

**2004 Annual Report
of the**



ACTUARIAL STANDARDS BOARD



Members of the ASB (from left to right): Godfrey Perrott, William Weller, Lew Nathan, Michael LaMonica, Cecil Bykerk, Lawrence Sher, Ken Hartwell, Karen Terry, William Reimert

Letter from the Chair



The Actuarial Standards Board (ASB) develops, obtains comment upon, adopts, and revises actuarial standards of practice (ASOPs) for the actuarial profession. ASOPs serve actuaries by assuring that their work will conform to generally accepted actuarial practices. At the same time, ASOPs assure the public that actuaries are professionally accountable.

In 2004, the Actuarial Standards Board (ASB) adopted a new Introduction to the Actuarial Standards of Practice and revised four existing ASOPs. The ASB also released three exposure drafts and a second exposure draft. Volume 2 of the standards library on CD was distributed to members in November, replacing Volume 1.

I would like to extend my thanks for devoting time and dedication to the standards-setting process to the ASB members, to the committee and task force chairpersons, to all volunteers who serve on the drafting committees, and to our staff. Special thanks to Ken Hartwell, who concluded his service on the ASB at the end of 2004.

Mike LaMonica
Chairperson
Actuarial Standards Board

Committee Projects

Casualty Committee

Casualty Committee chairperson Robert Miccolis completed his term this year by overseeing the continuing development of a proposed new ASOP on loss reserve analysis, which the Subcommittee on Reserving is writing. Committee member Christopher Carlson will become the chairperson in 2005 and the committee will consider whether revisions of ASOP Nos. 9, 13, and 20 are needed.

General Committee

The General Committee, chaired by W.H. Odell, produced a revision of ASOP No. 23, Data Quality, which the ASB adopted in December. The revised ASOP is effective for any actuarial work product for which data were provided to or developed by the actuary on or after May 1, 2005. In all cases, the standard will be effective for any actuarial work product commenced on or after July 1, 2006.

The General Committee also oversaw a revision of ASOP No. 21, now titled Responding to or Assisting Auditors or Examiners in Connection with Financial Statements for All Practice Areas, which was prepared by a task force chaired by James Milholland. The revised ASOP is effective on April 30, 2005.

A proposed revision of ASOP No. 12, now titled Risk Classification for All Practice Areas, is under development by a task force chaired by Mark Litow. The ASB approved the proposed revision as an exposure draft with a comment deadline of March 15, 2005.

Burton Jay is chairing a task force to revise ASOP No. 38, now titled Using Models Outside the Actuary's Area of Expertise (All Practice Areas), which finished reviewing comments on the exposure draft and plans to present a second exposure draft to the ASB in 2005.

Health Committee

The Health Committee, chaired by Alan Ford, prepared the new ASOP No. 42, Determining Health and Disability Liabilities Other Than Liabilities for Incurred Claims, which became effective in September. In addition, the committee oversaw the following task force projects:

The Task Force to Revise ASOP No. 8, chaired by Paul Fleischacker, produced an exposure draft of a proposed revision of ASOP No. 8, Regulatory Filings for Health Plan Entities. The ASB approved the draft in September 2004 with a comment deadline of March 31, 2005.

The Task Force to Revise ASOP No. 3, chaired by Molly Shaw, began work on a proposed revision of ASOP No. 3, Continuing Care Retirement Communities.

Life Committee

The Life Committee, chaired by Robert Meilander, oversaw several task force projects this year. The first, a revision of ASOP No. 1, now titled Nonguaranteed Charges or Benefits for Life Insurance Policies and Annuity Contracts, was adopted by the ASB in March with an effective date of September 30. A task force chaired by Thomas Phillips prepared the revised ASOP.

The Task Force to Revise ASOP No. 11, chaired by Allan Ryan, produced a second exposure draft of a proposed revision of ASOP No. 11, now titled Financial Statement Treatment of Reinsurance Transactions Involving Life or Health Insurance. The ASB approved the second exposure draft in September with a comment deadline of March 31, 2005.

The Task Force to Revise ASOP No. 19, chaired by Charles Carroll, prepared an exposure draft of a proposed revision of ASOP No. 19, now titled Appraisals of Casualty, Health, and Life Insurance Entities. The ASB approved the exposure draft in June with a comment deadline of November 30.

The Task Force to Revise ASOP No. 15, chaired by Thomas Phillips, began work on a proposed revision, now titled Dividends for Individual Participating Life Insurance, Annuities, Disability Insurance, and Long-Term Care Insurance.

Pension Committee

The Pension Committee, chaired by Phillip Romello, began reviewing comment letters received on the second exposure draft of a proposed new ASOP, Selection and Use of Asset Valuation Methods for Pension Valuations. The committee plans to present a final ASOP to the ASB in 2005.

The committee finished reviewing comment letters received on a proposed revision of ASOP No. 4, now titled Measuring Pension Obligations and Determining Plan Costs or Contributions, and plans to release a second exposure draft in 2005.

Other Projects

The ASB adopted the final version of the new Introduction to the Actuarial Standards of Practice, which was prepared by a task force chaired by Jack Turnquist. The new Introduction provides guidance about the purpose, nature, and format of ASOPs, as well as some of the commonly used terms and concepts. The Introduction became effective upon its adoption in December.

Financial Summary

Financial activities pertaining to the Actuarial Standards Board are accounted for separately within the American Academy of Actuaries system of accounts. The ASB submits a budget request to the Academy Secretary-Treasurer, listing all projected expenses. The Academy Board of Directors considers this request when adopting the Academy's annual budget and makes provision within the budget for ASB operating expenses.

The ASB has discretion with regard to the expenditure of all funds allocated to it, subject only to accounting and audit requirements mutually determined by the Secretary-Treasurer and the ASB.

Actuarial Standards Board Statement of Expenses

Year Ended December 31, 2004

Expenses:

Staff salaries	\$179,007
Staff benefits	47,283
Office operating costs	67,713
Printing	98,563
Postage and delivery services	45,157
Staff travel	2,246
Committee meetings	34,335
ASB travel reimbursement	36,648
Total Expenses:	\$510,952