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

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



Funding Levels for DB Plans Cause Other Issues too...

The Pension Protection Act of 2006—which was designed to shore up the funding levels of corporate pension plans, among other things—contains a provision, which states that companies with DB plans with 60% or less funding may not set aside money for non-qualified pension plans for executives, including supplemental executive retirement plans, or SERPs.

The fall 2008 financial meltdown caused some significant reductions in the funding status of these DB plans. The companies in a significant underfunding position will have to comply with this rule. The genesis of the PPA 2006 rule was to penalize executives if the workers themselves are in danger of losing their own retirement benefits.

Some are expecting a 180 degree shift in the funding status for the S&P 500 companies with DB plans from last year to this year. Those firms had a \$63B surplus in 2007, while some are estimating about \$200-\$300B underfunding position for this year. The double whammy is from reductions in the equity markets and lower yields in the bond market. The latter affects the discount rates used for pension liability calculations.

ARM expects some companies very close to the 60% threshold to “tweak” assumptions to hopefully mitigate the fact that some DB plans might actually be under the 60% threshold. Oh, what a year! Let ARM help you during this non-normal audit season to navigate these valuations.

Stay tuned for more information on pension (and H&W) plan valuations from your source for independent unbiased actuarial expertise, Actuarial Risk Management.

Events

Feb. 23-24

Economic Capital &
Market-Consistent
Embedded Value:
Bringing it all Together
Orlando, FL

Feb 24-25

Employer Summit on
Retiree Health
Atlanta, GA

March 1-4

SOA ReFocus 2009
See the Future First
Las Vegas, NV

March 29 - April 1

2009 Enrolled Actuaries
Meeting
Conference of
Consulting Actuaries
Washington, DC

March 30 - April 1

LIMRA: The Life
Insurance Conference
Lake Buena Vista, FL



ARM: Who We Are

Visit 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 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
- Executive Compensation



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

Around the Actuarial World in 2 Minutes...

This month's highlights



Society of Actuaries News Today

E-Book Features Essays on the Current Financial Crisis

In partnership with the Casualty Actuarial Society (CAS), the Canadian Institute of Actuaries (CIA), the Enterprise Risk Management Institute International (ERMII) and the International Network of Actuarial Risk Managers (INARM), the SOA is pleased to announce the publication of an e-book of essays entitled, "Risk Management: The Current Financial Crisis, Lessons Learned and Future Implications."

Updated Guide to Retirement Planning Now Available

The Committee on Post Retirement Needs and Risks has recently completed an update of their publication: *Managing Post-Retirement Risks: A Guide to Retirement Planning*. This publication highlights the key financial risks that individuals may face in their retirement years and provides strategies for managing them. The risks described include issues related to longevity, investments, health, loss of loved ones and more.

ReFocus 2009: See the Future First

Co-sponsored by the SOA's Reinsurance Section, the 2009 ReFocus Conference will be held March 1-4 in Las Vegas. ReFocus is a distinctive industry conference focused on life, health and annuity insurance and reinsurance issues. This is an exceptional event for senior-level professionals from the direct and reinsurance company community.

Equity-Based Insurance Guarantees Conference

Registration is now open for this important event, March 2-3 in Hong Kong, designed to give professionals with limited-to-moderate experience an understanding and appreciation of how better to quantify, monitor and manage the risks underlying the VA and EIA products.

New IRS Correction Procedures for Life Insurance and Annuities Webinar

Take part in this webinar, on March 4, to review the five revenue procedures issued by the IRS that significantly improve the procedures for obtaining a closing agreement to correct the inadvertent failures of life insurance or annuity contracts to satisfy the requirements of sections 817(h), 7702 and 7702A of the Internal Revenue Code.

What's New in Research?

Living to 100 Call for Papers Posted

Planning is underway for the next international Living to 100 Research Symposium to be held in January 2011. Thought leaders from around the world will once again gather in Orlando, Florida to share ideas and knowledge on aging, changes in survival rates and their impact on society, and observed and projected increases in aging populations.

From the Other Side...European Actuarial Academy (EAA)

Enterprise Risk Management

In 2007, an initiative on a "Global ERM Qualification" was launched, which aims at strengthening the risk management expertise of actuaries. During its recent Annual Meeting in Zurich, the Groupe Consultatif expressed its support of developing ERM as part of a qualified actuary's competence.

As ERM is a rapidly growing field of activity for actuaries, the EAA GmbH promotes a thorough understanding of the concept, background and practical aspects of ERM. In this context, EAA will offer a seminar "Enterprise Risk Management" February 5-7, 2009 in Riga, Latvia. After a general introduction to the theoretical aspects of ERM, the participants will have many opportunities to gain practical experience. Please find detailed information on the seminar at www.actuarial-academy.com.

Lecture Notes – new title "Concentration Risk in Credit Portfolios"

The second title of EAA Lecture Notes, "Concentration Risk in Credit Portfolios" by Eva Lütkebohmert, is now available!

Modeling and management of credit risk are the main topics within banks and other lending institutions. Historical experience shows that concentration of risk in credit portfolios has been one of the major causes of bank distress. Therefore, concentration of risk is highly relevant to anyone who wants to go beyond the very basic portfolio credit risk models. "Concentration Risk in Credit Portfolios" is recommended for practitioners in banks, insurance and lending industry, and researchers in quantitative finance.

Actuarial Profession – United Kingdom

Joining Forces on Mortality and Longevity, A Multidisciplinary Conference on Research in Mortality – October 21-22, 2009 – Royal College of Physicians, Edinburgh

The objective of the conference will be to advance research and awareness of research into mortality, engaging with a variety of disciplines in order to fill gaps in existing research and to scope out areas where further research will add value. The conference will comprise of three work streams, focusing on the following themes:

1. What are the drivers for change?
2. How do cohorts differ and why?
3. From populations to individuals - drilling down to individualized risk

Casualty Actuarial Society – United States

New Issue of Variance: Advancing the Science of Risk

This issue of Variance discussions includes:

- Tree-based data mining methods
- Modeling loss index triggers for cat bonds
- Using the Tail Value at Risk to determine the required solvency level of an insurance company
- Parameterizing payout lag time distributions
- Avoiding the use of skewed distributions in forecasting

This would be a great Valentine's gift for your special someone!

ARM Network's Max Rudolph Featured in Business Week

A member of Actuarial Risk Management's Network, Max Rudolph, has been featured in an online Business Week column. Max is the principal of Rudolph Financial Consulting of Omaha, and works primarily with insurance companies on adopting holistic and sound risk management practices. The article deals with how risk management can help small businesses in today's challenging environment.

The article headline notes "Few businesses are eager to build risk management into their operations. But actuary Max Rudolph argues a recession is the time to optimize."

We congratulate Max on his exposure, his promotion of the profession and speaking about the importance of sound risk management. The article can be found at http://www.businessweek.com/smallbiz/content/jan2009/sb2009018_717265.htm .

AAA Likes President Obama's Medicare and Social Security Message

The American Academy of Actuaries applauds President Barack Obama's pledge to address Social Security and Medicare long-term financial challenges and urges public policymakers to reach bipartisan solutions to ensure both programs' viability.

"Historically, the American Academy of Actuaries has urged policymakers to address these financial challenges without delay," said John Parks, the president of the American Academy of Actuaries. "President Obama's message shows that he understands that these issues must be addressed now. And the Academy believes this must happen regardless of any other actions taken to address the current economic and fiscal crisis."

The Academy's Senior Health Fellow, Cori Uccello, said that the president is right to say that Medicare's issues cannot be solved "in isolation from the broader problems of the health care system." She said that policymakers must enact comprehensive Medicare reform not only to restore the program's solvency, but also to improve its long-term sustainability by lowering the growth of total Medicare spending as a share of the federal budget and of the overall economy.

"It is important to recognize that the problem of rising health care spending in the Medicare program reflects the spending growth seen in the U.S. health care system as a whole," she said. "Unless that spending is addressed, implementing options to control Medicare spending will have limited long-term effectiveness. Medicare reform proposals should focus on options that reduce overall spending, rather than simply shifting costs from the government to another payer."

Life Insurers Pleading for Lower Reserve and Capital Requirements

The American Council of Life Insurers, an industry group, has been pleading with state regulators (NAIC) to adopt nine changes in capital and reserve requirements before companies must file their annual reports for 2008. The ACLI fears that the reports could otherwise spook policyholders into dropping coverage and liquidating policies -- steps that an ACLI official said would be unwarranted and contrary to consumers' interests. The vote is scheduled for January 29th.

ARM Network Firm Recruits Retirement Expert

Actuarial Strategies, Inc. (ASI), a member of the ARM network, recently announced that Mary M. Fay joined the firm as Executive Vice President. Mary will focus on expanding the firm's penetration within the retirement market sector. Mary will lead ASI's Marketing and Strategy Development and Operations, as well as contribute to Product and Business Development efforts.

During her distinguished 25-year career, Mary has held senior executive positions with some of the financial services industry's premier companies, running large businesses and leading product and marketing innovation and operational efficiency initiatives. Most recently, she served as Senior Vice President and General Manager of the Annuities Business with Sun Life Financial, one of the industry's remaining multi-line annuity carriers.

ASI services the life and annuity insurance company market with a focus toward combination products that have been in vogue as the means of helping fund the major expense of long term care costs. These products combine long term care insurance with an investment vehicle, like annuities, or life insurance. The LTC/life insurance combos came to be after HIPAA while LTC/annuity products are the result of PPA 2006.

ARM applauds the profession

Doing the Math to Find the Good Jobs: Mathematicians Land Top Spot in New Ranking of Best and Worst Occupations in the U.S. This January 5 article from The Wall Street Journal reviews a CareerCast.com study that ranked the actuarial profession as second best among 200 professions. The findings were compiled by Les Krantz, author of Jobs Rated Almanac, and are based on studies from trade associations and data from the U.S. Bureau of Labor Statistics and the Census Bureau.

The study evaluates 200 professions to determine the best and worst according to five criteria inherent to every job: environment, income, employment outlook, physical demands and stress.

The bottom of the list included sewage-plant operator, painter and bricklayer.

Philips Sues Hewitt over UK Pension Work

The trustees of the £2 billion-Philips Electronics UK pension fund have sued Hewitt Associates and a former top executive over what the trustees claimed were actuarial valuation errors committed from 1995 to 2000.

Philips states that its damages from the disputed actuarial work are between £75 million and £103 million.

Philips and Philips Pension Trustees Ltd. filed suit in the High Court of Justice, Chancery Division, in London, against Hewitt Associates and former European consulting head Roger Parkin, who left Hewitt last July after 30 years with the firm.

Hewitt said in its annual report that its insurer has "denied coverage" relating to the matter, but Hewitt disputes this position and "fully intends to enforce its rights under the policies at issue," according to the news report.

ARM stresses that an independent review of the actuarial assumptions in pension and health and welfare plan valuations will help uncover potential mistakes/errors or even the gaming of the assumptions. Given the economy and the financial forces affecting these plan valuations, ARM believes that some company actuaries, whether internal or hired consultants, will be under "pressure" to produce a "reasonable" valuation.

GM Settles with SEC over Pension Accounting Charges

General Motors Corp. and the U.S. Securities and Exchange Commission reached a settlement on January 22, 2009 over charges that the company improperly represented pension estimates in 2002.

The Detroit Free Press reports GM was not fined by the SEC, but the auto giant agreed to follow SEC regulations in the future and is subject to a federal injunction under which it would face stiff penalties for any future violations. GM did not admit or deny any wrongdoing.

"The injunctive remedy should provide strong incentives for General Motors to maintain strong accounting and disclosure practices," said Frederic Firestone, associate director in the SEC's enforcement division, in the news report.

The SEC alleged in its 2004 lawsuit that GM made significant misstatements or omissions in a 2002 filing about its pension discount rate for 2002 and its expected return on pension assets for 2003. The complaint also alleged that GM failed to disclose material information about the timing and amount of its projected cash contributions to its pension plans, according to the Free Press.

GM said it made mistakes, but not with the intent to deceive shareholders.

The automaker recently agreed to pay about \$39 million to settle a lawsuit over company stock investments in its 401(k) plan. That suit claimed the company put its interests ahead of the interests of plan participants by continuing to offer GM stock as an investment option, matching employee contributions in GM stock, and failing to diversify the stock fund when it was clear GM stock was not a prudent investment during the time GM was struggling financially and its accounting was being reviewed by the SEC.



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

Our Services

2009 Actuarial Risk Management

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EDITORS

Corwin Zass
Evelina Kaminski
Susan Long

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 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

