

Qualified... or Not

THE PHONE RINGS. Jean Johnson, a member of one of the U.S. actuarial organizations, is calling. She's about to start an assignment and wants to discuss whether she's qualified to proceed. She was referred to me in my role as chairperson of the ABCD to discuss her situation. Is she qualified... or not?

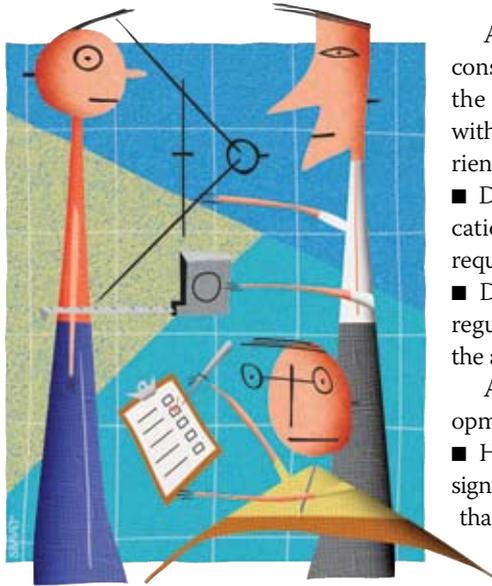
One of the benefits that professional organizations bring to the publics served by their profession is an understanding that credentialed members are required to be qualified to perform the particular services offered by the profession. This is as true of the actuarial profession as it is of others. Precept 2 of the Code of Professional Conduct, adopted by five U.S. actuarial organizations, exemplifies this when it states: "An Actuary shall perform Actuarial Services only when the Actuary is qualified to do so on the basis of basic and continuing education and experience and only when the Actuary satisfies applicable qualification standards."

But how do U.S. actuaries determine whether they are qualified to perform an assignment?

Using the Code of Professional Conduct as a guidebook, a good place for the actuary to start is the Qualification Standards issued by the American Academy of Actuaries. These are the "applicable qualification standards" in the United States. The General Qualification Standard describes the basic education and experience and continuing education required to be considered qualified. The Specific Qualification Standards provide more detailed requirements for signing insurance company reserve opinions.

The Qualification Standards are currently required to be satisfied only when an actuary issues a Prescribed Statement of Actuarial Opinion, which is a statement that is required by law, regulation, accounting standard, or actuarial standard. However, the Qualification Standards can serve as a guide for actuaries in other situations, too, and changes are under consideration that would extend their application to all statements of actuarial opinion, prescribed or not.

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Additionally, U.S. actuaries should consider what's required to perform the assignment and compare that with their own education and experience, asking questions such as:

- Do I have the necessary basic education in the actuarial mathematics required to perform the analysis?
- Do I understand the legal and regulatory environment that affects the analysis?
- Am I up to date on recent developments affecting the assignment?
- Have I done enough similar assignments to understand the nuances that might affect my analysis?
- If this is a new area for me or for the profession, do I understand how to extend what I've learned elsewhere to the new area?

Qualified to Attest

Back to Jean's question. One of her clients has asked Jean to help out by providing the attestation required for the client to receive the subsidy available from Medicare as a result of the client's providing prescription drug benefits to its retirees. This attestation requires actuarial analysis of the relative values of the client's benefit and the Medicare Part D benefit.

Jean is a consulting actuary who spends most of her time advising clients about their disability income benefits, with the rest of her projects involving health benefits. She is a Fellow of the Society of Actuaries (FSA) who completed the examinations more than 10 years ago, a member of the American Academy of Actuaries (MAAA), and a Fellow of the Conference of Consulting Actuaries (FCA). She regularly attends actuarial meetings, especially the Society of Actuaries Spring Health meeting and the Conference of Consulting Actuaries Annual Meeting, attending one or the other each year. Mostly she attends the disability income sessions, but she does sit in on a few health insurance sessions each year. Is Jean qualified to provide the attestation?

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The attestation is a Prescribed Statement of Actuarial Opinion, so the Qualification Standard clearly applies. Since Jean is an FSA, she satisfied the basic education requirement by passing the SOA examinations. She has some experience with health benefits through her client assignments. She also has some continuing education in this aspect of health benefits. So the key questions Jean needs to answer are:

- Are my experience and continuing education sufficient that I understand the issues involved in prescription drug benefit relative value analysis?
- Do I have a good understanding of the requirements of the Medicare Part D attestation analysis?

After we discussed her level of knowledge about prescription drug benefits and Medicare Part D, Jean concluded that she had sufficient basic health actuarial knowledge and experience but needed to become more familiar with how to apply it to prescription drug benefits and more detailed knowledge of Medicare Part D. She planned to fill in these gaps through attendance at a seminar on attestation before she would consider herself to be qualified. She also planned to have her work reviewed by another actuary who had more experience pricing prescription drug benefits.

Simply meeting the Qualification Standards isn't always sufficient for an actuary to satisfy the Code of Professional Conduct requirements. It's just one of two elements of Precept 2, cited above.

Team Work

James Jameson is a pension actuary whose client has asked him to supply the required accounting values under FAS 106, the accounting standard for retiree benefit plans. The client provides medical benefits to its retirees, with the retirees sharing in the cost of the plan.

Jim reads the Qualification Standards, since his client's request is for a Prescribed Statement of Actuarial Opinion, and realizes that retiree medical valuations encompass elements from both pension practice and health practice. Accordingly,

the General Qualification Standard says that he needs to have the appropriate basic education, experience, and continuing education in one of the practice areas involved. Because Jim satisfies these requirements in the pension practice area, the standard is satisfied with respect to retiree medical valuations.

However, the standard reminds Jim of the broader obligation under Precept 2 not to perform actuarial services unless qualified to do so. As a result, Jim asks for guidance from an ABCD member.

Whether Jim is qualified to perform a retiree medical valuation depends on his having sufficient knowledge and skills related to health benefits. Does he understand how health plans operate? What factors are likely to affect future costs? How can he determine the current cost of the plan? What pitfalls does he need to avoid in his analysis? What laws and regulations affect retiree medical plans and may affect his valuation?

Does Jim need to be a fully qualified health actuary? Almost certainly not. But he should have sufficient knowledge to enable him to perform the health portions of the valuation analysis and model building.

After discussing his past experience and recent continuing education, Jim realized that there were too many gaps in his current knowledge. So he proposed working with a health actuary and co-signing the valuation report. The two actuaries combined will definitely meet the qualification requirements. And by working with a health actuary for a few years, Jim may learn enough to become qualified himself.

Precept 2's requirement that an actuary be qualified to perform actuarial services is an important way in which the profession endeavors to protect the interests of the users of actuarial services. Every actuary should consider this requirement before undertaking an assignment. If you're in doubt, feel free to contact the ABCD or the Committee on Qualifications and discuss your specific situation with a member. ●

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