

Session 066 PD - Private Versus Public Sector Actuaries

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2017 SOA Annual Meeting & Exhibit

MARK BIRDSALL

Session 66, Private vs. Public Actuaries

October 16, 2017



SOCIETY OF ACTUARIES

Antitrust Compliance Guidelines

Active participation in the Society of Actuaries is an important aspect of membership. While the positive contributions of professional societies and associations are well-recognized and encouraged, association activities are vulnerable to close antitrust scrutiny. By their very nature, associations bring together industry competitors and other market participants.

The United States antitrust laws aim to protect consumers by preserving the free economy and prohibiting anti-competitive business practices; they promote competition. There are both state and federal antitrust laws, although state antitrust laws closely follow federal law. The Sherman Act, is the primary U.S. antitrust law pertaining to association activities. The Sherman Act prohibits every contract, combination or conspiracy that places an unreasonable restraint on trade. There are, however, some activities that are illegal under all circumstances, such as price fixing, market allocation and collusive bidding.

There is no safe harbor under the antitrust law for professional association activities. Therefore, association meeting participants should refrain from discussing any activity that could potentially be construed as having an anti-competitive effect. Discussions relating to product or service pricing, market allocations, membership restrictions, product standardization or other conditions on trade could arguably be perceived as a restraint on trade and may expose the SOA and its members to antitrust enforcement procedures.

While participating in all SOA in person meetings, webinars, teleconferences or side discussions, you should avoid discussing competitively sensitive information with competitors and follow these guidelines:

- **Do not** discuss prices for services or products or anything else that might affect prices
- **Do not** discuss what you or other entities plan to do in a particular geographic or product markets or with particular customers.
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Adherence to these guidelines involves not only avoidance of antitrust violations, but avoidance of behavior which might be so construed. These guidelines only provide an overview of prohibited activities. SOA legal counsel reviews meeting agenda and materials as deemed appropriate and any discussion that departs from the formal agenda should be scrutinized carefully. Antitrust compliance is everyone's responsibility; however, please seek legal counsel if you have any questions or concerns.

Presentation Disclaimer

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Background

- 31 years as a life insurance company actuary, including Product Development Actuary, Valuation Actuary, Group Actuary, Appointed Actuary, Illustration Actuary, Chief Actuary
- Almost 7 years working with the Kansas Insurance Department either full-time or as a consultant
 - Member of LATF and several subgroups, HATF and several subgroups, CASTF, Capital Adequacy Task Force, Life RBC Working Group, Investment RBC Working Group

Impressions as a Regulator

- Pleasant surprise: collegial working relationships with actuaries and other colleagues from the states
- Unpleasant surprise: the wars of AG 38 and others
 - Lack of trust between regulatory actuaries and company actuaries
 - ASOPs viewed as not specific enough and ABCD referrals as ineffective
- Observe operation of SOA working groups, AAA working groups, ACLI, AHIP, consumer representatives, other stakeholders

Political Forces at Work

- Working behind the scenes with companies that are struggling
 - Financial Analysis Working Group (FAWG) holding domestic states accountable
- Tilting the playing field in favor of a state's domestic carriers through permitted practices and other exceptions
- State examinations may be impacted by local economic issues
- International pressure for changes in U.S. regulations to be considered "similar" to other international regulatory jurisdictions
 - Credit for Reinsurance
 - Operational Risk
 - OSFI presentations to the NAIC

Role of the Commissioner

- Commissioners have very broad authority to specify assumptions and methods for calculating reserves to provide an acceptable actuarial opinion
- Commissioners vary significantly in the degree of involvement of their staffs at the NAIC
 - Some Commissioners want to influence NAIC outcomes, while others want to be in the mainstream and not stand out
- Most Commissioners are appointed by the Governors of their states, while about 13 are elected
- The average tenure of Commissioners is less than 5 years

Reviewing the RAAIS

- Received a RAAIS containing about 45 words (not counting the questions)-a minimalist approach
- Simply answering the required AOMR questions in the RAAIS is not very helpful by itself
 - Don't know whether the company is holding additional reserves due to asset adequacy analysis or not
- Some actuaries treat the RAAIS as an executive summary, which is much more helpful to the reviewer
 - Embed answers to the AOMR questions as part of the summary
 - Identifying what has changed from the prior year is very helpful
- Most RAAIS submissions are less than 10-15 pages

Reviewing the Actuarial Memorandum

- Many of these actuarial memos are very detailed and informative
- Justification of assumptions, including Actual to Expected (A/E) ratios is often lacking
 - Hand-waving is fairly common: “based on my professional judgment and experience” rather than an experience study by the company or industry
 - Experience is “not credible” so it is completely ignored
- Sensitivity testing is most often not used for anything meaningful in the analysis
- It doesn't seem to be a settled issue among appointed actuaries whether assumptions used in asset adequacy analysis should contain margins or not
- Every company that I have seen holding additional reserves has a different method for calculating the additional reserve

LTC Rate Reviews

- The fundamental issues seem to be the expectation of a level premium (even though guaranteed renewable contract form) and the timing with which companies acted on the unfavorable emerging experience
- Some carriers dislike the term “mis-pricing,” but the question that must be answered is to what extent are insureds responsible for the actions of the company both in its original pricing and in the management of the in force business?
- Every state has its own methodology: some states just give a maximum increase without much analysis
- Minnesota and Texas are leading efforts at the NAIC to establish more uniformity among states in the review process
- AHIP and consumer representatives are very engaged in the discussions

Conclusion

- Trust gap between companies and regulators leads to much of the regulatory complexity
- Some actuaries are not very objective in their assumption-setting
- The ABCD is not viewed by regulators as an effective check on questionable actions of some actuaries
- The manual processes of regulatory review need to become more efficient and effective



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WILLIAM FORNIA, FSA, MAAA, EA, FCA

066 PD - Private Versus Public Sector Actuaries

Monday, October 10, 2017



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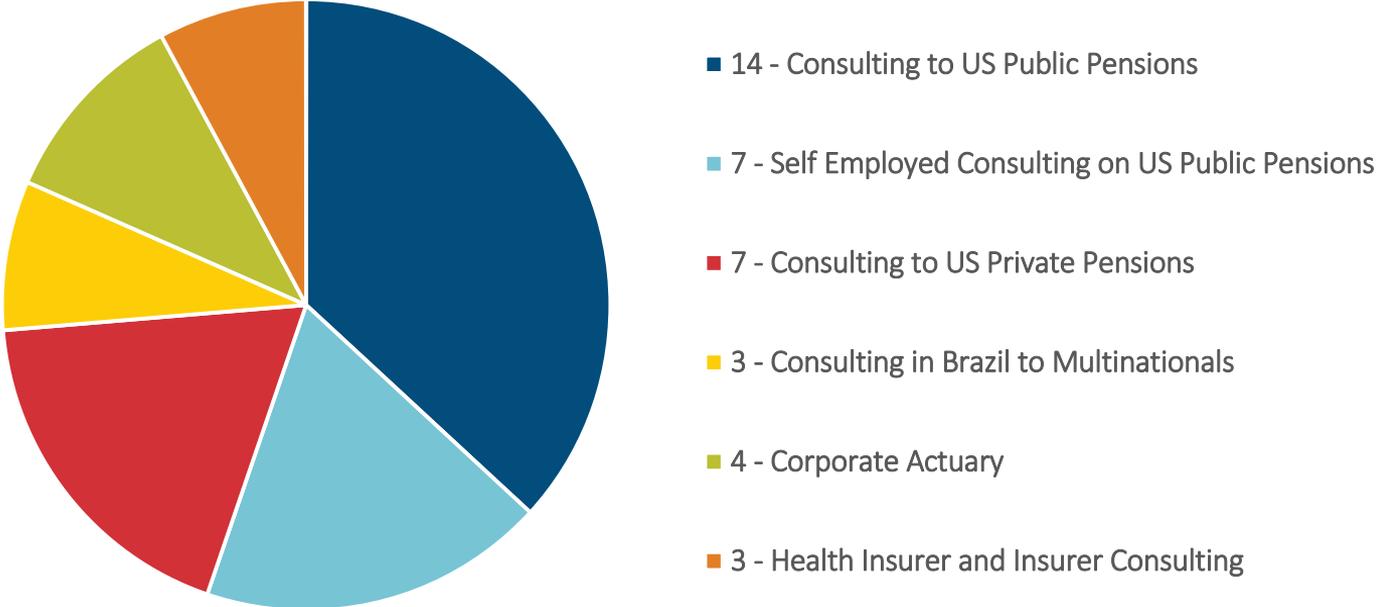
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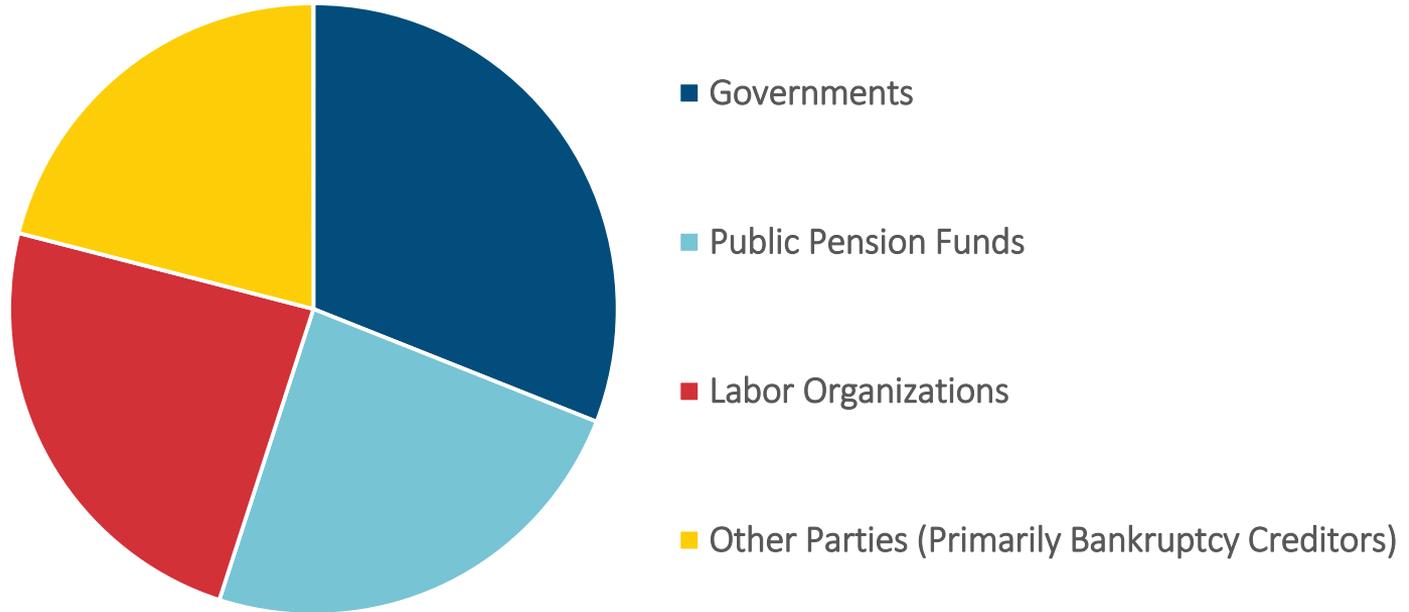
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Overview of 38 Year Actuarial Career



Who have been PTA Public Sector Clients?



How do public and private plans differ?

- No ERISA
- Laws vary by state and municipality
- No ERISA accrued benefit rules
- Plan boards vary tremendously
 - Some dominated by labor
 - Some dominated by management
 - Some well balanced

How do public and private sector clients differ?

- Both work very hard
- Public has much more transparency
- Public has no profit motive
- Our work impacts society



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