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Looking for Academically Themed Actuarial Articles?



The North American Actuarial Journal (NAAJ) Volume 13, Issue 1 Feature Articles

Those looking for some academically themed actuarial articles, look no further than the most recent NAAJ. Look at some of these titles,

- A Quantitative Comparison of Stochastic Mortality Models Using Data from England and Wales and the United States
- Multivariate Models of Equity Returns for Investment Guarantees Valuation
- An Option-Based Operational Risk Management Model for Pandemics
- Optimal Management of an Insurer's Exposure in a Competitive General Insurance Market
- Relative Hedging of Systematic Mortality Risk
- Minimizing the Probability of Lifetime Ruin with Deferred Life Annuities

Upcoming Projects

- The State Mandated Coverage Task Force is finalizing an issue brief on mandating the purchase of health coverage, which will address the goals of such programs, benefit design considerations, implementation issues, the use of risk pools, and overall cost implications.
- The Consumer-Driven Health Plans Work Group is finalizing a paper on emerging data on CDHPS and their effect on health care cost and utilization.

New Comment Letters

In March, the Medicare Part D RBC Work Group submitted a recommendation for updated RBC factors for Medicare Part D to the NAIC Life RBC Working Group. The NAIC working group will expose the document for 60 days in anticipation of implementation of new factors later in 2009.

In February, the Medicare Supplement Work Group submitted its response to questions on updating the Medicare Supplement refund formula to the NAIC Accident and Health Working Group. The response covered a variety of topics affecting the refund formula, including: combining one or more types of plans, combining plans across states, and smoothing tolerance levels

Events

April 19 – 23

RIMS: 2009 Annual
Conference & Exhibition
Orlando, FL

April 22-25

NALC 2009 Spring
Conference
Bonita Springs, FL

April 26-28

AAIS: Main Event
Half Moon Bay, CA

May 5-8

2009 RMS Client
Conference Risk Mgmt.
Solutions
Hilton Head Island, SC

May 12-13

LIMRA: 2009 Sales
Compensation Seminar
Simsbury, CT

May 17-20

LOMA: Financial
Informum 2009
Scottsdale, AZ

June 7-10

IASA: 81st Ann. Ed.
Conf. & Bus. Show Ins.
Accounting & Systems
Assoc.
Orlando, FL

June 13-16

NAIC: Summer 2009
National Meeting
Minneapolis, MN



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 of the ARM 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.

Services & Solutions include:

- Valuation and Financial Reporting
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- Reinsurance Expertise
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- Capital Management
- Mergers and Acquisitions, Due Diligence
- Actuarial Assets & Liabilities (SAP, Tax and GAAP) Assessments
- 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
- Employee Benefit Optimizations
- Financial Security Valuations (FASB-157 from the simple Level 1 to the complex Level 3)



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the next generation in actuarial delivery...**

Around the Actuarial World in 2 Minutes...

This month's highlights

American Academy of Actuaries

The *Actuarial Update* is a periodical providing Academy members with insight on activity occurring within the Academy. This month's issue discussed:

Actuaries Support "Systemic Risk Regulator" to Prevent Future Financial Meltdowns

In early March 2009, the American Academy of Actuaries submitted a written testimonial in its support of the establishment of a governmental regulator to prevent systemic risk from destabilizing the U.S. economy.



According to testimony, such a governmental systemic risk regulator can effectively manage financial risks and protect the public, provided that the regulator implements actuarial principles and concepts. A comparison was made to the identified regulatory controls in the insurance industry that have successfully limited systemic risk. The thought was to extend the concepts in developing a regulatory structure for credit default swaps and other financial products with insurance-like features.

The testimony was submitted on behalf of the American Academy of Actuaries Risk Management and Financial Reporting Council to the U.S. House Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises.

Other Academy News

Capitol Hill Visits

On March 9-10, the American Academy of Actuaries' Health Practice Council (HPC) and Federal Health Committee held their annual Capitol Hill visits. Seventeen members visited 31 Congressional offices and government agencies over the two-day period. During the course of the visits, Academy members responded to questions on a wide variety of issues, including: the effect of risk pools on premiums in the group and non-group markets; the implications of an individual mandate for purchasing health insurance; reinsurance and risk-sharing mechanisms; the implications of including a public plan option as part of a health care reform proposal; delivery and payment system reform; national/regional/state exchanges; and benefit design issues (including actuarial equivalence).

Hill Briefing on Risk Pooling

On March 11, the Academy sponsored a Capitol Hill briefing on risk pooling and the potential effects of health care reform on the individual and small-group markets. David Shea, chairperson of the Federal Health Committee, and Cori Uccello, senior health fellow, presented at the briefing, which drew about 30 attendees from congressional offices and health policy organizations. A video of the briefing, copies of the slide presentation, and related readings are available on the Academy's Web site at Risk Pooling.

New Issue Brief on Risk Classification and Individual Health Insurance

In March, the HPC released an updated version of a 1999 issue brief, Risk Classification in the Voluntary Individual Health Insurance Market. This brief provides an overview of the fundamentals of risk selection and risk classification to help policymakers and the public better understand the role that risk classification plays in the voluntary individual health insurance market. The brief can be found on the Academy's Web site at Risk Classification.

Around The Society of Actuaries (SOA)

The Actuary Magazine, published every other month, provides in-depth and timely articles that focus on all actuarial practice areas. The most recent issue covered the following:

The SOA Investment Section - Articles

Given the turmoil in the financial markets, the recent issue discusses this calamity and some nuances.

A. Taking Stock: Is The Efficient Market Hypothesis in Trouble?

The article enlightens the reader by concluding that markets are efficient, but only under limited conditions. But as many children say on those long road trips, “how much further” – time will be the measuring stick to indicate whether the markets remain stable under all circumstances.

B. Investing in Illiquid Assets

The article concluded by stating that investing in illiquid assets can provide clear benefits — namely higher returns and diversification. However, this kind of investment is not for the fainthearted and any potential investor must make a detailed assessment of their liquidity needs beforehand — if they get this wrong then they run the risk of not locking-in the illiquidity premium (which is currently extremely attractive) or of not being able to meet their liabilities.

C. Variable Annuity GMxB and Delta Hedging

A colleague of ARM wrote this article and summarized it as follows: “In particular, the volatile financial market environment has exposed the limitations of some companies’ strategies for managing the market risk exposures created by the provision of significant long-term guarantees in VA products.” – It is worth a read for those interested in hedging programs or variable annuities.

SOA Research Papers

Analysis of Asset Spread Benchmarks

Recently, the Committee on Life Insurance Research, Committee on Finance Research, and Financial Reporting Section published a research report examining various benchmarks for analyzing option adjusted spreads of the major fixed income asset classes of life insurance companies. To learn more, please contact ARM.

Research Projects in Long-Term Care

(1) The Society of Actuaries' Long-Term Care Section and ILTCI Conference Association recently released a research report analyzing experience transition rates between Long Term Care claim settings over the course of a claim. The report describes development of experience transition rates between claim stages with the ultimate goal of improving management information.

(2) The Society of Actuaries' Long-Term Care Insurance Section and the ILTCI Conference Association made available a research report exploring functional and cognitive trends among assisted living facility residents. The report examines data on long-term care policyholders to gain insight into these trends.

Economic Downturn Expected to have Mixed Impact on Workers Compensation Insurance Market

In early March, 2009, the attendees at the Casualty Actuarial Society (CAS) Ratemaking and Product Management Seminar learnt that the economic and financial downturn will likely have a mixed impact on the workers compensation insurance market.

Session moderator and panelist Harry Shuford, chief economist, National Council on Compensation Insurance (NCCI), observed that recessions tend to place downward pressure on workers compensation exposure.

This is due to declines in employment and slower growth or declines in wage rates. "During a recession headcount is going down while the average weekly wage in all past recessions has continued to grow but at a much slower pace," Shuford noted. Recessions also tend to place a downward pressure on workers compensation claim frequency by increasing the skill level of the workforce.

Shuford observed that the frequency of workers compensation claims has been falling steadily since the early 1990s and will likely continue to decline for the foreseeable future.

"In the first two of the three most recent recessions, claims frequency dipped dramatically. In the most recent recession of 2001 the downturn was already underway, and there was an increase in the rate of decline."

However, one contradictory issue that underwriters and claims professionals often point out is that when a workers compensation client closes a plant, this leads to a surge in claims.

"This is a paradoxical result that frequency actually declines, when our anecdotal data says large lay-offs should result in increases in claims," he said.

Shuford went on to note that the growth in indemnity severity eases during recessions, driven by the slowing of growth in wage rates. "The big impact on indemnity severity comes the year after the recession as the average weekly wage levels during the recession appear in the benefits structure."

Meanwhile, growth in medical claim costs tends to increase during recessions though the growth will ease somewhat due to the decline in claims frequency, he said.

Shuford added that lower interest rates during and immediately after recessions means that property/casualty insurers as a whole will experience lower investment yields.

But he pointed out that the overall impact on property/casualty insurer returns may not be significant because "stocks are not a large portion of property/casualty portfolios."

Frank Schmid, director and senior economist, National Council on Compensation Insurance (NCCI), noted that the growth rate of workplace injury and illness rates drops sharply during recessions and rises sharply during recoveries.

Continued on the next page

Economic Downturn Expected to have Mixed Impact on Workers Compensation Insurance Market – Continued

“Frequency growth bottoms out with economic activity, before rising sharply during the ensuing recovery. Going into recession, frequency drops by 2.5 percentage points, going out it will increase by 5 percentage points before reverting to its pre-recession level,” he said.

Schmid explained that these two effects are driven by slowing job creation during recessions and accelerated job creation during recoveries.

“Faster job creation is associated with an increase in the growth rate of workplace injury and illness incidence rate,” he said, adding that evidence provided by the Bureau of Labor Statistics relates the higher incidence rates to shorter job tenure.

Accelerated job destruction at the onset of a recession also increases the growth rate of the workplace injury and illness incidence rate.

According to Schmid, this finding is indicative of moral hazard or opportunistic behavior. “It is a widely held belief and anecdotal evidence shows that layoffs give rise to workers compensation claims that you would not see otherwise.”

On net, recessions tend to cause a decline in the growth of workplace injury and illness rates, he concluded, adding: “Similarly, on net, recoveries from recessions come with an increase in the growth of the workplace injury and illness incidence rate.”

IRS Lays Out Smoothing Rules for DB Valuation

IRS Notice 2009-22, allows a change in the asset valuation methods used in 2009 without seeking IRS approval, according to guidance issued by the agency. The guidance allows plans to change their method to take advantage of the Worker, Retiree and Employer Recovery Act of 2008 enacted in December clarifying that plans could smooth asset values looking back up to 24 months preceding the beginning of the plan year.

Under existing IRS rules, pension plans needed IRS approval to change the asset valuation method they used for their plans each year.

Actuaries Should Explore Alternative Approaches to Data Mining as Part of Predictive Modeling Process

According to the keynote speaker, lawyer and economist, Ian Ayres told the Casualty Actuarial Society (CAS) Ratemaking Seminar that property & casualty insurance actuaries should not be afraid to try alternative approaches to data mining as part of the predictive modeling process.

Our Services

2009 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.

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

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

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- Financial Reporting Duties for Statutory, Tax, GAAP, and IFRS
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- 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

