to insurance policy beneficiaries or their surviving family members during the Holocaust.

"Judge Mukasey found that the plaintiffs' choice of a U.S. court to prosecute their Nazi-era claims should be given deference. Further, the court found that ICHEIC is not an adequate alternative forum for the resolution of plaintiffs' claims. The Court held: 'ICHEIC—an ad-hoc, non-judicial, private international claims tribunal—is not entitled to the same deference as the courts or an administrative arm of a foreign sovereign nation.'" Decision at 16. The judge went on to cast doubt on the neutrality of the ICHEIC in resolving these claims. "Not only is the commission financially dependent on Zurich and Generali, as well as its other founding members, but there are also indications that ICHEIC's decision-making processes are and can be controlled by the defendants in this case—Generali and Zurich—as well as the other ICHEIC member insurance companies." Decision at 18-19.

German insurance companies

According to the August 1, 2002 issue of *The Canadian Jewish News International*, the Claims Conference at its annual board meeting in Luxembourg was thinking of withdrawing from agreements protecting German insurance companies from lawsuits if the firms didn't approve more restitution payments to Holocaust survivors.

"Aside from the Italian firm Generali, most of the affected insurance companies are not following the guidelines established by ICHEIC," a Claims Conference spokesperson said. An ICHEIC report

continued on page 8

Commission seeks to compensate Holocaust-era insureds

continued from page 7

found that many insurance companies were too quick to deny claims. The Claims Conference said that German firms in particular have failed to provide names of Holocaust-era insurance policies for the ICHEIC Web site. The blame is being passed back and forth between the German insurance companies and ICHEIC as to why so few claims are being paid.

The deadline to submit a claim to ICHEIC has changed several times over the lifetime of the commission. As unforeseen hurdles have arisen and the slowness of the process has been revealed, the ICHEIC has extended the deadlines. The most recent extension is until March 30, 2003. "ICHEIC's decision to extend the deadline reflects the spirit of the Commission to ensure that victims of the Holocaust have their valid insurance claims honored," said New York Insurance Superintendent Gregory Serio. "The additional time frame enables insurance companies to fulfill these commitments."

On September 24, 2002, *The Canadian Jewish News* reported that there have been important recent developments in moving the claims process along. In September, the ICHEIC came to an agreement with German insurance companies that will remove some of the roadblocks that have challenged the effectiveness of ICHEIC's efforts.

Chairman Eagleburger was pleased with the agreement resulting from talks with Germany's Remembrance, Responsibility and Future Foundation, which was established in 2000 to compensate survivors and is funded jointly by the German government and German insurance companies."After years of stalled negotiations, the commission focusing on Holocaust-era claims came to an agreement with German insurance companies last week on how to proceed. But it's unclear how fast payments can be made because lists of policyholders must be drawn up and matched against rosters of German Jews before and during the Holocaust … The agreement calls for a list of approximately 5 million major policyholders to be matched against lists of Jews who lived in Germany between 1933 and 1938. The results will be published on the ICHEIC Web site," reported Sharon Samber.

The question of "stringent" versus "loose" standards of proof for the claims has been resolved, as the German insurance companies agreed to abide by the looser standards and guidelines. They had also been pushing for reimbursement from ICHEIC of certain administrative expenses, a demand that they later dropped. "Both ICHEIC member Allianz and smaller German companies that are not part of ICHEIC agreed to abide by the terms of the agreement, which should increase the number of claims processed. In fact, several thousand claims that had been submitted but not acted upon should be paid this year, according to Dale Franklin, the commission's Washington chief of staff," wrote Samber.

They had also been pushing for reimbursement from ICHEIC of certain administrative expenses, a demand that they later dropped.

The future

Nat Shapo, chair of the NAIC International Holocaust Commission Task Force and Illinois Insurance Director, believes there are two key steps in the months ahead. First the regulators will draw some conclusions and make reforms if necessary in the ICHEIC processes. "There is some angst on the part of regulators and other participants that the current process is taking too long and there may not be enough valid claims paid," Shapo explained. A claims-monitoring process has been set up to review documented claims that have not been paid. "As Congressional inquiries and other sources have shown, there is a very low percentage of claims that have been paid. Some of these do have a certain level of documentation," stated Shapo. "A committee has been formed to determine whether denials of claims were appropriate." This process is already underway. "We hope to have tangible results this year," Shapo said.

The second step involves working with the German foundation to produce new lists for publication on the ICHEIC Web site. The German insurance companies have agreed to provide lists of policyholders preceding World War II. These policies may or may not have already been paid, but the list will be matched against the lists that ICHEIC has. This list will also be cross-referenced with a newly created list of German Jews from the era. "We hope to have these lists processed and posted in the next few months," explained Shapo. "We have the goal of getting the lists published around the first of the year." Those who find a relative's name on the list will be encouraged to submit a claim. The insurance companies would then be charged with determining whether the claim has already been paid or restituted.

"This agreement with the German foundation brings a significant amount of new money into the process. It also brings a substantial new listing of possible claimants. It will be ICHEIC's responsibility to utilize the money and the listing on behalf of claimants," Shapo stated.

For further information on the International Commission or the claims process, visit *www.icheic.org* or write to: International Commission, PO Box 1163, Wall Street Station, New York, NY 10268 USA.

SOA conducts market research to understand how actuaries can remain competitive in the job market

by Meredith Lego, SOA marketing manager

On what skills do your employer and other employers in the marketplace place the greatest value?

How can you ensure that your skills align with what employers demand?

What is driving the need for those skills?

In what other markets can you utilize your actuarial training?

These questions and others were explored in a recent market research project conducted by the SOA, under guidance of the Strategic Planning Committee. Using the independent research firm Leading Solutions Group, the SOA conducted the research to more aggressively identify marketplace/employer needs in both the traditional actuarial practice area markets as well as broader financial service markets.

Objectives of the market opportunity research were:

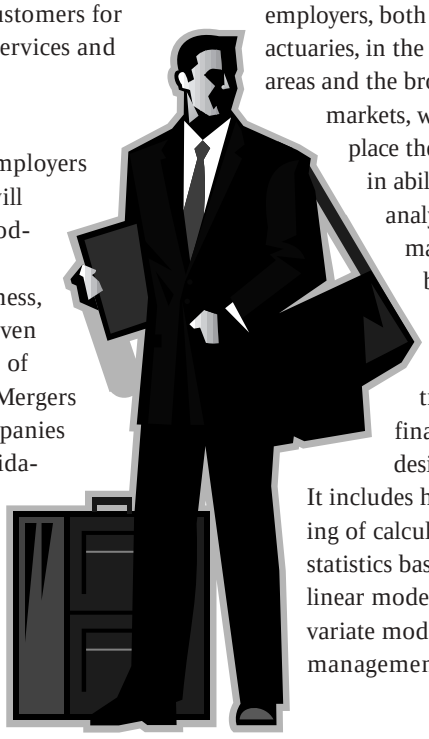
- Identify and prioritize the most important skill set requirements by marketplace in:
  - Traditional actuarial practice area markets
  - Broader financial service markets (such as commercial banking, brokerages, investment banking, mutual funds and financial service consulting)
- Determine marketplace perceptions of the actuarial profession and skills
- Identify any gaps and needed changes to existing education and qualifications
- Determine potential opportunities and demand for actuaries by market as identified in the strategic plan

You know all too well that market forces continue to drive the risks faced by companies in the marketplace. Market and societal forces have been and will continue to drive change to business strategies. Chief among these forces are changes in demography from the aging population and migration, regulatory changes necessary to increase the confidence of investor and customers for financial products and services and market globalization.

The most significant strategic responses by employers to these market forces will involve the design of product bundles across traditional lines of business, which are tailored and even customized to the needs of individual consumers. Mergers and acquisitions of companies will continue for consolidation and convergence of business lines. Companies will utilize more diverse distribution channels than ever before to achieve customer focus and intimacy. Finally, cost cutting will continue as companies strive for reduced operating expenses in hopes of maximizing shareholder value. These strategies demand that risk-analysis and problem-solving experts are knowledgeable in multiple practice areas, lines of business and functions of the enterprise.

What does this mean for you, the practicing actuary? What skills do employers and clients seek to help analyze, manage and mitigate risks associated with these market forces?

What does this mean for you, the practicing actuary? What skills do employers and clients seek to help analyze, manage and mitigate risks associated with these market forces? After interviewing 54 employers, both actuaries and non-actuaries, in the traditional practice areas and the broader financial services markets, we found employers place the most importance in abilities for quantitative analysis, assessing and managing risk and business savvy.



The level of quantitative skills that the traditional and broader financial service markets desire is about the same. It includes having an understanding of calculus, multivariate statistics based on the general linear model and skills in multivariate modeling. The level of risk management skills employers

continued on page 10

SOA conducts market research to understand how actuaries can remain competitive in the job market

continued from page 9

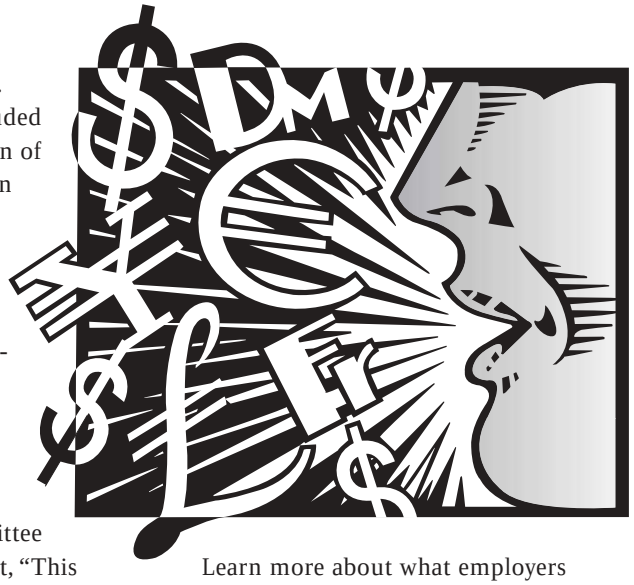
seek is also similar across the markets and includes the ability to design enterprise financial and risk management strategies after having fully analyzed risks and exposures. Practice areas within the traditional employment marketplace desire different levels of specific skills depending upon the nature of their work. Those skills include quantitative analysis, accounting, economics, knowledge of financial institutions/markets and managing/assessing risk.

While employers do value technical expertise and industry knowledge, they also value employees who are "business savvy." They want people who can see what issues really matter, apply their analytical abilities to those issues, devise creative solutions and then explain solutions clearly and concisely. In addition, employers want broad-based knowledge across business disciplines and the ability for their employees to grasp the whole of the problem or situation when developing creative and implementable solutions.

While employers do value technical expertise and industry knowledge, they also value employees who are "business savvy."

The greatest challenge for SOA and the actuarial profession is that employers—even traditional employers of actuaries—perceive that very few actuaries have both the quantitative skills **and** the business savvy to analyze situations, and then create common-sense solutions that are effectively communicated to target audiences.

Leading Solutions Group recommended a need for SOA to align the education and qualification requirements to more closely match the marketplace's desires, especially in providing products that teach business savvy skills. Additionally, it was concluded that demand for a selection of actuarial skills does exist in the broader financial marketplace and that the actuarial profession should take advantage of the opportunity and determine how to meet that need—before others do.



As stated by Larry Zimpleman, who led the Strategic Planning Committee through the research effort, "This research really validates initiatives in the SOA Strategic Plan. We have identified some skills for strengthening both basic and continuing education. In addition, we have learned demand for actuarial skills does exist in new markets, opening pathways to promote new applications of actuarial skills through new certifications."

Results of the research are being used by the Education and Qualification 2005 Working Groups as they develop options for the future actuarial syllabi to ensure core skill sets of the FSA and ASA are preserved. In addition, the Strategic Planning Committee is analyzing the research to understand its implications and how to enhance the value of the FSA and ASA credentials, image and other SOA products and services.

Volunteers who oversaw the research effort include: Larry Zimpleman, Howard Bolnick, Norm Crowder, Chris DesRochers, Stuart Klugman and Jim MacGinnitie.

Learn more about what employers had to say. The Board of Governors welcomes you to view the 2002 Market Opportunities Research results. For a description of the research findings, please look to the SOA Web site. Your comments are welcome. Please e-mail Meredith Lego at *mlego@soa.org*.

Actuarial books available

Donald Parkyn has copies of the old American Institute of Actuaries (blue) and the American Actuarial Society (red) starting about 1930 and going until their merger into the Society. He also has the Society, Conference and Academy books up until 2000, as well as several years of Society membership listings. These books are available for only the cost of packing and freight. If you are interested in these books, please contact Donald Parkyn, consulting actuary, at 775-324-0151, or e-mail to *parkyn@justpension.com*.

Practice area update

Implementation Task Force on Sections and Practice Areas — Recruitment efforts are underway for the group that will carry out the recommendations developed by the Task Force on Sections and Practice Areas. The implementation will proceed in two phases. Phase I initiates significant improvement while retaining the current framework of sections and practice areas. Phase II requires additional planning to integrate the various responsibilities currently carried out by either practice areas or sections. Regular communication will be provided on the Implementation Task Force's efforts. View the final report from the Task Force on Sections and Practice Areas at http://www.soa.org/committees/spa.html. This task force has the mission of reviewing the way that sections and practice areas operate, and making suggestions on how to better coordinate all volunteer activities. The Task Force on Sections and Practice Areas completed their report and Chairperson Christopher Bone presented their recommendations to the Board of Governors at the June meeting. Their recommendations are organized as follows:

The improvement efforts incorporate a two-phase approach.

Phase I initiates significant improvements while retaining the current framework of the sections and practice areas.

Phase II recommends further integration of practice areas and sections and requires more planning and working through the details.

The BOG accepted the recommendations of the task force and has approved the formation of an implementation team to carry them out.

Expect to see regular communication regarding the status of the implementation efforts.

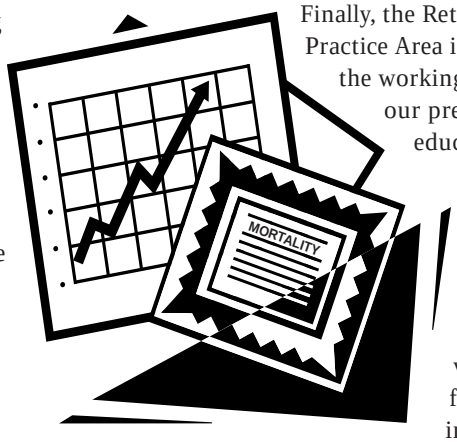
Retirement Systems Practice Area — (http://www.soa.org/committees/retire.html):

Much of the work of the Retirement Systems Practice Area is coordinated with the Pension Section. Please check out their combined Web site at (http://www.soa.org/sections/pension.html). New additions to the Web site include:

- The results on the study of the factors affecting retirement mortality. This study is very useful for selecting appropriate mortality assumptions, pricing annuities and projecting mortality.
- A request for proposal, to be released shortly, relates to factors affecting retirement mortality. It considers what factors can be used, restrictions, and how to model for the factors.
- The Retirement Implications of Demographic and Family Change monograph is available online. Summaries of panel discussions, along with the papers presented, are being added.
- A new call for papers has been released on "Current Pension Actuarial Practice in Light of Financial Economics." This call for papers will discuss differing views on measuring pension plan liabilities and funded status for various purposes.

On the continuing education front:

- The pension area has three courses on the SOA virtual campus ("Experience Studies and Selecting Assumptions," "Hybrid Plans" and "Lump Sum Issues").
- The Pension-Section-sponsored online basics course is also available. This tool is particularly helpful for the new employee who needs to learn the fundamentals.
- Seminars and meeting sessions are available on tape and after completing the appropriate form, available on the Web site. EA continuing education credit can be received.



Finally, the Retirement Systems Practice Area is continuing to assist the working groups reviewing our preliminary and actuarial education process. The practice area advisory groups will be working to ensure that the content of our examination syllabus has the relevant content necessary for practitioners in the retirement systems field.

If you would like further information about any of these projects, please contact either Judy Anderson, FSA, *Janderson@soa.org* or Karen Gentilcore *Kgentilcore@soa.org* for more information.

continued on page 12

Practice area update

continued from page 11

Health Benefit Systems Practice Area — (http://www.soa.org/committees/health.html):

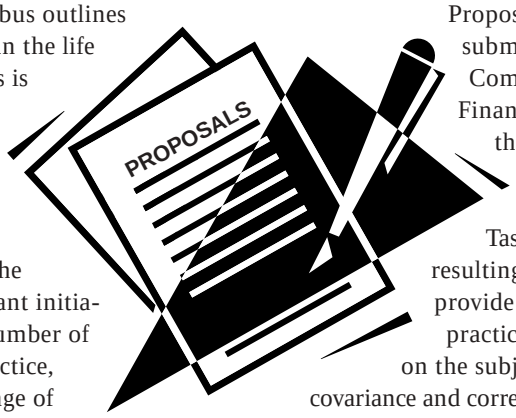
Various activities continue to be developed for health actuaries. They include the following:

- Troubled Healthcare Literature Review—Work continues to progress on this project, which was initiated late last year to provide much-needed information on modeling, assumption development and perspectives on the current health care reform debate in the United States. The area now plans to pursue a related project designed to provide insights into the current pressures on the U.S. healthcare system.
- Disability Income Chartbook—Work is also progressing on a new Disability Income Chartbook, a consumer education piece on disability risk and public and private sources of coverage available to mitigate those risks. The practice area in cooperation with the Health Insurance Association of America is developing this project. Subgroups have been formed to create various sections of the Chartbook, including *Risk and Disability*, *Financial Risk Resulting from Disability*, *Public Disability Income Coverage*, *Private Coverage*, and *Met and Unmet Needs*.
- Health Risk Management—A subgroup of the Finance Practice Area's Risk Management Task Force has been formed to concentrate on risk management topics of particular interest to health actuaries. The subgroup is focusing on issues related to solvency, modeling, and the role of the Chief Risk Officer.

The area also continues to provide input into discussions regarding the changes underway for SOA's Education and Examination System, to assure that the needs of health actuaries and their current and future employers can be appropriately considered. If you would like further information about any of these projects, please contact either Maryellen Hilderbrand *Mhilderbrand@soa.org* or Kara Clark, FSA *Kclark@soa.org* for more information.

Life Insurance Practice Area — (http://www.soa.org/committees/life.html):

During August and September, practice area volunteers and staff devoted much of their time to coordinating the development (from scratch) of learning objectives and syllabus outlines for FSA education in the life practice track. This is in connection with the redesign of the E&E system, targeted to take effect in 2005. The redesign is one of the SOA's most important initiatives, and a large number of actuaries in life practice, covering a wide range of sub-specialties, are involved in developing the proposed syllabus. Work on the E&E redesign will continue over the next several months.



Another area of focus has been transitioning the leadership of the Life Practice Area following the recent SOA elections. The staff is currently working with the new leadership to quickly bring them up to speed and obtain their input to identify and prioritize issues and develop initiatives to address them. This will set the roadmap for activities well into the next year. More information on the issues identified and the initiatives undertaken will be provided in the next practice area update.

Further information on any of the Life Practice Area projects can be obtained by contacting either Narayan Shankar *Nshankar@soa.org* or Karen Gentilcore *Kgentilcore@soa.org* at the SOA office.

Finance Practice Area — (http://www.soa.org/committees/fin.html):

Lead by the Finance Practice Area Advancement Committee, the Finance Practice Area (FPA) includes several committees and task forces. (The goals and structure of the FPA were outlined in the May 2002 edition of *The Actuary*.)

An exciting new development in the Finance Practice Area is the approval of the RBC Covariance Request for Proposals. Recently submitted to the SOA Committee on Finance Research by the practice area's Risk Management Task Force, the resulting research will provide actuaries with practical RBC tools on the subject of dynamic covariance and correlations (covariance and correlations of risks as a function of time) under extreme conditions. The task force is currently forming a Project Oversight Group (POG) to lead the review of proposals.

If would like to participate in the POG or are interested in learning more about this or other Finance Practice Area initiatives, contact Valentina Isakina, SOA finance staff actuary at *Visakina@soa.org*.

Who will be nominees in 2003?

by Robert L. Brown, chairperson, 2002-2003 SOA Committee on Elections

In the past year, the Committee on Elections has become more proactive as a nominating committee in the selection of candidates for the three Board of Governors slates.

The Committee's selection of the president-elect nominees begins with a list of:

- All Fellows who have completed their terms as vice-president within the last ten years (except those who have served as president-elect or president)
- Fellows who have completed service as elected board members within the last ten years and who have served as presidents of the CIA, AAA or CAS.

From this list the Committee, guided by candidates' leadership skills, service to the profession, personal reputation and enthusiasm to serve, solicits up to six eligible Fellows for the first ballot slate for president-elect.

Selection of the vice-president nominees begins with a list of:

- All Fellows who have completed a term as an elected board member within the last ten years (except those who have served as president, presi dent-elect or for a full term as vice-president)
- Fellows who have served as president of the CIA, AAA or the CAS within the last ten years.

The Committee, guided by nominees' leadership skills, service to the actuarial profession, area of practice or special interest, personal reputation and enthusiasm to serve, solicits up to 12 Fellows for the first ballot slate.

The criteria for the selection of nominees for elected board member include:

1. Fellows who have served in the prior three years as:

- E&E general chairperson or vice-general chairperson, education chairperson, examination chairperson and program chairpersons or
- Chairpersons of the Valuation Actuary Symposium, Enrolled Actuaries' Meeting or Actuarial Research Conference or
- A retiring officer of a section council, or as non-board members of the Operations Committee or
- A chairperson of other SOA committees or task forces.

Consideration will be given to those who have demonstrated leadership skills in these positions.

2. Fellows who have completed service as president, vice-president or board member of other recognized North American actuarial professional organizations within the last three years.

3. Fellows who, in response to an invitation in a timely issue of *The Actuary*, volunteered their names.

Taking into account the practice areas, countries of residence and areas of employment of continuing board members, the committee strives to have those areas represented on the board in proportion to those of the membership. Keeping proportion in mind and using the list of members who have met the above criteria, the committee members recommend Fellows from their practice areas/demographics who they feel would be good board members and who would be willing to serve. The committee includes between 25 and 35 nominees for the first ballot slate.

If you believe that you are eligible for the 2003 first ballot, but are sure that you cannot serve the SOA in this capacity at this time, please contact Lois Chinnock (*lchinnock@soa.org*) and have your name removed from consideration.

Similarly, if you are eligible and also passionate about serving the SOA and wish to communicate this to the Committee on Elections, please let your wishes be known to Lois Chinnock (*lchinnock@soa.org*).

The 2003 elections process will begin in late November, so time is of the essence.

SOA board volunteers due December 2

The Committee on Elections is beginning to prepare for the 2003 SOA board election's first ballot. If you are an FSA and would like to be considered as a candidate for Elected Board Member on the first ballot, please summarize your accomplishments and service in a letter to Rob Brown, chairperson of the Committee on Elections, and send it to the SOA office by December 2 (475 N. Martingale Road, Suite 800, Schaumburg, IL 60173). Questions may be directed to Lois Chinnock at the SOA office (phone: 847/706-3524; fax: 847/273-8524; e-mail: *lchinnock@soa.org*).

ce corner

Hot topics for December

by John Riley, SOA managing director of continuing education

In a period of six days in early December, the SOA will produce five seminars that demonstrate clearly the wide range of issues facing actuaries in the Life Practice Area. Courses on beginning and advanced risk management, critical underwriting issues, new business workflow processes and the new CSO 2001 should attract actuaries and non-actuaries involved in product development and all aspects of risk management. Here are brief synopses of each:

Beginning Risk Management, held at the New York Marriott Financial Center on December 4-5, provides an overview of all parts of the risk management process, focusing on both methods of quantifying risks as well as the processes for managing those risks. **Advanced Risk Management**, conducted at the same location immediately following the beginning seminar on the 5th and 6th, presents the latest risk management practices with a focus on real problems and solutions.

The underwriting function is changing its shape, but not its place. **Critical Issues in Underwriting**, which takes place on December 5-6 at the Tampa Westshore Marriott, looks at many current challenges. Specifically, with regard to reinsurance, who has what risk? What constitutes the reinsurer's price when speed to issue and expense savings are not passed on by the direct insurer? What are the answers to hard questions about medical issues? And where does the "Preferred Risk" idea fit?

When it comes to workflow processes, profit lurks in many places … some new and others surprisingly familiar.

Improving Profitability in New Business Operations, held at the Broadmoor Hotel in Colorado Springs on December 9-10, examines where efficiency in new business can be achieved through innovative technologies and intelligent management systems.

The CSO 2001 table will have an impact that should reach all the way to the philosophy of the company. **CSO 2001: Impacts and Strategies for Solving The Business Problem** explores how companies can use this watershed to transform their operations. The seminar, which is jointly sponsored by Aon Consulting, will be held at Disney's Broadwalk Resort in Orlando, Florida on December 9-10, 2002.

For complete seminar agendas and registration information, visit the SOA web site at *www.soa.org* and look under "Meetings/Seminars".

SOA customer service department provides "one-stop shopping" for members

by Bill Breedlove, SOA marketing communications specialist

This November, things are going to be a little different for members of the SOA. This month, a new era of service and attention to members' needs will begin with the launching of the SOA's customer service department.

"We're all very excited at this opportunity to increase the level of service to our members," said executive director Sarah Sanford. "I think the new customer service department will really make a difference."

Partly in response to information received from the Member Satisfaction Survey, the customer service department is ready to launch on November 25th. But, as pointed out by Penny Figlewicz, customer service manager, this project has been in the works for some time.

"The thing we really want to emphasize to all our members is that someone is always available for them," said Figlewicz. "We want people to view the customer service department as 'one-stop shopping' for dues processing, CE & exam registrations, publication orders, membership informational questions and problem resolutions."

Any queries—from the status of dues to finding out if one is registered for a particular CE presentation—will be able to be handled via the customer service department. To make things even easier, a toll-free number will be phased in to allow callers to be linked directly to someone who can assist them.

And, of course, the number-one priority of the customer service team will be meeting the needs of the customer. "The customer service team we have assembled is exceptionally service-oriented," said Figlewicz. "Everyone is ready and willing to provide answers and solve problems."

To find out more information about the Customer Service Department, log on to *www.soa.org.*

research corner

Finance Research

The SOA has contracted with Dr. John Martin at Baylor University to complete several sections of the Monograph on Interest-Rate Models in Actuarial Practice, which is currently in process.

Health Research

The Health Section and the Committee on Health Benefits Systems Research have contracted with Reden & Anders, Ltd. to produce a study related to the development of expected costs for providing prescription drug coverage to Medicare enrollees.

Life Insurance

The Mortality & Morbidity Liaison Committee has finished its Alcohol Abuse & 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.

If you have any questions, you may contact Jack Luff, SOA Experience Studies Actuary, at 847-706-3571 or *jluff@soa.org*.

Retirement

The Pension Section and the Committee on Retirement Systems Research (CRSR) have awarded a contract to Linda Brothers to conduct a literature review of research on pre-retirement influences on retirement decisions. This project resulted from the jointly sponsored Retirement Systems open topic request for proposals that was distributed in April 2002.

The AAA Pension Practice Council, SOA Pension Section and SOA Committee on Retirement Systems Research have awarded a contract for a survey on retirement plan preferences to Mathew Greenwald and Associates. The goal of the survey is to use the information gained to understand what is important to the public, identify the implications for the use of different types of plans and to inform public policy, plan sponsors and practicing actuaries.

AERF Activity

Wooddy Scholarships

AERF is pleased to announce the four recipients of Wooddy Scholarships for the 2002-2003 academic year:

- Travis Gaertner, *University of Illinois*
- Ge Jennifer Kang, *University of Waterloo*
- Michael Petrauskas, *Florida State University*
- Kathryn Robertson, *University of Western Ontario*

David Garrick Halmstad Memorial Prize

The 2002 Halmstad Prize for the best contribution to actuarial literature published in 2000 has been awarded to Hans Gerber and Elias Shiu for their paper, "Investing for Retirement: Optimal Capital Growth and Dynamic Asset Allocation," published in the *North American Actuarial Journal*, Volume 4, No. 2, April 2000.