



SOCIETY OF ACTUARIES

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Summary of E&E Proposals Adopted by The Board of Governors in June 2003

by Emily Kessler

New examination syllabus announced

By now you hopefully have seen the announcement from the EQ2005 committee on the plan for the redesign of the examination system for candidates studying to become ASAs/FSAs. We've reprinted the summary here, along with information about how to contact the SOA with your comments on the redesign.

Preliminary Education

The subgroup working on the Preliminary Education (PE) component has had three guiding principles:

1. Travel time should be reduced when compared to completing current Courses 1-4. This should not be accomplished by shifting material later in the syllabus.
2. Appropriate education and validation methods should be used.
3. While the main purpose for preliminary education is to set the theoretical foundation for actuarial work, there should be a connection between theory and practice.

The proposal calls for three components:

1. Prerequisites. Topics, which will not be directly validated: calculus, linear algebra, introductory accounting, business law elements and mathematical statistics.
2. Validated by educational experience. Topics where candidates will demonstrate proficiency by submitting transcripts and course descriptions from formal courses which will be reviewed to determine whether they meet the stated criteria. These subjects will include economics, corporate finance and applied statistical methods.
3. Traditional Examination. These subjects will be validated by a traditional examination: probability, mathematics of finance, models for quantifying risk, construction and evaluation of risk models.

ASA Course

The subgroup assigned to work on the ASA course had several parameters and goals in mind:

1. Expose candidates to common situations and useful tools in all practice areas to enable an understanding of the business environment.
2. The premise of the control cycle served as a model for the design. Use of this model allows us to introduce practical experience earlier in the candidate's career.
3. Focus on enhancing the educational aspects of the course while making use of both formal and informal validation methods.
4. Integrate the principles of effective instruction (introduction of key concepts, elaboration of key concepts, practical application of the concepts, assessment of concept understanding and application of the concepts in other contexts) via a modularized, learner-centered, and active and applied learning experience.

The current proposed design includes the completion of eight modules along with Preliminary Education and the Associateship Professionalism Course (APC), in order to earn the ASA designation. Candidates would be able to begin the ASA course prior to completing the PE requirements. Throughout the eight modules, candidates will be exposed to themes of professionalism, result validation, applications of law and wherever appropriate, stochastic versus point estimates. Each module will include coverage of a required body of knowledge within a practical application context; interactive segments which the candidate will use to assess his or her level of understanding and an exercise or exercises in which the candidate will demonstrate understanding of the subject matter.

The emphasis of the entire ASA course design is *education over accreditation*. Some exercises for selected candidates will be formally validated; a process for informally validating exercises prepared by other candidates will be created for candidates who elect this help. Candidates must pass a multiple-choice examination following Module 4 and Module 8.

FSA Component

Following the attainment of the ASA, candidates continuing to work for the FSA designation will need to complete the following:

1. Modules similar in format and delivery to those used in the ASA course, most of which may be practice-area specific.
2. Two examinations, each similar in size to the current Course 8 examinations.
3. A capstone module that may be similar in structure to the ASA course modules or may use a seminar format.
4. A concluding seminar equivalent to the FAC.

All candidates will be required to complete the two FSA-level examinations within the same practice area. The examinations will reflect coverage of the following topics, as applicable to the individual practice areas:

1. Regulatory Considerations (including accounting, taxation)
2. Valuation
3. ALM/Risk Management
4. Product Design
5. Pricing (including underwriting, selection of assumptions)

Next Steps

Preliminary Education

- Appoint a PE Design Team, which will be charged with enacting the proposal, with a target implementation date of May 2005.

ASA Course

- Appoint a coordinating design team. The team's first task will be to further define the desired content and accreditation for the course modules with input from the practice area advisory groups.
- Form individual module development teams within six months of appointing the coordinating design team. These teams will then proceed with the development of the course.
- Concurrently, detailed cost specifications and an implementation plan will be developed.

Citigroup Pension Discount Curve and Liability Index available back to 1995

The Citigroup (formerly Solomon Brothers) Discount Curve and Liability Index has been updated through June 30, 2003. In addition, the new Excel file includes complete information dating back to 1995. It's updated periodically, and is available on SOA Web site through the Pension Section Web page or directly at <http://www.soa.org/sections/pendis03.html>.

FSA Component

- Refine the learning objectives on the basis of a two-exam-plus modules approach. This will necessitate the prioritization of the learning objectives (validated by exam vs. modules) as well as the drafting of a framework.

Overall

- A complete report to the membership, covering the status and plans for each of the three components, was distributed to the membership and candidates in August. Readers have been encouraged, and are now submitting, comments to:

Eq2005@soa.org

or

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- A conversion plan will be finalized and presented to the general membership and candidates by the end of this calendar year. ♦

What's new from the SOA?

GAO discovers what the SOA already knew

The GAO recently released a report titled *Private Pensions: Participants Need Information on Risks They Face in Managing Pension Assets at and during Retirement*. The report notes that "retiring participants need information and education on various risks that affect the level of income needed during retirement . . . Our expert panel also noted the importance of information and education on how to assess needs in retirement, how to compare annuity and lump sum amounts, the value of expected benefit form DB and

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DC plans, how annuities provide retirement income, and strategies for drawing down pension assets during retirement.” The GAO report is available at <http://www.gao.gov/new.items/d03810.pdf>.

The SOA Committee on Post-Retirement Needs & Risks has known about the knowledge gap and has been working diligently to create a body of work illustrating the misunderstandings people have about their retirement needs and risks. They’ve produced, with help from the Committee on Retirement Systems Research and your own Pension Section, several calls for papers, the Post-Retirement Risk Chart, several surveys, and there’s more on the way. The SOA has decided to take that body of work and build it into a public education campaign, initially targeted at the media, plan sponsors and business press. The goal is to use the work done by the committee to educate the media and, through the media, start to educate the public. The SOA will also actively seek partners for direct consumer education.

Stay tuned to the SOA Web site and more information about post-retirement needs and risks. If you want to know more about what the committee has done, go to the Committee’s Web page at <http://www.soa.org/sections/retirement/framework.html>. For more information about the current activities of the committee, or how you can help, contact Emily Kessler at ekessler@soa.org or 847/706-3530.

DROPs

A new paper on deferred retirement option programs (DROPs), titled *Design and Actuarial Aspects of Deferred Retirement Options Programs*, has been published as an online monograph. These “Deferred Retirement Option Programs” (hence the name DROPs) provide a way for participants to continue to accrue benefits while working beyond the normal retirement age. DROPs have been popular in public sector plans and there is growing interest among private plan sponsors. The paper provides an overview of DROPs looking at common features, case studies, actuarial issues in their valuation, administrative issues in their design and qualification, and DROPs from the point of view of participants and plan sponsors. An excellent way to understand these common.

The paper was sponsored by the Committee on Retirement Systems Research, and can be found at http://www.soa.org/library/monographs/retirement_systems/m-rs03-2/m-rs03-2_tableofcontents.pdf

Interested in more on retirement plan design or the issue of how people retire? Don’t forget the papers from the Retirement Implications on Demographic and Family Change Symposium (held in June, 2002). The symposium may be long past, but the ideas presented are still relevant. Three papers presented at that forum on gradual retirement, phased retirement and factors

influencing participants in selecting a retirement age, were published in the July issue of the *North American Actuarial Journal*. The complete series of papers from the symposium can be found at http://www.soa.org/library/monographs/retirement_systems/m-rs02-2/m-rs02-2_tableofcontents.html.

Pharmacy Drugs for the Medicare-Eligible Population

And finally, of particular interest to those who work with postretirement medical plans ... check out the recently published *Projected Cost Analysis of Potential Medicare Pharmacy Plan Designs*. The Health Practice Area and Health Section jointly sponsored this study of the potential cost of introducing prescription drug coverage for Medicare enrollees. The study, conducted by Reden and Anders, estimates and compares the current costs of providing prescription drug coverage for approximately 30 representative benefit plans. For two of the plans, the study forecasts these costs over the next 10 years. Of equal importance, the study points out the myriad of factors that can impact these costs now and in the future to better inform readers who are comparing proposals currently under consideration by Congress.

The study is a great primer on how different plan designs can affect the cost of a plan, and how prescription drug claims are distributed (both by total claim dollars and cost per prescription). It’s no substitute for a good health actuary, but it can help you understand the issues as you talk to clients and colleagues.

The study is available on the Web site at http://www.soa.org/research/medicare_pharmacy.pdf.

For more information about these items, or anything else going on at the SOA, contact Emily Kessler at ekessler@soa.org, or 847.706.3530. ♦