



## What's Inside

Global ERM Seminar Looks to Expand on Best Practices	1
About ARM	2
Around the Actuarial World In 2 Minutes	3
Pension Risk Mgmt: Derivatives, Fiduciary Duty Process	4
Examination of Pension Disclosures	4
Key Principles to Averting Risks Crippling Economy	4
2008 Consulting Actuaries' Annual Conference	5
NAIC Moving Closer to New Reserving Regime	5
NAIC's Fall 2008 Meeting	5
Meet One of ARM's Experts	6

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

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



## Global ERM Seminar Looks to Expand on Best Practices

On December 10-11, 2008, a seminar will be played across the globe. "Global Best Practices for Insurers and Re-insurers" will have these four sessions:

- *Market Consistent Risk Management:* how the MC approach can help an insurer's risk management system as well as an appreciation of the shortcomings that must be considered when using market consistent risk management.
- *Does ERM Need an Economic Capital Model:* about the full range of ways that an economic capital model can be used, as well as how ERM objectives can be met by alternate approaches where economic capital may not be the best measure to manage risk.
- *The Pros and Cons of Economic Capital Models vs. Stress Testing:* how best to use the different types of risk models and the pitfalls that must be managed to achieve effective use of both types of models.
- *Is ERM Any Real Use in Soft Markets:* how an ERM program can be operated to provide meaningful assistance for negotiating a soft market as well as the limitations of ERM in such situations.

ARM helps insurers manage their ERM processes and objectives to mimic their specific business while incorporating best practices to minimize risk.

## Events

### November 10-11

Intro. To Predictive Modeling: Techniques and Applications for Ins. Actuaries

### November 13-14

CIA General Meeting

### November 16-19

CAS Annual Meeting  
Seattle, WA

### November 19-23

NCOIL Annual Meeting

### December 3-4

Effective P&C Loss Reserve Opinions  
Baltimore, MD

### December 4-5

Market Consistent Embedded Value

### December 5-8

NAIC Winter Meeting

### December 8-0

Actuarial Standards Board Meeting

### December 11

Life Financial Reporting Committee Meeting

### January 15

Council of U.S. Presidents Meeting



## ARM: Who We Are

Visit [www.actrisk.com](http://www.actrisk.com) for the comprehensive service listing.

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. SOA Releases Report on Health and Long-Term Care Risks in Retirement

The Society of Actuaries' Committee on Post Retirement Needs and Risks made available a new research report that examines retirement risks related to health and long-term care. The report provides key findings from the 2007 Risks and Process of Retirement Survey on how respondents view health care and long-term care risks in retirement, along with supplementary material that provides further context for the risks. To read the complete report, please call us.

#### 2. The Passing an IBNR formula creator

Ron Bornhuetter passed away on October 16. He also served as CAS President, President of the American Academy of Actuaries and Chairman of the Actuarial Standards Board.

In 1972, he co-authored the award winning paper "The Actuary and IBNR," which is still considered as a standard approach to determine loss-reserves for liability lines of the insurance industry.

#### 3. 2008 Financial Turmoil Increases Variable Annuity Risk

According to Fitch Ratings, the turmoil in the equity market is having a dramatic impact on U.S. life insurers active in the variable annuity market. We are seeing the results of this double whammy that the market is causing these VA carriers. Many of these variable annuity products contain guarantees that are in the money, resulting in pressure on the insurers' earnings and risk-based capital levels.

Fitch warns that the industry's ability to manage this growing risk exposure is one of the most significant risk management challenges confronting U.S. life insurers. To learn more about VA products, and the many Guaranteed Minimum Benefit riders causing these insurers some restless nights, please call us.

#### 4. Pension Plans Shortfalls Likely

According to a recent article in *Money and Investing*, pension plan shortfalls will likely result next year in hits to earnings, shareholders' equity and possibly cash at a number of companies.

Given the prevalence of 401(k) plans in the U.S., many investors may think pension plans are a worry of the past; yet there are over 350 companies in the S&P 500 with defined-benefit pension plans on their books.

It maybe too early to say exactly how the market downturn will affect specific companies, but it is clear that trouble is brewing. At the end of 2007, companies in the S&P 500 had combined pension-plan surplus of about \$60 billion. The market selloff in the nine months to late September turned that into a combined deficit of about \$75 billion. Continuing on, before the end of the year it could result in a \$314 billion deficit.

Since companies record the value of their plans' surplus or deficit in shareholders' equity, deficit cuts into companies' book value or net worth.

The actuarial valuation of these DB programs will be under more scrutiny to ensure that assumptions are reasonable given the current market environment.

## Report on Pension Risk Management: Derivatives, Fiduciary Duty Process

Recently, the Society of Actuaries' Committee on Finance Research and Pension Section Research Team released a report on pension risk management. The report is based on a survey of benefit professionals with topics including:

- why and how plan sponsors employ derivative instruments, if at all;
- what plan sponsors are doing to address investment risk in the context of fiduciary responsibilities; and
- if and how plan sponsors vet the way in which their external money managers handle investment risk, including valuation of instruments which do not trade in a ready market.

To read the complete report, please call us.

## Academy Asks Actuarial Standards Board to Examine Pension Disclosures

In early October, the American Academy of Actuaries' board of directors asked the Actuarial Standards Board to develop standards for consistently measuring the economic value of pension plan assets and liabilities. The board also has determined that it will not issue a public advocacy statement on the issue at this time.

The board received a report by the Academy's Public Interest Committee. The committee unanimously determined that disclosure of consistent measures is in the public interest. The committee's report was accepted by the board and sent to the Actuarial Standards Board.

The Public Interest Committees report was developed partly from information obtained through a public forum held on Sept. 4 in Washington, D.C. The committee also collected and reviewed written comments as part of its information-gathering process.

## AAA: Risk Management Principles Are Key to Averting Crippling Economy

In October, the American Academy of Actuaries submitted testimony to lawmakers recommending that effective enterprise risk management become a foundation for the future of oversight and regulation for financial services.

Enterprise risk management is the process of identifying, quantifying, mitigating, and managing both short- and long-term risks. It also includes identifying emerging risks that previously have not been considered. The actuaries said that organizations with effective enterprise risk management processes are better positioned to avoid or mitigate the impact of severe financial crises and can provide confidence to stakeholders and the public.

The Academy's President stated, "Enterprise risk management teams that include actuaries are even better equipped to identify and avert the kind of risks now crippling our economy. Managing risk to achieve financial security is and has always been the keystone of the actuarial profession."

## 2008 Conference of Consulting Actuaries' Annual Meeting

This year's Annual Meeting was held October 26-29, 2008 at the Hyatt Regency Coconut Point Resort in Bonita Springs, Florida. The meeting's continuing education sessions covered timely and relevant topics to keep consulting actuaries up-to-date and well-informed on issues impacting specific areas of interest to consulting actuaries. A sampling of these topics included:

- PPA - Please Provide Advice!
- "Pot" pourri of Prescription Drug Benefit Issues
- Communicating Uncertainty
- The Latest and Greatest in Pension Investment Strategies
- Working with the PBGC - A Practical Business Guide for Consultants
- GASB 43/45: In the Trenches

The IRS staffed a Q&A table at the meeting to take on those questions lingering about the PPA. PBGC representatives hosted a roundtable discussion with attendees to facilitate dialogue about current issues.

The Annual Meeting provides a unique opportunity for attendees to network with their actuarial colleagues, including business owners, directors of practices and other professionals in related fields.

## NAIC Moving Closer to New Reserving Regime

According to the NAIC's Life & Health Actuarial Task Force (LHATF), there could be a new version of the Standard Valuation Law ready for consideration by state legislators by January 2010. The SVL model sets the standards for calculating life insurance reserves.

The SVL and valuation manual efforts have been shaped by efforts to shift the U.S. life insurance industry to a "principles-based" reserving system.

Advocates of a PBR approach want to shift to an emphasis on general principles, "stochastic" statistical forecasting techniques and thoughtful use of actuarial judgment, and away from reliance on static formulas.

The AAA believes that insurance company management teams need to understand the stochastic modeling process, and that management teams will understand the modeling better if companies are actively involved in developing scenarios that are relevant to the companies.

## NAIC's Fall 2008 Meeting

The NAIC acted on many proposals while reading other model laws and regulations for adoption by year end. The biggest item was the advancement of the Reinsurance Regulatory Modernization Framework Proposal, which promises to revolutionize the way the hot-button issue of reinsurance collateral is handled in the United States, which may be headed for consideration on Capitol Hill.

Other issues considered or acted upon at the NAIC fall meeting include:

- Market Conduct Annual Statement
- Annuity sales
- State and national natural catastrophe backstops
- Climate change disclosures by U.S. insurers
- Principles-based reserving (see above)
- Global insurance supervision

## Meet One of ARM's Experts

**Charles L. Gilbert,  
Senior ALM Risk Management Consultant**

Charles Gilbert is president and founder of Nexus Risk Management Inc., providing advanced risk management solutions to the financial services industry globally. Mr. Gilbert does a wide range of Asset Liability Management related work for several insurance and reinsurance companies worldwide.

Through a number of joint ventures he executes ALM strategies and portfolio optimization for asset management clients, conducts on-going research and provides training.

Previously, Mr. Gilbert was the leader of the Asset Liability Management initiative for Tillinghast - Towers Perrin in North America and was also responsible for building the Equity Risk Management initiative for the firm.

Prior to joining Tillinghast, Mr. Gilbert was Head of Asset Liability Management and Corporate Actuary at ING Life where he was responsible for Asset Liability Management, as well as for valuation, pricing and financial management for investment products. He developed innovative strategies to immunize the interest rate risk exposure on universal life and other life products, and researched various ways to manage the risk associated with investment guarantees on variable annuities and segregated funds. Other past work experience has included US and Canadian taxation, valuation and financial management.



Mr. Gilbert has over 20 years of experience in the life insurance industry and has trained over 600 ALM practitioners, regulators, rating agency analysts and senior management on Asset Liability Management worldwide.

Mr. Gilbert graduated Cum Laude from York University and has an Honours B. A. in mathematics. He is a Fellow of the Canadian Institute of Actuaries, a Fellow of the Society of Actuaries and a Chartered Financial Analyst. He is currently a member of the Board of Governors of the Society of Actuaries, chairperson of the Canadian Institute of Actuaries Working Group on Asset Liability Management, chairperson of the Society of Actuaries Examination Committee for Financial Economic Theory and member of the International Actuarial Association Task Force on Financial Economics.

He is a frequent speaker and moderator at industry gatherings worldwide.

### **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](mailto:newsletter@actrisk.com)

Also, visit our new website at [www.actrisk.com](http://www.actrisk.com)

## 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

Susan Long

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

[newsletter@actrisk.com](mailto: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 Prgms
- 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

