



**ACTUARIAL STANDARDS BOARD**

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**2005 Annual Report  
of the  
Actuarial Standards Board**

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## Letter from the Chair

The Actuarial Standards Board (ASB) serves actuaries and the public by providing guidance regarding generally accepted actuarial practice through the issuance of actuarial standards of practice (ASOPs). The ASB is an independent entity with the sole authority to develop, obtain comment upon, revise, and adopt ASOPs for the actuarial profession.

In 2005, the ASB released five exposure drafts for comment and adopted final revisions of four ASOPs:

- ASOP No. 8, *Regulatory Filings for Health Plan Entities*
- ASOP No. 11, *Financial Statement Treatment of Reinsurance Transactions Involving Life or Health Insurance*
- ASOP No. 12, *Risk Classification (for All Practice Areas)*
- ASOP No. 19, *Appraisals of Casualty, Health, and Life Insurance Businesses*

I would like to thank the board members and the chairpersons and other members of the drafting committees and task forces for their commitment to the standards-setting process. Special thanks go to Michael LaMonica and William Weller for their service to the ASB.



Cecil D. Bykerk  
Chairperson  
Actuarial Standards Board

Members of the 2005 ASB (from left to right)  
Standing: William Reimert, William Weller, Cecil Bykerk, Karen Terry, Godfrey Perrott  
Seated: William Cutlip, Michael LaMonica, Lawrence Sher  
Not pictured: Lew Nathan

## Committee Projects

### **Casualty Committee**

The Casualty Committee, under the new leadership of Christopher Carlson, oversaw development of a proposed new ASOP, *Property/Casualty Unpaid Claim and Claim Adjustment Expense Estimates*, which the Subcommittee on Reserving, chaired by Raji Bhagavatula, is writing. The ASB formally approved an exposure draft in February 2006 with a comment deadline of June 30, 2006.

The Casualty Committee also deliberated on a possible revision of ASOP No. 36, *Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves*. The ASB considered a recommendation from the Casualty Actuarial Society to strengthen the disclosure requirements in ASOP No. 36 and approved a proposal for revision in June 2005. The committee is currently monitoring discussions within the profession to determine whether there is consensus regarding how the ASOP should be revised.

### **General Committee**

The General Committee, chaired by W.H. Odell, is responsible for drafting ASOPs that apply to actuaries in all practice areas. In 2005, the committee focused on revising two existing standards—ASOP No. 12, now titled *Risk Classification (for All Practice Areas)*, and ASOP No. 38, *Using Models Outside the Actuary's Expertise (for All Practice Areas)*.

A task force chaired by Mark Litow produced a revision of ASOP No. 12, which the ASB adopted in December 2005 with an effective date of May 1, 2006.

A task force chaired by Burton Jay continued work on a proposed second exposure draft of ASOP No. 38. The ASB formally approved a second exposure draft in March 2006 with a comment deadline of July 15, 2006.

Several previously adopted revised ASOPs became effective in 2005. A revision of ASOP No. 21, *Responding to or Assisting Auditors or Examiners in Connection with Financial Statements for All Practice Areas*, became effective on April 30, 2005. A revision of ASOP No. 23, *Data Quality*, became effective for any actuarial work product for which data were provided to or developed by the actuary on or after May 1, 2005; it will be effective in all cases on July 1, 2006.

## Health Committee

The Health Committee, chaired by Alan Ford, oversaw the following task force projects:

The Task Force to Revise ASOP No. 8, chaired by Paul Fleischacker, produced a final revision of ASOP No. 8, *Regulatory Filings for Health Plan Entities*, which the ASB adopted in December 2005 with an effective date of May 1, 2006.

The Task Force to Revise ASOP No. 3, *Continuing Care Retirement Communities*, chaired by Molly Shaw, finished writing a proposed exposure draft, which the ASB expects to review in 2006.

The Task Force to Revise ASOP No. 16, *Actuarial Practice Concerning Health Maintenance Organizations and Other Managed-Care Health Plans*, chaired by Mary Murley, continued discussions about whether the ASOP should be revised or withdrawn. The ASB expects to consider the task force's recommendations in 2006.

At the end of the year, the committee bid farewell to chairperson Alan Ford, who joined the ASB, and welcomed Paul Fleischacker as his replacement.

## Life Committee

The Life Committee, chaired by Robert Meilander, oversaw several task force projects in 2005:

The Task Force to Revise ASOP No. 11, *Financial Statement Treatment of Reinsurance Transactions Involving Life or Health Insurance*, chaired by Allan Ryan, completed its revision of ASOP No. 11, which the ASB adopted in June 2005. The revised standard became effective for actuarial services performed in connection with financial statements for periods beginning on or after January 1, 2006.

The Task Force to Revise ASOP No. 19, *Appraisals of Casualty, Health, and Life Insurance Businesses*, chaired by Charles Carroll, presented a proposed final ASOP that the ASB approved in June 2005. This standard became effective on November 1, 2005.

The Task Force to Revise ASOP No. 15, now titled *Dividends for Individual Participating Life Insurance, Annuities, and Disability Insurance*, chaired by Thomas Phillips, continued drafting a proposed final revision. The ASB adopted the final standard in March 2006 with an effective date of August 1, 2006.

The Task Force to Revise ASOP No. 24, *Compliance with the NAIC Life Illustrations Model Regulation*, chaired by Michael Cioffi, worked on a proposed exposure draft. The ASB approved an exposure draft in April 2006 with a comment deadline of August 1, 2006.

## **Pension Committee**

The Pension Committee, chaired by Phillip Romello, worked on several projects in 2005. The committee reviewed comment letters received on the second exposure draft of a proposed new ASOP, *Selection and Use of Asset Valuation Methods for Pension Valuations*, and presented a third exposure draft to the ASB in September 2005. The ASB approved the third exposure draft with a comment deadline of February 28, 2006.

In March 2005, the ASB approved the second exposure draft of a proposed revision of ASOP No. 4, now titled *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*, which had a comment deadline of October 31, 2005. The Pension Committee spent the remainder of the year discussing comment letters and redrafting and plans to present a third exposure draft to the ASB in 2006.

Concurrent with the release of the second exposure draft of the proposed ASOP No. 4 revision, the ASB approved exposure drafts of minor revisions of ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*, and ASOP No. 35, *Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations*. The Pension Committee intended to eliminate contradictory language regarding which standard would govern in the event of a conflict—the eventual revision of ASOP No. 4 is supposed to take precedence in the event of a conflict. The Pension Committee plans to present proposed final versions at the same time it presents the proposed final revision of ASOP No. 4.

At the end of 2005, the Pension Committee bid farewell to Phillip Romello and welcomed new chairperson David Fleiss, who has served on the committee since 2001.

## **Other Projects**

The ASB approved the creation of an *ad hoc* task force chaired by Jennifer Bowen to examine how issues related to enterprise risk management (ERM) relate to actuarial standards of practice. The general charge of the task force is to review existing ASOPs and present recommendations to the ASB regarding whether or to what extent ASOPs are applicable to chief risk officers or senior risk officers and to determine if any new ASOPs would be needed to address ERM.

## Financial Summary

Actuaries who belong to any one or more of the five U.S.-based actuarial organizations support the operations of the Actuarial Standards Board through a portion of their annual dues. Financial activities pertaining to the ASB are accounted for separately within the American Academy of Actuaries system of accounts. The ASB annually submits a proposed budget based on projected expenses to the Academy Secretary-Treasurer; the Academy budget makes provisions 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, 2005<sup>1</sup>**

**Expenses:**

Staff salaries <sup>2</sup>	\$187,032
Staff benefits	45,482
Office operating costs	66,664
Printing	82,167
Postage and delivery services	26,059
Staff travel	8,913
Committee meetings	38,940
<u>ASB travel reimbursement</u>	<u>43,143</u>
<b>Total Expenses:</b>	<b>\$498,400</b>

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<sup>1</sup> The above figures represent audited financial results associated with the ASB. Copies of the audited financial statements of the American Academy of Actuaries are available upon request from the Academy's office in Washington, D.C. and are available on the Academy's website under "Audit Committee." Many members of the actuarial profession have contributed significant amounts of time to the activities of the ASB without compensation. This financial summary does not reflect the value of those contributed services.

<sup>2</sup> Includes salaries of full-time staff members and charges for actual time spent on the ASB program by other Academy employees.