



What's Inside

The National Alliance Partnership	1
About ARM	2
Around the Actuarial World In 2 Minutes	3
Actuaries Urged to Play Broader Role in M&A	4
Small Business Health Option Program	5
Fair Value Issues	5
Statutory Reserves for Variable Annuity	6
Changes to the Pension Act	7
Meet One of ARM's Experts	9

6500 River Place Blvd.
Building 2, Suite 204
Austin, TX 78730

(512) 345-5200
1-866-480-RISK (7475)
newsletter@actrisk.com



The National Alliance Partnership

Actuarial Risk Management recently entered into a partnership with The National Alliance for Insurance Education & Research, the nation's most highly rated insurance and risk management education provider.

The National Alliance offers a Certified Risk Manager (CRM) designation, which requires completion of five 20-hour courses and related exams designed to educate and prepare business professionals to manage risk. ARM provides The National Alliance with high-level expertise to contribute to the advanced actuarial curricula and instruction. "The National Alliance and ARM recognize how essential it is to have an educated workforce with regard to risk management," says Cory Zass.

With a legacy that began in 1969, The National Alliance is recognizable across the nation as the best source for continuing education credits, designation opportunities, and concrete knowledge for insurance and risk management professionals of every experience level. More than 130,000 participants attend at least one of their 2,500 courses, conducted in all fifty states and throughout the Caribbean in the course of just one year.

ARM welcomes the opportunity to provide support to The National Alliance's education program!

Events

September 8-10

Insurance Product Tax
Seminar
Washington, DC

September 9-10

Predictive Modeling
Symposium
Hollywood, FL

September 18-19

Casualty Loss Reserve
Seminar
Washington, DC

September 22-24

Critical Illness
Insurance
Conference
Las Vegas, NV

September 22-24

NAIC Fall Meeting
Washington, DC

September 24-26

DI & LTC Insurers'
Forum
Las Vegas, NV

September 25-26

Valuation Actuary
Symposium
Washington, DC

October 19-22

SOA 08 Annual Meeting
& Exhibit
Orlando, FL

October 22-24

Future of Life-Cycle
Saving and Investing
Boston, MA



ARM: Who We Are

Actuarial Risk Management (ARM) is an independent member of the BDO Seidman Alliance. ARM's staff, along with the expert actuaries from ARM's Consulting Network, provides all necessary actuarial expertise and tools to ensure we can cover all actuarial disciplines, including the banking sector.

All ARM representatives must comply with strict ethics and standards. We have access to the latest technological tools, ranging from modeling software for our life clients to proprietary claims analysis tools for our health clients.

Our fees are aggressively competitive and our experienced actuaries provide you with objective, independent, and responsive actuarial consulting services.

Actuarial services include:

- Valuation and Financial Reporting
- Predictive Modeling & Loss Forecasting
- Corporate Modeling
- Reinsurance Expertise
- Expense Allocations and Analysis
- Capital Management
- Mergers and Acquisitions, Due Diligence
- Statutory, Tax and GAAP Reviews of Actuarial Assets & Liabilities
- Data Management
- Product Development and Competitor Analysis
- Sarbanes-Oxley Assistance
- Retirement and Pension design and valuations
- Alternative risk management solutions, including captive and self-insurance
- Enterprise Risk Management Assessments



**Discover what BDO Seidman knows,
the next generation in actuarial delivery...**

Around the Actuarial World in 2 Minutes...

This month's highlights



1. SEC's position on unlocking of reserves

In March 2008, a life insurance carrier stated that the Securities and Exchange Commission (SEC) has taken the position that prospective unlocking of reserves on the carrier's long-term care policies is not an acceptable practice under U.S. GAAP accounting. The American Academy of Actuaries released an Academy Alert (2000-G-6) stating that the actuarial profession commonly believed that prospective unlocking was an appropriate U.S. GAAP methodology for long-duration contracts with indeterminate premiums, including but not limited to long-term care and issue-age-rated Medicare Supplement policies. Auditors with carriers in a similar situation may wish to consider whether the SEC's reaction to this registrant could potentially affect their own audits. Contact us for more information.

2. What's New in Research?

On Determining Margins for Uncertainty Under a Principle-Based Framework

August 8 is the deadline for individuals interested in submitting a proposal to perform the research for a new study examining the methods for determining margins for uncertainty in actuarial assumptions under a principle-based framework for life insurance and annuity products.

3. Testifying on extending dependent health care benefits

Geoffrey Sandler, a member of the Academy's Health Practice Council, testified on the Academy's behalf at a National Conference of Insurance Legislators (NCOIL) public hearing in New York on July 11.

Sandler's testimony highlighted several issues that need to be addressed in state laws extending dependent health benefits to young adults. These issues include eligibility requirements, defining enrollment periods, and deciding whether the coverage will be mandatory or optional. Sandler also described factors that could affect potential costs, particularly variations in premium structure.

The public hearing was held by NCOIL's Health, Long-Term Care, and Health Retirement Issues Committee, which was considering a proposed resolution supporting legislative efforts to increase the availability of health care benefits for dependents up to age 25.

4. Credibility practice note in the works

A Life Valuation Subcommittee work group is putting the final changes on a new practice note, which will discuss some common practices for applying credibility theory or a related approach to actuarial issues. Examples include determining assumptions to use in modeling company cash flows and determining the level of reliance that can be placed on company experience in the ratemaking or reserving process.

The practice note will be posted on the Academy website when it has been finalized.

Actuaries Urged to Play Broader Role in Mergers and Acquisitions

According to a session at the Casualty Actuarial Society Spring Meeting in Quebec City, Canada, actuaries should take on a more prominent role in insurance mergers and acquisitions. Rather than just focusing on the balance sheet issues of the transaction, they are integral to the impact on operational and profitability issues, including assessment of strategic and business plans. The consensus is that there are additional ways for actuaries to add value to an M&A team beyond the traditional areas of reserve adequacy and pricing.

Other areas where actuaries can be involved include asset valuation and investment income, future expense assumptions, growth assumptions, and other strategic implications of the transaction. Some private equity groups noted that actuaries play a key role on a deal team as educators on insurance issues. In the environment of risk profiling, the traditional roles of actuaries in M&A expand to the financial impact of all risks.

The panelists agreed that the actuarial role will differ depending on the type of deal structure, and that actuaries need to be involved in all aspects of due diligence so that their quantitative reviews reflect appropriate qualitative factors.

On that note, ARM is presenting for the second consecutive workshop to SNL Financial's Insurance Valuation workshop in October. ARM will be part of the two-day workshop discussing:

- How to identify and assess the fundamental measures of an insurer's profitability and financial strength
- Methodologies for evaluating the balance sheet and earnings of P&C and Life insurers
- Measuring and valuing insurers using an Excel-based dividend discount model
- Actuarial valuation and its pitfalls and opportunities
- Assessing the impact of regulatory forces on the industry and individual companies

The attendees range from sell-side and buy-side analysts, I-bankers, private equity funds, industry regulators, and ratings agency personnel.

Looking forward to hearing from You – How and where can we work together?

If you have comments or suggestions for this newsletter, or if you have questions about our business, do not hesitate to e-mail us at newsletter@actrisk.com

Also, visit our new website at www.actrisk.com

Small Business Health Option Program

On June 9, U.S. Rep. Ron Kind (D-WI) introduced H.R. 6210, the Small Business Health Options Program (SHOP) Act of 2008. The bill creates a nationwide health insurance pool for small employers and the self-employed with the stated goal of offering affordable, predictable and accessible private health insurance plans to employees. The SHOP Act is similar to S. 2795, which was introduced on April 2 by Sen. Richard Durbin (D-IL), and has bipartisan support in both chambers.

Administered by the Department of Health and Human Services (HHS), SHOP creates a national pool for small businesses with up to 100 employees and for the self-employed. It also creates incentives for states to establish their own purchasing pools. The national pool would offer guaranteed issue and renewability of health insurance, and insurers would be prohibited from using gender, occupation, claims experience, and individual health status when rating for health insurance premiums. In addition, insurers would only be able to make annual adjustments to a plan's community-based rates if adjustments are based on age, geographic area, industry, tobacco use, and family composition. States with their own pools are allowed to opt out of the SHOP program and continue operating their own pools; however, they can prevent their small businesses from joining the national pool only if their state pool offers comparable rating rules.

Other provisions of the SHOP Act include:

- Tax incentives: SHOP provides tax incentives to small businesses that pay at least 60 percent of their employees' premiums. The full tax credit is reduced for employers with more than 10 employees, with a cap at 50 employees. Additional (or bonus) tax credits are awarded to employers covering more than 60 percent of the employees' premiums (calculations for such credits depend on certain limitations outlined in the bill).
- Mandates: State mandates will still apply within state pools and to those businesses in states that prevent participation in SHOP. For the national pool, the Institute of Medicine (IOM) will promulgate new mandates.
- NAIC studies: The House bill requires the Administrator to contract with the National Association of Insurance Commissioners (NAIC) to conduct two studies: one on rating requirements and variances within the states and one on administrative procedures. Regarding the rating requirements, the NAIC is required to submit a legislative proposal to Congress in 2011 that includes recommendations on rating requirements for years beyond 2013 to ensure that the program does not contribute significantly to adverse selection in the health market.
- Creation of Small Business Health Board: The 13-member board will oversee the program's implementation and make recommendations on program improvements.
- Enrolment period: The open enrolment period for the program would begin on October 1, 2010, and end December 1, 2010.

Fair value issues: A place at the table with the SEC

Effective fair value reporting of financial assets and liabilities requires meaningful disclosure, American Academy of Actuaries' member Sam Gutterman said during a July 9 SEC roundtable on the benefits and potential challenges of using fair value accounting and auditing standards. Gutterman represented the Academy on the roundtable's second panel, which focused on fair value issues from the perspective of public companies and investors.

Because fair value determinations are estimates and require the use of models, Gutterman said, meaningful disclosure is "essential," even if it is complicated in some cases. "It is critical that the users of the financial statements have some basis on which to assess the effects of the estimates", he told the roundtable. He also encouraged continued cooperation and convergence between U.S. and international accounting and auditing standards. Gutterman chairs the IAA Committee on Insurance Accounting and with him being significantly involved in the development of financial reporting and auditing standards.

Statutory Reserves for Variable Annuity Contracts

On July 10, the Life and Health Actuarial Task Force (LHATF) of the National Association of Insurance Commissioners (NAIC) exposed three documents that will result in changes to the statutory reserve requirements for variable annuity contracts. LHATF has asked for comments on these exposures by August 14 and plans to discuss these documents and the comments received on an August 20 conference call. It is possible that LHATF could adopt these requirements during that call, paving the way for final adoption by the NAIC as early as the Fall National Meeting in Washington, DC.

The primary focus of the new exposures is an updated draft of Actuarial Guideline VACARVM – CARVM for Variable Annuities (AG VACARVM). This exposure draft replaces a September 2007 version; the changes are discussed below. The AG VACARVM exposure draft has an effective date of December 31, 2009. Since LHATF intends to have AG VACARVM replace Actuarial Guidelines 34 and 39, proposals that would add a December 30, 2009 repeal date to these guidelines were also exposed. It is expected that the three documents will be considered as a package in the LHATF and the NAIC adoption processes.

The major changes to the September 2007 draft of AG VACARVM and incorporated into the new exposure draft include:

- Changes to the allocation of the Aggregate Reserve (i.e., the stochastic reserve component) to the contract level
- The addition of the 1994 Variable Annuity MGDB Mortality Table (this was taken from Actuarial Guideline 34 and added in anticipation of the repeal of that guideline)
- Changes to the Standard Scenario that increase the immediate drop assumption and updates the revenue assumption
- Changes that limit the assumption for non-contractually guaranteed net revenue sharing income within the stochastic reserve component
- Changes to the treatment of clearly defined hedging strategies within the stochastic reserve component
- The addition to the required information on contractholder behavior assumptions in the supporting memorandum
- The aforementioned change to the prior effective date (now December 31, 2009)

GASB offers pension calculation method

In July, GASB proposed a method to calculate any amortization adjustment to the annual required contribution to pension and other post-employment benefit plans to avoid overstatement of annual pension cost and to maintain consistency between the actuarial and accounting measurements used for financial reporting.

The proposed technical bulletin clarifies GASB statements 27 and 45, specifying situations in which the adjustment is a known, rather than estimated, amount related to the amortization of overpayment or underpayment of contributions.

“Since many governments are implementing the OPEB standards essentially with a blank slate, there is a higher likelihood that they will have the actual amounts from the start,” Robert H. Attmore, chairperson of the GASB, said in a statement about the proposal. “We want to accommodate the use of actual numbers when governments have them” in place of the estimation procedure in GASB statements 27 and 45.

The estimation method now prescribed by the two GASB statements would “overstate or understate annual pension or OPEB cost compared to what would be recognized as expense if the actual amount ... was used to adjust” the annual required contribution the proposal states. GASB has opened a public comment period on the proposal through Sept. 30 and the rule would take effect for financial reporting periods beginning Dec. 16.

Changes to the Pension Protection Act

On July 9, the U.S. House of Representatives unanimously passed the Pension Protection Technical Corrections Act of 2008 (H.R. 6382) by voice vote. The bill makes changes to the Pension Protection Act of 2006 (PPA) (Pub. L. No. 109-280) and is similar to H.R. 3361, which passed the House by voice vote March 12, 2008. S. 1974, the Pension Protection Technical Corrections Act of 2007 (similar but not identical to the House bill), also passed unanimously in the Senate on December 19, 2007.

The House bill makes changes to defined benefit (DB) pension plan rules by amending the Employee Retirement Income Security Act (ERISA) as well as the Internal Revenue Code (as amended by the Pension Protection Act). One of the major technical corrections of the bill is the clarification of 24-month asset smoothing, a method used for calculating pension fund assets, which can be used by employers when determining their pension funding obligations. This bill's asset smoothing provisions are an attempt by the House to clarify a heavily debated section of PPA on which the Treasury Department has not provided any official guidance, despite pleas both from within the actuarial community and outside employee benefits groups.

The bill also:

- Requires that cash balance plans use an interest rate not to exceed that of the market rate of return for the purposes of benefit accrual
- Allows current or former commercial airline employees that transfer airline payments to ROTH Individual Retirement Accounts (IRAs) to treat those payments as qualified rollover contributions (airline payments were issued by bankrupt commercial airline carriers)
- Clarifies tax treatment for beneficiaries receiving reimbursements of health care expenses of a deceased plan participant (the plan must have provided for the reimbursement of the deceased plan participant's beneficiary on or before January 1, 2008)

The House bill has been forwarded to the Senate. It is uncertain whether the Senate will approve the bill as passed by the House. H.R. 6382 contains a provision, noted above, which is not in the Senate's version of technical corrections. This provision, while tying cash balance plan interest rate assumptions to the market rate of return, allows government pension plans greater variance by allowing state and local laws to govern the interest rate assumption ranges. It also allows small plans, in lump sum payment transactions, to use a fixed rate of 5.5 percent instead of a market rate of return in order to determine whether or not a lump sum payment is in violation of maximum payout rules.

Capitol Hill gets a tutorial on actuarial equivalence

More than 50 people attended the Academy's Capitol Hill briefing on health-plan actuarial equivalence, including Congressman Brian Baird (D-Wash.), who joined his staff for the event and even participated in the Q&A session.

Earlier during the July 11 briefing, speakers Cori Uccello (the Academy's senior health fellow) and John Bertko (a member of the Academy's Medicare Steering Committee and the chairperson of the Academy's Health Practice International Task Force) had emphasized that "actuarial equivalence" comparisons of health plans are inherently estimates and have no universal definition. Since methods can vary depending on the purpose of the comparisons, they said, legislation with actuarial equivalence provisions should specify the bill's intended goals.

When Baird's turn came, he stressed the continuing need to help lawmakers become better informed about actuarial equivalence issues. The congressional representative recalled a debate he had taken part in when the House was preparing to vote hurriedly on a Medicare Part D bill that had an actuarial equivalence provision. Baird yielded the floor "to anyone who could explain actuarial equivalence." Nobody stepped up to the silent microphone. "As you can imagine," he said, "there was a lot of dead air."

The July briefing was the second in a series focusing on health insurance issues.

Meet One of ARM's Experts

Roberta J. Garland, FCAS, MAAA

Roberta is the President of Garland Actuarial LLC., which provides a broad range of actuarial consulting services to insurance companies and self-insured entities. She specializes in litigation support, reserve evaluations, captive evaluations, asbestos and other environmental evaluations and risk financing alternatives. Her area of expertise is in workers' compensation and liability business.

Roberta earned a B.A. degree in mathematics, cum laude, from Fordham University. After graduating from Fordham, Roberta joined ISO (Insurance Services Office) in New York City where she worked on ratemaking, statistical reporting, and regulatory filings. From New York, she moved to California to join Fireman's Fund Insurance Companies. At Fireman's Fund, she had responsibility for reserving, directing the preparation of state rate filings, evaluating credit risk in the reinsurance portfolio, and developing workouts of troubled reinsurers. Roberta was appointed Assistant Vice President and Corporate Reserving Actuary for the Fireman's Fund Insurance Companies.

Prior to founding Garland Actuarial, Roberta was a consulting actuary with Arthur Andersen, serving clients in the U.S., Europe, and Asia. She has extensive experience in risk evaluation and reserve analysis for corporate clients, reserve analysis and statements of actuarial opinion for the insurance industry, regulatory filings, and in the evaluation of mass tort and other liabilities. Roberta is experienced in litigation support, and in providing expert witness testimony in legal proceedings.

Roberta is a Fellow of the Casualty Actuarial Society, and member of the American Academy of Actuaries. She has served on numerous CAS committees including the Examination Committee, the Committee on Ratemaking, the Committee on Volunteer Activities, and the Long Range Planning Committee. In addition, she has served as Chair of the Ratemaking Seminar and served as the CAS Liaison to the American Academy of Actuaries. She is past President of Casualty Actuaries of the Bay Area.

Some of Roberta's recent assignments, in addition to the support of BDO audits, include:

- Served as an expert witness in several depositions and testified before insurance departments, utility regulatory commissions and arbitration panel.
- Served as a litigation consultant in various arbitrations and trials involving insurance and reinsurance companies.
- Evaluated reserves for all lines of business for both self-insureds and insurance companies.
- Prepared reserve input for regulatory financial statements, including Schedule P and SEC reporting.
- Evaluated reserves for reinsurance companies, captive reinsurers, and excess coverage.
- Evaluated liabilities for asbestos and other environmental exposures for corporate entities seeking settlements from their insurers.
- Evaluated alternative risk financing, including optimal use of a captive.

Our Services

2008 Actuarial Risk Management

Risk Review is published electronically by Actuarial Risk Management, an independent member of the BDO Seidman Alliance, to provide members the latest news and information about managing risk.

EDITORS

Corwin Zass
Evelina Kaminski

If you have questions or comments about Risk Review, please send an email to

newsletter@actrisk.com



Actuarial Risk Management offers a wide range of services. Some of our services include:

Life & Annuity:

- Financial Reporting Duties for Statutory, Tax, GAAP, and IFRS
- Audits of Actuarial Liabilities
- Principle Based Capital and Reserves
- Economic Capital
- Value Based Management
- Merger, Acquisitions and Restructuring
- Products, Markets and Distribution
- Risk Assessment
- Reinsurance
- Expert Witness
- Experience Studies
- Sarbanes-Oxley / Model Audit Implementation

Who Are Our Clients?

Insurance Companies
Regulators
Agencies
Business Owners
Hospitals
Managed Care Providers
Employers
Hedge Funds
Private Investors

Employee Benefit:

- Medicare Part D Assistance and Analysis
- Pricing of Group Medical, Dental, Disability, Life, Drug Plans
- Strategic Planning and Management Analysis
- Plan Funding (fully insured or self-insurance)
- Actuarial Plan Projections and Forecasts
- Self-Insurance Feasibility Studies
- Cost Containment Program (identification & evaluation)
- OPEB Valuations and Program Assessments (under FASB, GASB)

Managed Care:

- Valuation & Financial Reporting
- Provider Network Evaluations
- Benefit Plan Pricing & Premium Rate Filings
- Small & Large Group Underwriting
- IBNR Analysis
- Financial Reporting & Projections
- Predictive Risk Modeling
- HSAs & Consumer Driven Health Plans
- Actuarial Training Programs (Managed Care specific)
- Payor Drug Cost Reviews
- Expert Witness

Property & Casualty:

- Outstanding Claims Liability, IBNE, IBNR and Loss Reserve Analysis
- Product Profitability & Company Capital Management
- Excess Insurance Evaluations
- Loss Forecasts and Historical Profitability Analysis
- Models for Dynamic Financial & Cash Flow Analysis
- Cost Driver Analysis
- Reinsurance & Risk Transfer
- Relativity Factors
- Deductible Credits
- Regulatory Assistance
- Self-Ins. and Captive Prgrms
- Audit Support
- Expert Witness

Retirement:

- Actuarial Funding Valuations
- Accounting Valuations and Disclosures (FASB 87, 88, 106, 112, 132, 158)
- Government Plan Valuations (GASB 25, 27, 43, 45)
- Claims Analysis
- Forecasts and Projections
- Plan Design, Evaluation and Re-Design
- Opinions / Recommendations on Assumptions