



ACTUARIAL STANDARDS BOARD

2006 ANNUAL REPORT

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ACTUARIAL STANDARDS BOARD
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2006 ACTUARIAL STANDARDS BOARD



The 2006 Actuarial Standards Board (l to r): Chairperson Cecil Bykerk, Alan Ford, Vice-Chairperson Lawrence Sher, William Reimert, Lew Nathan, Vice-Chairperson Godfrey Perrott, Karen Terry, William Cutlip, Robert Miccolis

LETTER FROM THE CHAIRPERSON

The Actuarial Standards Board (ASB) serves actuaries and the public by providing guidance regarding appropriate actuarial practice through the issuance of actuarial standards of practice (ASOPs). The ASB was established in 1988 as an entity within the American Academy of Actuaries. The ASB has the sole authority to develop, obtain comment upon, revise, and adopt ASOPs for the actuarial profession.



In 2006, the ASB adopted the final revision of ASOP No. 15, *Dividends for Individual Participating Life Insurance, Annuities, and Disability Insurance*.

2006 was a year of change for the ASB staff. We were sad to say goodbye to long-time American Academy of Actuaries' General Counsel Lauren Bloom and ASB Program Manager Caren Clark, as each moved on to other endeavors. However, with every change comes new opportunity, and we are happy to welcome the new Academy General Counsel Mary Downs and new ASB Program Manager Joe Vallina to the staff roster.

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.

A handwritten signature in black ink that reads "Cecil D. Bykerk".

Cecil D. Bykerk
Chairperson
Actuarial Standards Board

2006 COMMITTEE ACTIVITY

CASUALTY COMMITTEE

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

At the end of the year, the committee bid farewell to Chairperson Christopher Carlson, and welcomed Patrick Woods as his replacement.

GENERAL COMMITTEE

The General Committee, chaired by W.H. Odell, oversaw the following task force projects:

A task force chaired by Burton Jay continued work on a proposed second exposure draft of ASOP No. 38, *Using Models Outside The Actuary's Area of Expertise*. The ASB formally approved a second exposure draft in March 2006 with a comment deadline of July 15, 2006. In November 2006, the ASB decided to halt further development of this revision to enable the Board to reevaluate the overall scope of the document.

HEALTH COMMITTEE

The Health Committee, chaired by Paul Fleischacker, oversaw the following task force projects:

The Task Force to Revise ASOP No. 3, *Continuing Care Retirement Communities*, chaired by Molly Shaw, drafted a proposed revision, which the ASB exposed in December 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, drafted a proposed repeal of this ASOP. The ASB exposed the repeal in August 2006. [The repeal subsequently took effect on April 26, 2007.]

LIFE COMMITTEE

The Life Committee, chaired by Robert Meilander, oversaw the following task force projects:

The Task Force to Revise ASOP No. 15, now titled *Dividends for Individual Participating Life Insurance, Annuities, and Disability Insurance*, chaired by Thomas Phillips, drafted 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, drafted a proposed revision. The ASB



Vice-Chairperson Lawrence Sher makes a point during a recent ASB meeting.



Vice-Chairperson Godfrey Perrott listens to the discussion at the November meeting.

approved an exposure draft in April 2006 with a comment deadline of August 1, 2006.

The Task Force on Principles-Based Reserves, chaired by former ASB member Frank Irish, began drafting a discussion draft titled *Standards for Principles-Based Reserves for Life Products*.

The Task Force on Independent Review of Principles-Based Valuations, chaired by Charles Carroll, began drafting a discussion draft titled *Independent Review of Principles-Based Valuations*.

PENSION COMMITTEE

The Pension Committee, chaired by David Fleiss, oversaw the following projects:

The committee reviewed comment letters received on the third exposure draft of a proposed new ASOP, *Selection and Use of Asset Valuation Methods for Pension Valuations*, and presented a fourth exposure draft to the ASB in August 2006. The ASB approved the fourth exposure draft with a comment deadline of March 1, 2007.

Also in August 2006, the ASB approved the third exposure draft of a proposed revision of ASOP No. 4, now titled *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*, with a comment deadline of March 1, 2007.

Concurrent with the release of the second exposure draft of the proposed ASOP No. 4 revision in 2005, 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

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 was 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. At the November ASB meeting, Ms. Bowen gave her report, and the Board agreed that it would review any new ERM developments annually. The Board voted to disband the task force with thanks.



Board members discuss a proposed ASOP.



Board member William Reimert (right) discusses a standard with Vice-Chairperson Lawrence Sher.

2006 FINANCIAL SUMMARY

Actuaries practicing in the United States who belong to any one or more of the five U.S.-based actuarial organizations support the operations of the Actuarial Standards Board (ASB) 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, and expenses are allocated back to the five U.S.-based actuarial organizations. 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.



Board member Lew Nathan listens to an ASOP proposal during a board meeting

ACTUARIAL STANDARDS BOARD STATEMENT OF EXPENSES FOR YEAR ENDED DECEMBER 31, 2006

Expenses:

Staff Salaries	\$181,836
Staff benefits	42,677
Office operating costs	86,272
Printing	74,099
Postage and delivery services	23,688
Staff travel	6,027
Committee meetings	41,213
ASB travel reimbursement	68,243
Total expenses	\$524,055

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For more information about the Actuarial Standards Board, go to the official ASB web site, <http://www.actuarialstandardsboard.com>, or call the ASB office at (202) 223-8196.