



theactuary

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HIPAA hype and hope: implications for actuaries

by John Phelan and Steven Abbs

The Administrative Simplification Provisions of the Health Insurance Portability and Accountability Act of 1996 (HIPAA) have had far-ranging implications for health care. Much of the focus has been on the compliance burden for health plans and providers. This suggests an increase in the overall cost of health care, although there is not much information available to assist actuaries in recognizing these additional costs in medical trend assumptions. More far-reaching may be

the impact of HIPAA's standard transactions in producing better quality data that can help our profession improve its understanding of health care costs.

HIPAA hype

HIPAA has several components with significant impact on health care, including COBRA and Medical Savings Account provisions. Much current attention on HIPAA, however, has focused on its Administrative Simplification provisions because of recent and pending compliance deadlines. Of special concern has been the cost impact of compliance on health plans and providers.

Initially, proponents touted HIPAA Administrative Simplification as a way to achieve health care cost savings through standardizing health care transactions in a manner similar to the standard transactions used throughout the financial services industry. These standards encompass claims, treatment, authorizations, claims status inquiries, eligibility inquiries, explanations of benefits and premium payments. Additional provisions to protect the privacy and security of health information also became part of the Act.

The Department of Health and Human Services (DHHS) estimates the 10-year gross savings from HIPAA should reach \$30 billion compared to less than \$18 billion in costs. The short-term reality, though, has been considerable industry-wide compliance costs. For example, the Blue Cross and Blue Shield Association estimates privacy compliance costs at \$43 billion. All health care organizations may have modified business processes, at least

to some extent, to accommodate HIPAA's privacy protections, thus incurring expenses for operational changes and documenting of HIPAA-compliant policies and procedures.

HIPAA's electronic transaction standards have required every health plan, and those provider organizations that conduct electronic transactions, to retool information technology systems, at a cost the DHHS acknowledges to be in the tens of billions of dollars. The health care industry is also ramping up to meet mandated electronic security requirements by April 2005.

Actuarial implications

For actuaries, HIPAA has presented several issues:

- The immediate need to develop policies, procedures and practices that meet HIPAA's privacy and security requirements.
- Estimation of the impact of HIPAA on actuarial assumptions on future medical cost trends.
- The potential for improving the quality and quantity of data available for analysis.

Unfortunately, the first two issues have not lent themselves to much constructive analysis. Milliman's own experience is probably not unique in which the firm had an opportunity cost estimated into the thousands of actuary and consultant hours to develop documented HIPAA-

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Survival of the fittest actuary

by Loretta Jacobs

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My father, an aerospace engineer, spent his whole career at one company. For more than 40 years he worked in the same place, with the same core group of people, at the same location, driving the same commute, and doing essentially the same type of work—at progressively higher levels—all that time. I always admired his work ethic and his dedication and loyalty to his company.

The best laid plans

If I had been asked 10 years ago to project where I would be today, I probably would have said I would be working at the same company, at the same location and doing the same type of work with the same people. I never imagined that I would have relocated from the East Coast to the Midwest so that my husband could accept a new position in banking—just in time to avoid the “integration effort” (downsizing) that was expected after his employer was acquired by a large, local competitor. Nor would I have predicted that after almost nine years of employment at the same place while living on the East Coast, I would be employed by three different companies during the four-plus years I spent in the Midwest. A wild ride it has been, indeed!

Career changing can be constant

Perhaps even more interesting is that in talking to fellow actuaries, I find that my situation is by no means unique. I have spoken with actuaries who have been downsized, or even worse in my opinion, “right-sized” by companies trying to improve their bottom lines by tightening their belts. I have encountered many actuaries who have voluntarily or involuntarily changed jobs after mergers or acquisitions due to integration and elimination of positions and/or significant alteration of their roles in the new merged corporate entities. I have talked with others who tried something new, such as financial reporting as opposed to pricing, or consulting as opposed to insurance company employment, but decided they weren’t happy with the change and reverted to their original career paths. I know several actuaries who have pursued actuarial science as a second career and others who have given up actuarial work to pursue a second career in another field.

The survival instinct is strong

Without exception, the one common characteristic all these individuals appear to exhibit is a strong survival instinct. They have been able to pick themselves up from somewhat unfavorable situations. They have found ways to take charge of their careers and not allow themselves to be victimized by the poor economy, the latest and greatest steps in the CEO’s handbook to improve the bottom line or the need to relocate due to the career demands of a mate. Has this been easy for any of them? Probably not.

Changing careers is never easy. It takes a lot of courage and self-confidence to try something new—something that is not listed in the experience section on your resume. Staying in the same career field, but with a different employer, is often not easy. Relocating to an unfamiliar place where you have no friends or family is certainly not a first choice for most people. However, survivors find a way not only to make it through the trying times but to flourish, regardless of the circumstances. When they’re given lemons, they make lemonade. When faced with the prospect of losing their jobs or having their jobs substantially altered due to a merger or acquisition, they see the opportunities to pursue alternate career paths that they might not have considered otherwise.

Being too comfortable can be detrimental to your career health

About five years ago, an actuary friend of mine told me her philosophy on employment. She thought actuaries should change jobs once every five years, but not less than once every 10 years. It was her contention that an actuary who stayed at the same company for more than 10 years had too much of his/her knowledge tied to the current employer. Consequently, the actuary would be less marketable to other employers who would not value (and pay) as much as the current employer for institutional knowledge that wasn’t their institutional knowledge. In the meantime, the current employer would begin to take the actuary for granted as always being there, and would look past the employee at promotion and raise time because the employee had never

Control Cycle

The use of the Control Cycle as the framework for the ASA course is an example of a solution looking for a problem. While the Control Cycle is a useful pedagogical tool in certain circumstances, it's not well fitted to the ASA course. In thinking about this, it's important to remember that the basic ASA exams will be mathematical in nature. It is more sensible, therefore, to make the supplementary material topical, particularly since it will not be tested except in later examinations.

I would suggest that rather than having sections called "Choice of Assumption," we have sections called "Life Insurance," "Annuities," "Health Insurance," "Finance," "Risk Management" and a few others. This would give students background in the basic businesses actuaries are involved in; if we want to incorporate the Control Cycle in each module that might make sense.

The E&E Redesign Committee has gone astray here and needs to return to the basics of actuarial education.

Henry Siegel
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Stuart Klugman responds

I want to thank Mr. Siegel for sharing his views concerning the ASA Course.

While Preliminary Education will cover the underlying mathematics, the ASA Course will be focused on the practical aspects of our work as actuaries. The ASA Course, "Fundamentals of Actuarial Practice," will focus on what actuaries do. The course is an introduction to actuarial work and we feel that it is more important to demonstrate the similarities between areas of practice rather than to focus on the differences between them. This approach also facilitates the understanding that there are other types of applications in which actuarial expertise can be utilized. Specialization, by practice area will occur, but in the later FSA component.

As Mr. Siegel points out, the Control Cycle can be seen in each of the traditional areas (life, annuities, health, pension, etc.). It follows that each area of practice is impacted by each step of the Control Cycle. In short, the Control Cycle is a process. It serves as a framework for organizing the course and for demonstrating how actuaries working in the traditional fields, as well as

those actuaries expanding our work into non-traditional fields, are using the same tools, approaches and models.

It is the hope that the ASA Course and all the other components of the Education Redesign will help realize the SOA vision "to have actuaries be the leading professionals in the modeling and management of financial risk and contingent events" in all areas. ☺

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given any outward sign of dissatisfaction. That is, the non-squeaky wheel never gets any grease.

I asked her how she personally knew the right time to change jobs. She said it was whenever she "became comfortable" in her job. Once you become too comfortable, she said, you no longer stretch yourself—you know the routine and what needs to be done on a daily basis. You no longer try to prove yourself to your manager, which may indicate to both management and your coworkers that you accept your current position on the totem pole. In her mind, being comfortable is tantamount to career suicide.

General Electric is known for its commitment to transfer managers every two years. They believe good managers can manage anything, and that those employees who are afraid to take risks by trying something new in their careers are not cut out for senior leadership positions in the company. So to succeed in GE, you must be willing to

pursue, and ultimately flourish in, positions that stretch your talents and your base of career experiences. GE and my friend appear to have somewhat similar philosophies on career management.

My personal experience

I can't say that I agree completely with my friend or with GE, but I can say that most of the career changes I've made have been for the best. As I look back, I can say that I was, in fact, too comfortable in my job on the East Coast. I had built up a lot of institutional knowledge and experience in a very specialized product line. Ultimately, the move to the Midwest precipitated by my husband's job change—not by my own initiative—allowed me to learn several new products, broaden my knowledge of financial reporting and analysis and try actuarial consulting. Had I remained in my job on the East Coast, I never would have been exposed to these opportunities.

I don't know for a fact that I am more employable now than I was 15 years ago, but

I do know I now have a lot more confidence in myself and my ability to adjust to new surroundings. I also feel I can contribute more than my fair share to any employer I work for now than I did when I first started out in my career. Given all the recent headlines about merger and acquisition activity in the life and health insurance industry (Manulife buying John Hancock; Anthem buying WellPoint; Safeco selling its life business, etc.), I am really glad that I have had these experiences to draw on.

There may be a lot of truth in Nietzsche's theory that what doesn't kill you makes you stronger. I wonder if he also had a theory on the best way to explain career changes to one's father. ☺

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compliant practices. The greatest return on this investment is intangible: the ability to assure clients that information sent to the firm that is considered Protected Health Information under HIPAA (individually identifiable health information) will stay protected.

Problems associated with the second issue—the impact of HIPAA on medical cost trend assumptions—can appear intractable. Cost and savings estimates for HIPAA in aggregate vary widely. To pass HIPAA into law under congressional rules required a demonstration of overall savings. Thus, DHHS produced the net gain estimate of \$12 billion over 10 years. But this savings estimate is greatly debated, and some privacy compliance cost estimates easily surpass the government's estimate of gross savings. Further, even accepting the DHHS figures, in a country with \$1.5 trillion and growing annual health care expenditures, the potential health care cost reduction is less than one-tenth of one percent.

For individual health plans, HIPAA's impact may be slightly more accessible to analysis, and seemingly produces greater savings than indicated by the government's aggregate analysis. Compliance costs may be inferred from changes in actual plan administrative expenditures over the last several years. These administrative costs should have increased as plans worked to become compliant and should drop as implementation activities wind down. To the extent that a health plan can replace paper transactions with electronic standards, it should see savings as much as three dollars a claim, primarily as a result of staff reductions. Other savings in the range of two-to-four percent of claim payments can accrue through improved claims management such as the use of electronic intelligence for claims analysis to identify fraud and improved benefits coordination.

HIPAA hope

For actuaries, the third benefit may be the most intriguing—improvements in the quality and quantity of data available for analysis. As a result of electronic submissions, actuarial analysis may benefit in the following ways:

- More timely and accurate data—Actuaries analyzing health plan data know the frustration of contending with problematic data, and paper-based data sources increase the probability of poor data. Manual processing from paper claims introduces significant possibility for data-entry errors compared to accepting the input from an electronic file, especially since electronic intelligence and the greater number of required information elements in the standard transactions format work in conjunction to ensure data quality. In addition, less variability in claim payment time lags may occur as a result of shifting from paper submission to electronic submission. As a result, such estimates as incurred but unpaid claim liabilities could become more stable over time.
- Richer data—Actuaries need to perform analyses concerning unique aspects of health plan design such as the impact of pre-treatment authorizations. HIPAA standard transactions assure a richer database by mandating relatively comprehensive and uniform information elements that claim staff processing paper claims might not otherwise record or maintain. More detailed data is helpful in understanding the reasons for increases in claim payments. Further, and especially in an era of health plan mergers and acquisitions, standard formats and coding will aid in integrating different databases that a plan may maintain.
- Reduced possibility for data errors—Standard electronic transactions mandate that data elements appear in standard formats and sequences. This should reduce the possibility of errors that result from misinterpreting database elements and from formatting inconsistencies.

HIPAA's dramatic impact

HIPAA's administrative simplification provisions have already dramatically changed the provision of health care services with detailed requirements for safeguarding an individual's medical information and standardization of transactions between health plans and providers. The cost of achieving these benefits is greatly disputed and thus difficult to factor into actuarial analyses such as assumptions on health cost trends.

A greater shift to electronic transactions between health plans and providers, however, should not only result in longer-run cost savings to health plans, but will also greatly enhance the quality of data available for actuarial and other analytical projects. Moreover, actuaries have an important role in helping health plans determine the costs and benefits of alternative strategies to convert provider transactions into electronic formats and in assuring that health plans realize a benefit from their HIPAA investment. 

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Healthy competition?

AHP legislation may expand the health care coverage playing field

by James T. O' Connor

Recently there has been much publicity about Medicare reforms to include prescription drug coverage for seniors. However, there has been relatively little publicity concerning a movement in Congress to amend the Employee Retirement Income Security Act (ERISA). This movement would allow the creation of federally certified association health plans, or AHPs, to instill new competition and offer lower cost health plans in the small employer marketplace in order to attempt to reduce the growing number of uninsured people in the nation. The Small Business Health Fairness Act of 2003 under consideration in the Senate aims to provide a new, federally certified outlet to lower health care costs for and expand health care coverage among small employers. The House passed this bill in 2003.

Small businesses and health care

Once again the number of uninsured in the United States is increasing, after a slight decrease during the business boom of the late 1990s, renewing public policymakers' emphasis on the need to address this important issue. Most of the uninsured are employed by small employers (with fewer than 50 employees) or dependents of workers in the small-employer group sector. Furthermore, when offered a plan, many employees of small businesses go without coverage due to affordability; others obtain coverage through their spouses or purchase individual insurance. The latest Medical Expenditure Panel Survey (2001 data) conducted by the Agency for Health Care Research and Quality shows the following statistics for health insurance (see Table 1).

The bills in Congress are HR 660 and S 545. The House approved HR 660 in June 2003; no action in the Senate has occurred on S 545. The identical bills, which amend ERISA, have the support of the White House. Under the bills, AHPs:

Table 1

Distribution of Health Plan Coverage by Employer Group Size				
Census Category	Employer Group Size			
	Under 10	10-24	25-49	50+
Total Groups (000)	3,594	752	308	1,490
% Offering a Health Plan	38.6%	67.4%	80.1%	96.9%
% with No Plan	61.4%	32.6%	19.9%	3.1%
Total Employees (000)	14,262	9,746	7,833	82,648
% Offered Health Plan by Employer	48.1%	72.5%	84.4%	98.2%

Source: 2001 Medical Expenditure Panel Survey, Agency for Research and Quality

- Must be certified by the federal government, entailing sponsorship by a bona fide trade, industry, business or professional association that exists "for substantial purposes other than that of obtaining or providing medical care." An AHP must be established as a permanent entity actively supported by dues-paying members; must not condition membership, dues and benefit coverage on the basis of health status-related factors; and must not condition membership and dues on participation in a sponsored health plan.
- May offer fully insured coverage through health insurance carriers, self-insure benefits or offer a combination of both.
- Are exempt from the benefit mandates that many states require of group insurance plans.
- Are subject to the insurance laws of only the state in which the group AHP is legally issued. AHPs that sell in multiple states have to adhere to the rating and underwriting laws of only one state.
- Must pay premium taxes and other assessments to the states in which they do business.
- Are subject to specific reserve and surplus requirements to be established by law and regulation. Fully insured AHPs have no additional reserve and surplus requirements, but their health insurance carriers are subject to the requirements of the states in which they do business. AHPs that self-insure some or all health benefits would be subject to federal reserve and surplus requirements, some of which are spelled out in the bill.

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association health plans

Healthy competition?

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- Are subject to the Health Insurance Portability and Accountability Act (HIPAA) and its various provisions regarding guaranteed issue for association members, guaranteed renewability of plan coverage, portability of coverage and prohibition against treating some employees or dependents in a group differently due to their health status.
- Are regulated primarily by the Department of Labor (DOL), with states, primarily the state of plan domicile, retaining jurisdiction over certain aspects of the program.

As of October 2003, the Senate had not yet acted on the bill and was not expected to act on it prior to year-end. However, according to legislative lobbyists concerned with the issue, it is expected that the bill will be resurrected in 2004 and promoted by advocates with much more intensity due to the fact that 2004 is an election year.

Advantages of AHPs

The DOL, in support of the bills, maintains that ERISA preemption of the 50-state insurance regulatory systems has resulted in large employers and unions providing health benefits, and that a similar structure could also benefit small employers. The DOL emphasizes that AHPs offer greater bargaining power, economies of scale and administrative efficiencies—all of which can lead to lower premium rates. In addition, the bills include important safeguards, including federal certification, prohibitions on “cherry picking” by AHPs, “rigorous and nationally uniform” financial solvency

The chief fear of opponents is that AHPs will attract healthier and younger groups on average...

standards and consumer protections required by HIPAA. Other proponents assert that AHPs introduce competition into the market, expand accessibility of coverage, lower premiums, increase the number of groups offering coverage and

reduce the number of uninsured, while remaining subject to the rating and underwriting regulations of the plan’s issuing state.

AHP drawbacks

Those voicing opposition contend that AHPs will create serious problems for the current state-based small employer insur-

The DOL emphasizes that AHPs offer greater bargaining power, economies of scale and administrative efficiencies—all of which can lead to lower premium rates.

ance system and ultimately result in a two-tiered health insurance system. The chief fear of opponents is that AHPs will attract healthier and younger groups on average, leaving state-regulated plans with less healthy and older groups to cover, requiring premium rate increases. In turn, more healthy groups would then flock to the less costly AHP market, further causing adverse selection against state-regulated plans.

Some believe that the anti-selection spiral could result in the death of the state-regulated health insurance market as we know it today. Furthermore, opponents argue that, by allowing AHPs to pick the issuing state of their plans—a process referred to as “forum shopping”—the bills will result in undoing the consumer protections that states have carefully introduced into the small employer insurance market. There

are also concerns about the adequacy of the solvency requirements, lack of state controls over market conduct and fair marketing and potential confusion regarding oversight responsibilities.

Impact on states

Some states are more likely to be affected by the proposed federal AHP requirements than others. States that require pure community rating (i.e., charging the same premium for each employee based on his or her family composition) and tight rate banding (i.e., setting health insurance rates within a specific range from highest to

lowest risk) for their small employer group carriers—as well as those with costly benefit mandates—are more exposed to adverse selection than states with relatively wide rating bands and few mandates.

For example, the state of New York requires use of pure community rating by small-employer group insurance carriers. Premium rates cannot vary by age or gender, unlike in most other states. Thus, an AHP domiciled in a state that allows age/gender rating could set its premiums for New York groups based upon the actual age/gender distribution of the group, while the state-regulated plan must charge the community rate. For large groups with distributions similar to the community, the two rates might not vary much (all other things being equal). But small groups rarely have distributions similar to the community. Therefore, the AHP rate is likely to be higher or lower than the state-regulated group (all other things being equal).

To illustrate this through example, consider two different groups in the Syracuse area, each with four single employees. Table 2 shows the sample group censuses and the resulting premium rates offered by the unbridled AHP and by the state-regulated community-rated plan. Benefits are identical (e.g., \$250 deductible, 80%/20% coinsurance to

Table 2

Sample Premium Rate Comparison		
	Group 1	Group 2
Employee 1	Male Age 25	Female Age 27
Employee 2	Male Age 32	Female Age 35
Employee 3	Male Age 37	Male Age 45
Employee 4	Male Age 46	Male Age 57
AHP Premium Rate*	\$ 738.17	\$1,431.64
State-Regulated Rate*	\$1,288.85	\$1,288.85
Ratio of AHP to Regulated	57.3%	111.1%

* Based upon Milliman USA Health Cost Guidelines (7/1/2002 edition) and an 80% target loss ratio%

\$1,250 out-of-pocket including the deductible), except that the AHP chooses not to cover state-mandated mental health and substance abuse services.

As the example shows, Group 1 subsidizes Group 2 under the state-regulated community rating market, but each group is rated on its own characteristics in the AHP market. The temptation to move to an AHP plan would be great for Group 1, but would make no sense for Group 2. While this example is extreme, more skewed examples could be illustrated. States that allow age and gender rating but limit other rating characteristics will experience less rating variance from AHPs, but will still be affected, albeit to a lesser degree.

The example illustrates that the AHP proposal will make health insurance more affordable to younger people who comprise the majority of the uninsured, provided that they are in a younger and healthier group than average. The proposal also appears likely to result in increased rates for those groups that stay in the state-regulated market.

Input from the American Academy of Actuaries

In a letter dated April 28, 2003, to John Boehner, the chairman of the House Committee on Education and the Workforce, the Association Health Plan

Work Group of the American Academy of Actuaries (AAA) presented comments regarding the proposed legislation. The comments pointed to “some of the unintended negative consequences of the legislation” that included:

- Creation of an un-level playing field due to different rules applying to AHPs versus state-regulated insured plans, which would “lead to cherry-picking, adverse selection and increased costs for sicker individuals.”
- Greater risk of insolvency of AHPs, unless the proposed rules were strengthened to be similar to the minimum risk-based capital (RBC) requirements of the NAIC.
- Unclear regulatory authority in the legislation between federal agencies and the states could lead to conflicting rules or a lack of effective regulation.
- Unclear whether states would have the authority to levy assessments on AHPs.
- A call that qualification to issue an actuarial certification of AHPs required by the legislation include membership in the AAA and pertinent health actuarial expertise.

- An assertion that expense reductions anticipated by the passage of this bill were unlikely to materialize.

Closing remarks

As with most legislation, there are likely to be winners and losers. Healthy groups that today subsidize less healthy groups could benefit from passage of the bill, while the less healthy groups could end up paying more for coverage (receive lower subsidy). Of course, today’s healthy group could tomorrow become unhealthy. Uninsured groups could be beneficiaries of the bill if enacted into law since it could make health plans more accessible and affordable to many. Certain health providers, particularly those that specialize in the types of mandated services that may be excluded in AHPs, could also be losers if Congress approves the bill.

If the bill becomes law, states will need to assess the extent to which their small-employer insurance laws and regulations will expose state-regulated health plans to adverse selection and possibly revise some of the current rules to minimize the impact on the plans and groups insured by the plans. Health insurers will need to decide whether to align themselves with associations to create AHPs and how their current small-employer group business will be managed alongside any AHPs they may insure. And small employers will have to decide whether to obtain health care coverage through an AHP based on premium rates in addition to considering the reputation of the health plans, the benefits offered and the provider networks available. ☺

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How much impact does health care reform really have on health insurance merger activity?

by James G. Stoltzfus

Would health care reform lead to significant merger and acquisition (M&A) activity in the health insurance industry? The reality is that there is no available evidence to directly answer this question. First, there

The causes of M&A activity

The bottom line—that's what it all comes down to with regard to M&A activity. A company generally does not enter into an M&A decision unless there is potential to

There has been a significant amount of merger and acquisition activity recently in the health insurance industry that is clearly not being driven by health care reform...

has not been a far-reaching, widely publicized government health care reform proposal since the ultimately unsuccessful Clinton plan in 1993. There is a current Association Health Bill in Congress that, if passed, would amend the Employee Retirement Income Security Act (ERISA) to allow some plans to be characterized as association plans, subjecting these to the rules of one state, rather than multiple states. This could cause a flurry of activity, particularly for insurance company shells or companies licensed in less restrictive states. Secondly, there has been a significant amount of merger and acquisition activity recently in the health insurance industry that is clearly not being driven by health care reform, so other drivers must be at work. Finally, even if a significant health care reform initiative is proposed, consolidation activity in the health insurance arena would probably depend heavily on the specifics of the proposal itself, making it difficult to generalize from the particular consolidation activity to the broader United States health insurance M&A landscape. We can, however, analyze the drivers of M&A activity in the insurance industry and surmise the impact that certain types of health care reform might have on this activity.

increase the bottom line. The drivers of merger and acquisition activity generally fall into one or more of the following categories:

- *Increase market penetration*—that is, to increase the number of products or markets that a company operates in, or to secure a market niche.
- *Improve operational efficiency*—this is usually achieved through elimination and/or reduction of expenses and other operational redundancies.
- *Obtain capital*—Improve the overall company risk management profile or company ratings—that is, to obtain risks that counter balance each other and/or to lower a company's current risk.

A number of mergers and acquisitions occur due to a combination of these reasons. For example, in long term care markets, capital requirements have forced some companies into the sale of block decisions over the last five years. The outcome has been different from what was expected, particularly in the areas of pricing, thus forcing companies to act quickly to seek capital in to grow the line of business, seek reinsurance or exit the market altogether.

Another example is the introduction of standardized Medicare Supplement plans in the early 1990s. This increased the cost of dabbling in this market dramatically due to increased reporting and statutory requirements, as well as benefit and policyholder disclosure requirements. Companies reacted by increasing their share through mergers and acquisitions, thereby achieving economies of scale or exiting the market.

Recently, mergers and acquisitions in the health insurance industry have become an active topic with the two large mergers announced in late October 2003 (Anthem's purchase of WellPoint and UnitedHealth's purchase of Mid Atlantic). These mergers were not the direct result of health care reform, however. In both instances, the mergers appear to place an emphasis on quality of care, but also allow the companies to increase market share and achieve economies of scale. This is not new. As reported in *BestWeek* on November 3, 2003, a 2001 study by the American Medical Association (AMA) states that 321 health insurance mergers and acquisitions have occurred since 1995. With a couple notable exceptions, these were smaller combinations, likely occurring for the same or similar reasons.

Have sweeping changes affected the industry in the past?

There have been many health reform type changes in the past. These include governmental changes—either legislative or regulatory—such as enactment of Medicare, numerous tax law changes and other reform proposals. A far-reaching legislative change could be characterized as “revolutionary,” forcing a quick and strong reaction to meet the requirements of the legislation.

But other changes such as small group reform or the HMO Act would be characterized as “evolutionary.” These changes are slower to occur and develop, and eventually lead to changes drawn out over time. Medicare has caused the development of the Medicare Supplement market. Tax law changes have enabled the growth and continued evolution of group insurance plans. But other changes have occurred and continue to do so. In the not so recent past, managed care plans such as HMOs and PPOs emerged and evolved and have had a major impact on both health care delivery and funding. But have these changes caused M&A activity? Yes, although not immediately. Much of the M&A activity associated with these changes occurred well after the changes took place.

Environmental changes play a role

Stepping away from enacted reform measures, let’s look at some of the “environmental” changes that are occurring now. These changes are more market-based and tend to be more “evolutionary.” Given the high trend increases in all areas of health care, we have seen new implementation of relative value scales for physician, inpatient and outpatient care. A change occurring today—and a frequent cause of worker strikes and employee disgruntlement—is the increased level of

cost sharing expected of employees in their health plans as employers react to the high trend increases in health care being passed through insurance premiums.

Changes such as those just noted typically create opportunities for a number of industries, including the insurance industry. They spawn special products, market niches or various other changes. For example, as mentioned previously, a Medicare Supplement market exists now as well as other supplement markets created in response to special enactments. Today, fixed indemnity benefit products are being developed to try to rein in medical inflation, limiting the pricing risk to incidence, as opposed to both incidence and cost. These developments, as in the past, will form market niches and new products which, if profitable, could cause other companies to assess and access these areas. Will these changes cause M&A activity—probably not immediately. Any M&A activity associated with these changes will probably occur well after these changes take place, similar to what has happened in the past.

Would health care reform spark some M&A activity?

Drawing from the information presented, the answer would appear to be, “Yes, but probably not right away.” If the substantial

reforms proposed in 1993 had been enacted, a number of new markets could have opened up while a number of existing markets would have dried up quickly. Several companies could have become targets given a reduction in liabilities and corresponding increase in capital held.

So did I draw a new conclusion to the question raised based on this brief analysis? A couple of Yogi Berra quotes are quite appropriate here and can probably best sum up the sagacity obtained from my experience. He said, “In theory, there is no difference between theory and practice. In practice there is.” Perhaps a more appropriate quote to use here is, “It’s tough to make predictions, especially about the future.” 🍷

James G. Stoltzfus, FSA, MAAA, is a consulting actuary with Milliman USA in Philadelphia. He can be reached at jim.stoltzfus@milliman.com.

IAA hosts its 2nd International Health Colloquium

The newly formed International Actuarial Association (IAA) Health Section is hosting the 2nd International Health Colloquium April 27-29 in Dresden, Germany.

The colloquium is designed to cover topics that will create a thought provoking, stimulating experience for health actuaries as well as other scientists and practitioners with interest in health insurance and practical issues. Sessions are planned to cover both health policy and practical health insurance product issues.

For further information, please visit the IAA Web site at http://www.actuaries.org/members/en/IAAHS/conferences/Dresden/provisional_program.pdf. The announcement provides preliminary information on the colloquium and a “Call for Papers” to be presented in Dresden. 🍷

Long term care—a rosy picture or rocky road?

by Dawn E. Helwig

Long Term Care (LTC) insurance has been in the headlines quite a bit lately. It seems that you can hardly open a newspaper or magazine without seeing an article that informs readers about either the positive or negative aspects of purchasing long term care

services—nursing home or home health care—over his or her future lifetime is at least 50 percent. Given that the annual cost of nursing home care could exceed \$60,000 in today's dollars, it can be shown that one spouse's entry into the nursing home, along with the continued

the future tax base or reserves to pay for any expanded benefits. Medicaid programs—which were originally intended to help the truly indigent—are in a state of financial crisis in many states. Adding long term care for the baby boomers to either of these programs would seem to be fiscally impossible.

Both individual and group in-force premiums have increased annually by double digits.

insurance. There have also been several industry articles that discuss another LTC rate increase or company market change. Is all of this attention simply a sign that LTC is suffering from a few bumps in the road while on its way to being an established and stable product? Or is it more ominous than that? The answer to this question depends, in part, on the success of some LTC reform initiatives currently underway, and on the success of future proposed or discussed reforms.

Growing fast

Long term care insurance has been one of the most rapidly growing product lines over the last decade or so. Both individual and group in-force premiums have increased annually by double digits. New premium growth has the potential to increase or even accelerate in future years, due to the aging of the baby boomer population and the "graying of America."

Population projections show that by 2030, the demographic profile of the entire country will be similar to that of the state of Florida today—and that aging population will need long term care. Some estimate that the probability of a 65-year-old needing long term care

living expenses of the remaining spouse, could deplete a couple's half million dollar "nest egg" in about five years. Planning for long term care needs should be an important part of the retirement planning for all but the very rich and the very poor.

Important employee benefit

Long term care has also become an important employee benefit for about 5,000 employer groups across the United States. The policy can help employers deal with the growing challenges of the "sandwich generation"—those who are caring for both children and parents.

The federal government recently implemented an employee-pay-all LTC plan for the federal family. In addition to the important example that this set for other employers, the federal government sent a strong message to middle America: long term care must become a personal and a corporate responsibility, that is, there is no social insurance "bail-out" on the horizon. The current social programs that fund some aspects of LTC—Medicare and Medicaid—are not solutions to our long-range, long-term care problem. Medicare provides very limited LTC benefits and does not have

Bumps in the road

In spite of the seemingly rosy future for LTC, in terms of potential market size and need, the industry has suffered from recent setbacks and criticisms. These bumps in the road include:

- Low market penetration, due to denial of need and lack of awareness among most potential insureds.
- Several companies withdrawing from the market or selling their blocks of business, often citing disappointing sales and/or profits.
- Large rate increases on existing blocks of business, often driven by lower-than-anticipated lapse rates (on a policy with a very steep claim cost curve) and sometimes driven by poor underwriting and morbidity.
- Class action lawsuits due to rate increases.
- Reports and articles (including a recent review in *Consumer Reports*) critical of the industry for having insufficient benefits, high premiums and/or high rate increases.

Reforms underway

If you accept the premise that no current or imminent social insurance program will be able to pay for future LTC needs of baby boomers, and that private LTC insurance thus should be an important

part of most people's financial planning, what reforms or changes in the market or product are needed to provide stability and to serve as incentives for people to buy LTC?

Some reforms have occurred or are being considered at the National Association of Insurance Commissioners (NAIC) level. The most significant of these recently has been rate stabilization legislation, which has put the burden of rate stability on the pricing actuary. While this basic concept is right, one could question whether this legislation would have prevented the historic rate increases that the industry has seen—many of which may have been unavoidable with a product line that was as new and as “experimental” as LTC has been. Pricing data was not available, and the crystal balls were cloudy. Going forward, rate stability requirements should help. Interestingly, rate stability may have actually been the catalyst for some of the most recent rate increase activity. The stability certification has caused many companies to go back and review emerging experience on existing product lines, and has probably led some companies to realize—for the first time—that actual experience is emerging worse than expected.

Other LTC reforms that have been discussed or are currently being considered include the following:

- Tax reforms, which would allow LTC premiums to be above the line tax deductions. Many believe that this would provide a significant boost to sales.
- Medicaid reforms, which would close some of the loopholes which allow the middle class or wealthy to “spend down” assets and qualify for benefits, and would preserve the program for the truly indigent.
- The Long Term Care Initiative, an awareness campaign launched by CMS to encourage Medicare beneficiaries to purchase insurance to cover LTC needs.
- Changes in LTC reserve or Risk Based Capital requirements. Increases in these requirements could ultimately hurt the industry if they caused more companies to exit the market—due to surplus strain issues—or if they led to rates being increased to excessive levels, just to cover the higher reserve requirements.

While not under discussion at present, two other possible reforms might include changes in LTC commission scales, which are currently very front-ended and result in high surplus strains, and some legislative leeway for the testing of other LTC alternative-types of products (e.g., “variable” LTC, where the morbidity risk charge can be adjusted periodically based on experience, or LTC vehicles to tie into reverse mortgages).



Long term care is a complex and evolving product. At this point of the product's life, it could be viewed as a difficult teenager, struggling to keep on the right road. Some bumps in that road are to be expected. However, given the stark realities of future long term care needs in this country, it is to our advantage to do all that we can—legislatively and as product actuaries—to encourage reforms that will smooth out the bumps and keep the product on the right path. ☺

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The **Vancouver**

Spring Meeting Record Sessions

are now available at

<http://www.soa.org/bookstore/record.html>. ☺

The opportunities are limitless

by Neil A. Parmenter—Address at presidential luncheon October 28, SOA Annual Meeting in Orlando



Neil A. Parmenter

Let me first say what an awesome and humbling feeling it is to be standing here as the president of the Society of Actuaries. Before I get started, I want to send out a special thanks to Harry Panjer for all of his great work as president of the SOA last year.

In addition to his extraordinary vision and leadership skills, Harry and Joanne have helped Teresa and I immensely in getting up to speed with all of the protocol and things that are now going on in the SOA. And, as I am sure you gathered from his remarks, there are many things going on.

But before we delve into all that—for the benefit of the three or four people here who either don't know me, or who didn't participate in last year's presidential election by voting for me—I'd like to give you a little bit of my background and how I ended up standing humbly here before you. And believe me, it's a very simple—and brief—story.

I was born, raised, and have lived my whole life—and still live—in beautiful Des Moines, Iowa. I'll bet that really trips your trigger. I was one of those fortunate individuals who decided early in life what I

wanted to do, and graduated with a degree in actuarial science from the State University of Iowa in 1960.

In 1963, I became an ASA, and in 1967 I became an FSA. Right out of college I got my first job with Bankers Life Company, now Principal Financial Group, in Des Moines. It was a fairly decent job and an OK company, so I decided to stick it out there for awhile and see how things developed.

In fact, things were good enough in beautiful downtown Des Moines that I stayed with that job for 38 years until I retired in 2000. If you think that sounds sedate, I must add that my lovely wife, Teresa, and I also raised two cubed (2^3) lively children during that time. They in turn begat almost two to the fourth (and still counting) even more lively grandchildren. And that is about as “mathematically actuarial” as I'm going to get today.

Along the way—in addition to my SOA credentials—I picked up various other organizational credentials: my MAAA, FCA and EA. Over those years as well I have been active for over three decades—as you will note from my 70s coaching attire—in youth sports administration with various organizations such as the Amateur Athletic Union and Little League with involvement in various sports, particularly youth baseball. I learned early on—way back in 1975—that coaching was not my calling, but rather youth sports administration. Still to this day I am very actively involved with that.

As you might expect from that thumbnail sketch, some people would say I am a very steady, level-headed and, I suppose, rather reserved Fellow, with a capital “F.” Actually, I suspect some folks might use quite different adjectives, but since this is my speech, I think we will just stick with those adjectives for now.

In fact, one of the things that I can promise you out of my tenure as your president,

is straight-talking about what HAS been going on, what IS going on and what NEEDS TO go on—both for our organization and our profession. Your Board of Governors has been very busy, and just over the last few days there have been some important developments that I will mention in a few minutes.

But first, let's look at where we are NOW. I assume the presidency at a time when we are fortunate enough to have a blessing of financial resources. And although we must always do those things with the best cost/benefit analysis; and although we still need to prioritize projects because we can't do EVERYTHING we'd like to do; I say NOW is the time to get some things done.

I also assume the presidency at a time when we are blessed with a tremendously talented and dedicated staff. There is absolutely no question in my mind that we presently have one of the best, if not the best, staff-volunteer partnerships in the history of the SOA. Not that we don't need more volunteer help, because we have so much to do and not enough volunteers over which to spread the load. And not that we don't need some additional staff skills, because that will likely always be the case.

NOW is the time to take advantage of the strength of our position and invest some capital to upgrade the value of our credentials, invest some capital to reposition the understanding of actuaries in the market, invest some capital to market our abilities—to both traditional, and most especially, non-traditional markets—and to invest some capital to advance the profession.

Now you might be saying to yourselves, that sure sounds like an awful lot of “investing of capital,” but you will notice that I never said “unlimited resources.” Actually, far from it. So we must certainly optimize usage of our limited resources, remove the redundant and obsolete and

concentrate on doing those things that drive our strategic initiatives and intent.

My predecessors have established many worthwhile initiatives, objectives and environmental framework. In my opinion, it is NOW time to take a step back from adding more new initiatives and instead focus those limited resources—particu-

We must carve out an image as business professionals, experts on the future ramifications of risk from a broad, holistic perspective.

larly our volunteers and staff—on pursuing tactics to successfully implement those initiatives already on our plate.

As Harry mentioned, the Board has been working very diligently to identify choices we need to make in response to what we discovered in several rounds of both employer and member research. The first round asked you—the members of the SOA—about what you thought was important for the SOA to do for you and for the profession.

Basically, the findings could be broken down into four areas: first, maintain and enhance the value of the FSA and ASA credentials. Next, promote and increase awareness of actuaries. Also, provide knowledge about practical/emerging content and new fields. And finally, provide skills necessary to help members be competitive in the marketplace. This all makes very good sense, and you can see the results of some of this reflected in recent activities such as the creation of the new risk management section, for example. But there is also much more. Here are conclusions based on those findings. We need to reposition our image. We need to sell an enhanced actuarial skill-set, not simply sell the word “actuary.” We need to build an “actuarial resume.”

What do I mean by an “actuarial resume?” Just as job seekers would create a resume listing all of their good qualities and skills and experiences to sell themselves to a potential employer, we must do the same as a profession—highlight what we’re good

at. It means that we must carve out an image as business professionals, experts on the future ramifications of risk from a broad, holistic perspective.

We must sell ourselves as excellent problem solvers who have unparalleled expertise in the leveraging and exploiting of risk situations. We must promote more

than just our widely acknowledged quantitative skills, but more importantly that we are “thought leaders.”

Actuaries tend to be perceived with descriptions such as “modest,” “honest,” “realistic” and “ethical.” Those descriptions are great, but I am here today to tell you that the future of our profession depends on adding some new descriptions, like “armed with business acumen,” “trusted advisor,” “effective communicator,” “innovative taker of informed risks” and, perhaps most importantly, “leader.”

To get to that point is going to require some decisive action, so let me sketch out for you some of the critically important areas to address during the next year.

- Advancing the profession.
- Enhancing the value of the SOA to members.
- Education and examination redesign.
- International strategy.
- Governance audit.
- Strategic planning initiatives.

The first critically important area is advancing the profession. At the risk of going out on a tremendous limb, I am going to say that there is not one person in this room who doesn’t see maintaining and enhancing the value of our ASA and FSA credentials as a key component of the

SOA’s mission. Taking that as a given, I say it’s also time to expand that focus—to work on enhancing the relevance of the credentials and enhancing the credibility of the credentials.

Part of that comes from education and continuing education, but perhaps an even bigger part comes from the promotion of actuaries and their image—as a profession—in the wider marketplace.

I am talking about working together with professions outside our own to help our members gain recognition into wider fields—partnering with organizations like ... Academy-Health, Primea, GARP, LIMRA, LOMA, NASI, AIMR, Pension Research Council and so forth. To that end, advancing the profession must be a goal, and it is.

And what do I mean when I say enhancing the value of the SOA to its members? I am talking about providing timely, up-to-date experience studies. (In that employer research I mentioned we repeatedly heard from employers that this was a very important SOA deliverable.) I am talking about the generation and publication of timely, useful research. Again, this was mentioned by employers—particularly with respect to mortality tables—as a key SOA deliverable. I am talking about practical, useful continuing education to help keep up with changing actuarial roles. Even more than obvious successes like our enterprise risk management seminar, or the long term care insurance conference, we need to look at emerging issues from every corner of the discipline.

For example, the SOA sponsored a seminar on financial economics that was held in Vancouver this past June, and it was very successful. We intend to continue at the forefront in cooperation with actuarial organizations throughout the world to discuss this paramount topic and provide information to you—and the general public—in a proactive fashion. I am talking about understandable, useful publications. I know that the *NAAJ* is not intended to be the publication of choice for every member. That’s why we have *The Actuary*, all of the section

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The opportunities are limitless

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newsletters and our Web updates. But the NAAJ does have a definitely definable, appreciative audience.

And the thing is, we're doing all those things well right now that I've mentioned. Is there room for improvement? You bet. But are we doing well at meeting those needs now? Yes! Are we actively forging new partnerships? Yes! Are we addressing issues like the risk management threat from the accounting profession consortium? Yes! Are our CE programs adapting to the changing needs of the membership and providing solid programming? Yes! Are our publications similarly gravitating into new areas to better serve the needs of the membership? Yes!

Of course there is room for improvement, and I think we will see continued improvement. For example, we must continue to build bridges between the research and practical applications useful in our daily work. Ultimately, I think that we are in very good shape going forward.

Now let me turn to education and examination redesign. Rather than rehash Harry's remarks, all I am going to say is that much progress has already been made. We have made efforts to recognize employer demands for practical, cutting-edge topics and for reduced travel time. We are also exploring introducing alternative examination methodologies. In fact, the SOA is partnering closely with the CAS in exploring "exams on demand" technology. As this moves forward, I will update you on the progress. I realize that we don't have 100 percent agreement with everyone on this issue, and while that is unfortunate, the bigger truth is that sometimes you simply cannot satisfy everyone. At this critical juncture, we cannot allow ourselves to be paralyzed by indecision. We are going to have to take some risks to bring the E & E framework more in tune with the needs of a changing marketplace. We absolutely must forge ahead, and we cannot get caught up in waiting to create a mythical "perfect product."

Another critical area is international strategy. I just want to reiterate how much I believe it is critical that the SOA advance, augment and sustain a highly active and visible international presence within the actuarial profession. And I also want to reiterate why the individual member should care about these relationships even though he or she may be far from the daily effects of globalization. If the SOA relinquishes its seat at the international table, the far-ranging implications will be adverse. In fact, in order for the SOA to even be in a position to provide input on international issues, the SOA must be right there—at that table—with a credible presence.

There is so much commonality in the issues and opportunities being faced by actuarial organizations throughout the world. For example, I attended an E & E session at the Institute of Actuaries of Australia annual meeting. I have to tell you that—except for the accents of the voices speaking—if I had been blindfolded, I wouldn't have known I wasn't in one of our SOA E&E meetings. The comments and issues were so parallel to those of the SOA, it became crystal clear that we in the SOA don't have a corner on the issues—or for that matter—the solutions. With respect to solutions, the Aussies are exploring some oral examination possibilities that bear watching. And also, as you may know, ASPA already has exams on demand—so at least we know the technology already exists. I see our role in the international stage only increasing over time, as globalization shrinks the world and breaks down barriers. The SOA's international strategy is currently one of the "mega issues" the Board is addressing.

Now, let me address the two other critical areas: the governance audit and strategic planning initiatives. The Board has been discussing these two critical areas for some time, and over the past few days has taken some decisive action. You might be thinking to yourself, "I am just a member, why should I care about strategic initiatives and governance? I just want to have a valuable

credential and stop getting 50 blast e-mails a week from the SOA."

Well, blast e-mails aside, I am here to tell you that those things we have been discussing in Board meetings are absolutely key to not only helping to maintain the value of our credential, but also to maximizing the value that you, the member of the SOA, receives from your membership.

The Governance Audit and the work of the Strategic Planning Group both represent projects that have been the focus of some extremely important and hard work. And, I am proud to say, this past weekend your Board of Governors took some very strong action in both of these areas. The results of the Governance Audit led to the identification of three issues to address:

- First, the Board wants to be more strategic and respond more effectively to the changing environment of actuarial practice.
- Secondly, the Board wants to make sure that the staff and volunteers are able to focus their energies most effectively.
- Third, the Board wants to address the perception that senior leadership positions may be too onerous to attract actuaries actively engaged in the industry.

I can tell you that the SOA leadership takes these issues very seriously and will begin addressing them immediately. In direct response to the results of member and market research, the Board also looked at three key strategic initiatives: image, traditional markets and broader financial services.

After much lively discussion, the Board is very clear about the direction the SOA is heading with these three themes. With regard to image, it means that the SOA will invest in an image building campaign, and develop plans to build this campaign.

It is acknowledged that the FSA is the dominant credential in our traditional markets. However, it is not enough to rest on our laurels, and a number of actions will be taken to enhance the value further in these key market segments.

As if refurbishing our image and strengthening our position in our traditional markets wasn't enough, the Board also carefully reviewed data from the surveys and has decided on a course of action geared to help members seize the opportunity now available for actuaries in the Broader Financial Services Markets. This means that the SOA will invest in several efforts to firmly establish actuaries in the BFS markets, which may mean enhanced credentials and increased efforts in CE (with certificates of completion) to emphasize skills in demand and those that need the most development.

Whew! Taken all together, the SOA plate of future initiatives is full. And the key to all these new directions will be effective implementation. As they say, "The devil is

in the details." But, as president, I pledge that the volunteer/staff task forces assigned to these initiatives will focus on the job at

The efforts of the volunteer/staff partnership this year represents a staggering amount of work.

hand and will, in fact, make progress toward implementation this year. The efforts of the volunteer/staff partnership this year represents a staggering amount of work. Similarly, I want you to know that your Board of governors has been exceptionally engaged and has tackled an exceptionally heavy workload—with accelerated timelines—with vigor and decisiveness. I am proud to have been a part of this Board.

There are many challenges facing our profession, but also many opportunities. The SOA, while not perfect, is firmly committed to doing the best job it can to help our profession not only meet those challenges, but maximize those opportuni-

ties. This I truly believe. In closing, I'd like to paraphrase the comedian Eddie Izzard. He talks about how revered the person is

who invented the wheel. Good for that guy, but what about the guy who invented the axle? Now, there's someone who really deserves some recognition. In and of itself, a wheel is great, but without an axle, you can't really go anywhere. And that's how I see the coming year. I might not be the great visionary who can conceive of a wheel, but I intend to be the guy to find the practical applications—like an axle—to address those limitless opportunities in front of us.

And so, for the next 365 days, I pledge my full energy and attention to advancing our beloved profession. Please join me—and the team—as we address the issues and opportunities facing our profession. 🍷

Introducing... Members in the spotlight

Do you know an SOA member who shines? Who goes above and beyond to advance or promote the actuarial profession? Who inspires others to "raise the bar" and give 120 percent? Here's your opportunity to give that person his or her day in the sun.

This year, we will be publishing special achievements of SOA members in a new feature called "Members in the spotlight." We're looking for information about people who:

- Advance or build the actuarial profession in a significant way.
- Demonstrate a high level of dedication and commitment to the actuarial profession.

- Inspire others to strive for excellence in the actuarial profession.
- Impact a large number of people in the actuarial profession.
- Impart knowledge or introduce new topics related to the actuarial profession.

"Members in the spotlight" is dedicated to highlighting the achievements of SOA members whose commitment and value to the profession have earned them special notoriety. Note that personal information such as job promotions, retirements, academic degrees or accreditations earned, weddings, births, etc. is not the focus of this new feature. Please keep that in mind when submitting accomplishments or

successes about an SOA member you'd like to see highlighted.

Guidelines

All submissions should highlight successes about an SOA member and should be limited to two to three paragraphs. Every entry will be considered and will be edited as necessary—please note that submission of an entry does not guarantee publication.

Photos will also be considered if space is available.

We're excited about this new feature in *The Actuary* and look forward to recognizing the special accomplishments of our members. Please send submissions for "Members in the spotlight" to Jacques Kirkwood at jkirkwood@soa.org. 🍷

The SOA takes action to address future needs of the actuarial profession!

by Norm Crowder and Mike Kaster

The vitality of the actuarial profession depends on understanding what the future may hold and taking action to ensure we are equipped to meet the changing needs of the marketplace head-on. A group of individuals has been taking a thorough look at the actuarial profession as it is today and what it might grow to become. The Strategic Planning Committee (SPC) of the Board of Governors (BOG) has been reviewing the strategic plan that was created almost three years ago. Foremost on the minds of this committee has been the long-term growth and vitality of the actuarial profession.

Survey feedback provided valuable insights

The SPC has been searching for ways in which the SOA can help address the future needs of the profession. To maintain the relevance of actuaries in a changing marketplace, it became imperative for the SPC and the Board to understand these

changing dynamics from the perspective of our members and the marketplace. Separate in-depth surveys were conducted of members and employers—the survey results are available on the SOA Web site at www.soa.org/strategic/strategic_planning.html. The results of this research, paired with similar findings from the 2002 surveys, provide valuable insights into future of our profession.

At the October Board meeting, the SPC made a series of recommendations about how the Society can help its members and the profession compete in our changing marketplace as well as add more value in the future:

- Improve the image of the actuarial profession.
- Achieve expanded roles in our traditional markets.
- Expand opportunities for actuaries in the broader financial services markets.

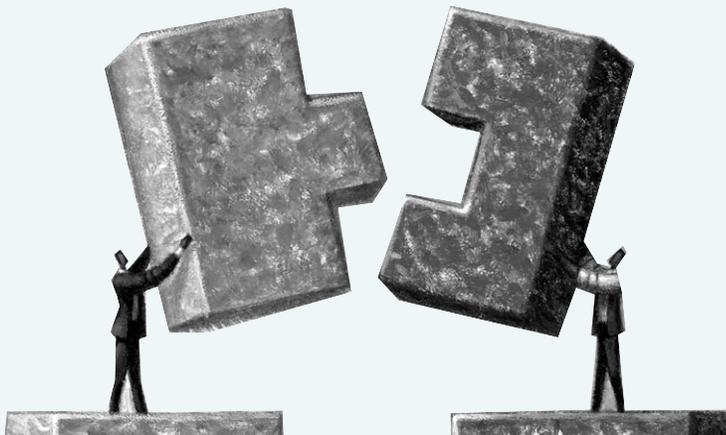
The SPC will be working with staff to define these initiatives in greater depth and develop detailed implementation plans for further consideration by the Board.

Over the next several months, we will be sharing with you more information about the important survey data that compelled the Board to accept these recommendations. Next month, we will highlight the findings surrounding the skills of the actuarial profession as perceived by both our members and the marketplace.

Stay tuned. 📧

Norm Crowder, FSA, is chair of the Strategic Planning Committee. Mike Kaster, FSA, is SOA staff leader for strategic planning.

SOA, monster.com partnership debuts in February!



The SOA is excited to announce a partnership with one of the most recognized job search Web sites on the Internet—www.monster.com.

The new, co-sponsored site will enable actuarial job seekers to:

- Search a more comprehensive database of actuarial job listings.
- Access career-related articles with information about the actuarial profession.

Watch for a blast e-mail in the coming weeks with more detailed information about this exciting new partnership. 📧

The biggest class yet!

SOA hosts record-breaking FAC in Washington, D.C.

The marketing teams at Disney, Inc. would have us believe that their parks in Anaheim, California and Orlando, Florida are the happiest places on earth. But for two days in November, the Hilton McLean at Tysons Corner Hotel in suburban Washington D.C. was the place to be!

The SOA hosted the largest Fellowship Admissions Course (FAC) in the 13-year history of the FAC with 144 attendees — 141 participants earned their FSA designation. Three individuals attended to satisfy requirements of other actuarial associations or to fulfill mutual recognition requirements. These 141 new FSAs join the ranks of 4,000 members who have successfully completed this final requirement that covers professionalism and business ethics. Candidates came from near and far—some hailed from places as far as Hawaii, Pakistan, United Kingdom, Hong Kong, mainland China and Taiwan.

“The candidates in this class exemplify an innovative spirit and vitality that will certainly benefit the profession and the community,” said Martha Sikaras, manager, global initiatives. “The members of the SOA can certainly be proud of the newest FSAs and their many accomplishments.”

Here’s just a glimpse of some of those successes.

Over the course of this past year, Nicole Barrett managed to work full-time as a consultant at Milliman USA, propose to her boyfriend (on the day that her final exam results were posted), plan her wedding (to take place as this article went to print), finish her Professional Development requirement and attend the FAC. As if this wasn’t enough to keep her busy, Barrett managed to coordinate two volunteer days so that she and her Milliman USA colleagues could work on construction projects for Habitat for Humanity.

Anneliese St. Rose, came to the profession after majoring in theater arts and working as a foster care caseworker. When she is not at her MetLife desk, she spends time volunteering as a tutor for grade school children and mentoring for high school age kids in the New York City area. She also conducts presentations at high school and college career days, promoting the actuarial profession.

Valerie Lopez became an SOA committee chair when she assumed the leadership of the CAS/SOA Minority Recruiting Committee in 2003. She also volunteers for a local tutoring program and serves as an alumni advisor to the University of Texas at Austin actuarial science program. 🍷



Candidates and faculty ham it up!



President-Elect Stephen Kellison (back center) joins candidates from China, Taiwan and Hong Kong for a keepsake photo.



French Canadians display their “joie de vivre.”



(Left to right) Nicole Barrett poses with fellow graduates Stephanie Banfield and Anneliese St. Rose.

Live and learn... Las Vegas is the place to be!

Shake off those winter doldrums and head to Las Vegas for some outstanding conferences at the end of March. The SOA is teaming up LIMRA and LOMA to offer three meetings covering life insurance, annuities and pensions. Check it out—there's something for everyone!

The Life Insurance Conference
March 29 – 31, 2004
Flamingo Las Vegas, Las Vegas, NV
Sponsored by the SOA, LIMRA International, LOMA and ACLI

The Life Insurance Conference has been designed to address the administration, distribution and product design issues

faced by professionals who strategize the future of the life insurance industry. Topics will include “Breaking Down Barriers in the Middle Market,” “Combining Life Insurance with Other Benefits” and “The Changing Face of Life Insurance Distribution,” among others.

The Annuity Conference
March 31 – April 2, 2004
Flamingo Las Vegas, Las Vegas, NV
Sponsored by the SOA, LIMRA International and LOMA

Join more than 400 financial services professionals to discuss important issues related to income annuities, qualified plans, product design, conservation and more. Hot topics will include “Market Trends,” “Managing in Low and Rising Interest Rate Environments” and “Strategies in Specialty Markets.”

Pension Conference
March 31 – April 2, 2004
Flamingo Las Vegas, Las Vegas, NV
Sponsored by SOA, LIMRA International and LOMA

Everything you ever wanted to know about pensions will be addressed in this conference. Topics will include “Client Needs in Retirement,” “Emergence of ‘New’ Client Relationship Manager” and “Intermediary/Plan Sponsor Retention,” to name a few.

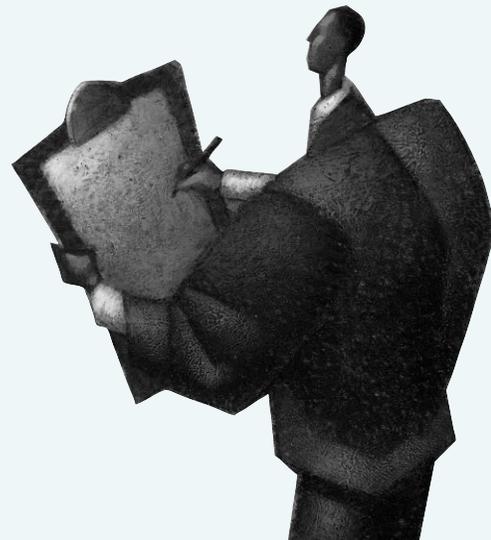
“One of our major strategic objectives is to partner with other organizations for the benefit of our profession and major industries in general,” said John Riley, managing director of continuing education. “These types of events help to foster working relationships and fortify professional bonds that will serve us well into the future.” 

Managing Retirement Assets Symposium— coming to you from the SOA!

Plan ahead—make your reservation now for SOA's Managing Retirement Assets Symposium, scheduled for March 31-April 2, 2004. The event is being held at the Flamingo Las Vegas in Las Vegas, Nev. Topics to be covered include “New Products and Pricing,” “Distribution Strategies,” “Risk Pooling Alternatives” and much more.

“We continue to work on addressing the educational needs of people in the actuarial profession,” said Riley. “It is our responsibility to deliver premier learning opportunities, such as the Managing Retirement Assets Symposium, to our members, students and constituents.”

For questions about the conferences listed above and/or the retirement symposium, contact John Riley at 847.706.3543 or e-mail him at jriley@soa.org. 



AARC scheduled for March 8-9, 2004

Interested in learning about the latest cutting-edge actuarial research and how to apply it to your daily work activities? Seeking input regarding research outcomes or searching to understand practitioners' needs? Or, are you an actuary completing Course 9 for PD credit? If the answer is a resounding "YES," circle March 8-9 on your calendar for the Applied Actuarial Research Conference (AARC). The University of Central Florida is hosting the event in Orlando, Florida.

The Society of Actuaries Committee on Knowledge Extension Research and Committee on Finance Research are two of the many sponsors of this event, which

will bring together academic actuaries and practitioners to discuss actuarial research and its applications to real-world business problems. The conference will also provide an opportunity to exchange ideas regarding complex actuarial issues and identify future research projects.

Sessions are being organized in nine broad subjects as follows:

- Enterprise Risk Management and Dynamic Financial Analysis
- Health and Managed Care
- Life and Annuity Product Development, Valuation and Risk Management
- Retirement Systems
- Finance and Investment

- Insurance Underwriting
- Property and Casualty Insurance Ratemaking and Liability Valuation
- Computing and Data Mining
- Advanced Statistical Methods and Stochastic Modeling in Actuarial Practice

Those interested in presenting research at the conference should contact the conference co-chairs, Lijia Guo at lguo@mail.ucf.edu or Ian Duncan at iduncan@lotteract.com.

For more information and to register for the conference, please visit the conference Web site at <http://www.cas.ucf.edu/statistics/AARC2004.htm>. 

NAAJ news

Start the new year off right! Explore the January issue of the NAAJ

Don't miss out—be on the lookout for the January issue of the *North American Actuarial Journal* (NAAJ). Three pieces come directly from the 2003 Bowles Symposium—collections of presentations.

- In "Credit Standing and the Fair Value of Liabilities: A Critique," Philip Heckman reviews the positions of major accounting and actuarial bodies on the issue of whether the holder's own credit standing should be reflected in the fair value of its liabilities.
- Werner Hürlimann discusses the axiomatic approach to risk measure and how it applies to different topics of actuarial and financial interest in "The Distortion Risk Measures and Economic Capital."

- Richard Derrig and Elisha Orr examine the principal strains of the recent research on the ERP and catalogue the empirical values of the ERP implied by the research in "Equity Risk Premium: Expectations Great and Small."

Four other articles compliment the issue, establishing new research in the areas of finance and health care.

- The debate dividing two schools of pension actuarial thought continues in "Efficient Gain and Loss Amortization and Optimal Funding in Pension Plans" by Iqbal Owadally and Steven Haberman. The authors compare the methods of funding defined-benefit pension plans while investigating the results of previous published research, suggesting that a proportional form of amortization is favored over the practice of amortizing actual gains and losses. A few discussions—which further highlight the differences between the two schools of thought—accompany the article.
- Hans Gerber and Elias Shiu investigate the studies of optimal dividend

payment strategies in "Optimal Dividends: Analysis with Brownian Motion."

- In "Risk and Discounted Loss Reserves," Greg Taylor expands upon past research and evaluates the loss reserves containing a security margin.
- Robert Brown and Uma Suresh provide further research on future health care costs, the impact wide use of advance directives might have on these costs and the differentiation between the two.

Pick up your January copy of the NAAJ and discover the valuable research. Those interested in submitting a discussion for publication consideration in a future issue should contact Kimberly J. Wargin, editorial assistant, at kwargin@soa.org. Abstract of these articles are available on the NAAJ Web page at http://www.soa.org/bookstore/naaj04_01.html. For copies of an article in its entirety, contact Wargin at the above e-mail address. 