



SOCIETY OF ACTUARIES

September 27, 2004

Mr. Martin L Pippins
Internal Revenue Service
Attn: SE:OPR [Joint Board regulations]
1111 Constitution Avenue, NW
Washington, DC 20224

Dear Mr. Pippins:

Thank you for the opportunity to submit comments on possible revisions to the regulations governing actuarial services under the Employee Retirement Income Security Act of 1974 (ERISA). The Society of Actuaries (SOA) is dedicated to the educational, research and professional needs of the actuarial community, including over 3,200 of our members (Associates (ASAs) and Fellows (FSAs)) who are also enrolled actuaries. This letter represents the thinking of SOA volunteer leaders who are enrolled actuaries (EAs) and have a strong background in the retirement area of practice.

Our comments cover the first and second sections of your request. We also have a section of comments on EAs practicing under Internal Revenue Code (IRC) §§ 419, 419A and 420 that crosses categories and are grouped separately.

Conditions for Enrollment and Renewal of Enrollment

We believe the EA examinations should be broadened to include selection of assumptions and IRC §§ 419, 419A and 420 (see additional comments in last section). We recognize that testing selection of assumptions in a multiple-choice format is difficult, but encourage the Joint Board and its Advisory Committee to find ways to incorporate this important topic into the examination.

We recommend that the Joint Board for the Enrollment of Actuaries (JBEA) recognize appropriate SOA exams for meeting the examination requirement for becoming an enrolled actuary, provided that U.S. pension law is added back into the SOA exam syllabus, as the SOA currently relies on the EA exams to cover these topics. The key reasons for making this recommendation include:

- The SOA successfully covers the U.S. law as it relates to other areas of actuarial practice (life and health).

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- The SOA examinations already cover selection of assumptions.
 - Selection of assumptions is a critical function performed by an enrolled actuary. The SOA exam committees have not found a satisfactory way to test this subject with multiple-choice questions.
 - The SOA uses an essay question format and has a process in place for grading them. The format allows for testing topics that are important for EAs to know yet are not clear-cut enough for a right/wrong approach, such as the selection of assumptions.

- Candidates taking the SOA exams would be exposed to a broader range of relevant topics preparing a more effective pension actuary. It is analogous to the difference in understanding of law attained by someone attending Harvard Law School or another program that focuses specifically on the requirements of the state bar exam. Candidates from both schools may receive a *juris doctor* (JD) degree and pass the bar exam, and both may be state certified to practice law, but the former candidate will have a broader background on the issue, and be able to understand and participate in the process of changing the law over time. Similarly, candidates who obtain the FSA, in particular, have the broad background to understand how macro changes (economic, political, regulatory and legal) affect pension plans and participate in working to evolve the system in ways that secure pension benefits for future generations.

- The recognized SOA examinations would be available to anyone wishing to use them to qualify for their enrollment and not just candidates with prior SOA exam credit. The SOA would ensure that our syllabus remained consistent with the Joint Board syllabus.

In order to accommodate the necessary changes, we recommend that any change be coordinated with the implementation of the SOA Education Redesign that is scheduled to be completed by 2007.

The JBEA should consider the use of computer-based testing and other alternative testing procedures. In addition, it should provide a process for consideration of alternatives as technology and educational methods change.

Finally, the experience requirement for initial enrollment works well and does not need to be changed.

Continuing Professional Education

The SOA has found that webcasts are a cost-efficient and time-efficient methodology for continuing education. They have had wide acceptance by practitioners. Our specific issues around evolving technology are:

- We would appreciate additional guidance on other acceptable means for measuring completion by participants.

- We also frequently do site registrations and would appreciate any guidance for measuring participant completion where more than one person is viewing the webcast off the same “terminal” other than individual written examinations by all participants.

In addition, the requirement for handouts is archaic given the ease of electronic storage and access of materials after testing. We suggest a system whereby the sponsor is required to keep copies and have them electronically available after the session to the JBEA or any other requesting organization.

Classification of Core and Non-Core

As the leading provider of research to pension actuaries, the SOA is concerned that much of our research and much information about new areas and related areas of practice may not make it out to practicing actuaries because the classification of all credit as core or non-core categories is inappropriately limiting. The reality of the situation is the core and non-core distinctions drive almost all continuing education done in the profession.

We propose changing the required number of core credits per enrollment cycle, and suggest the following:

- Currently, there is no distinction made between the continuing professional education (CPE) requirements early in the professional career (where more core credit is necessary to help cement the understanding gained through the examinations) and later in the same professional career, where it's more important to learn the latest economic and financial theories to understand external and internal forces driving change.
- There is, in general, too much emphasis on core credit, particularly for more experienced actuaries. The over-burdensome core credit requirement leads EAs to focus on narrowly technical sessions and consequently a narrowing of the field of vision of EAs when working with pension plans. CPE time is frequently spent on material that the person knows and had to learn almost immediately when regulations come out. It would be much better for the public and for the profession if members of the profession learn about new areas.
- A specific proposal would be to have separate requirements for new EAs from experienced actuaries. For the first two enrollment cycles, after attaining the designation, the EA must have at least half the required credits (18 hours for a full 3-year cycle) of core credit. Thereafter, the enrolled actuary would be required to have 12 hours of core credit (out of 36).

Other concerns about the core and non-core credit distinctions are noted below:

- There should be a broader (and better described) definition of credits allowed in non-core credit or an introduction of a third category to account for credits that don't fit in core or non-core categories. For example, the actuarial profession is making great strides in risk management, but it's difficult to attract pension actuaries to general education on risk management as it doesn't fit nicely into the non-core credit designation. This acts to hinder the distribution and development of new ideas in the profession.

- If the current core and non-core categories were kept, without addition of a third category, than a clearer indication of what sessions qualify for core and non-core credit would be in order. There are widely differing opinions as to whether sessions covering defined contribution plans are core or non-core credit, or whether sessions covering Financial Accounting Standard (FAS) 106 or other non-pension accounting standards can be considered for non-core credit.
- IRC §§419, 419A and 420 as well as health care trend and claim assumptions should be included as core credit (described in more detail in the next section).
- We ask the JBEA to consider the following topics for inclusion as core credit:
 - Investment-related education
 - Financial economics
- The following topics should be clarified to be considered as non-core credit
 - FAS 106, FAS 112, and other accounting related issues regarding post-retirement medical and other employment and post-employment benefit plans
 - International accounting standards (IAS), current or in development, for pension, post-retirement medical, employment, and other post-employment benefit plans

EAs Practicing under IRC §§ 419, 419A and 420 (Treasury Circular No. 230)

We are concerned that actuaries who don't have significant health credentials not be encouraged to engage in unqualified practice under one of these code sections. The JBEA should not encourage actuaries to practice in an area where they don't meet the qualification standards in accordance with the (Actuarial) Code of Professional Conduct.

We understand, however, that certain elements do properly fit the education and practice of EAs, such as reasonable funding methods used to determine deductibility of reserves under IRC §419A(c)(2) nondiscrimination requirements (including those under IRC §§505(b), 132(j), 125(b) and 105(h)), fiduciary responsibilities and transfers of assets under IRC §420.

We ask the JBEA to consider allowing EAs to practice jointly with qualified health actuaries on these matters as few individual actuaries have both the skills of the EA and the qualified health actuary. In this case, an EA could rely on another actuary who meets the Academy's requirements for qualified health actuaries for those matters related directly to health issues. We would respectfully ask the JBEA, if it considers this option, to outline those areas where the EA may rely on the expertise of another actuary (e.g. incurred but not reported (IBNR) reserve, expected medical claims, projected medical trend) and what the appropriate qualifications for those other actuaries should be (e.g. qualified health actuary).

If the JBEA affirms the role of the Enrolled Actuary in practicing before the IRS on these issues, we ask the following

- Enrolled Actuary examination syllabus should incorporate IRC §§419, 419A and 420.

- Continuing education covering IRC §§419, 419A and 420 should be considered core credit, including such aspects as setting health care claim assumptions and trend rates.

Thank you for your consideration in these matters. We are always pleased to be of assistance. If you require any further clarifications, please contact Judy Anderson at the SOA offices at 847/706-3590, or janderson@soa.org.

Sincerely

A handwritten signature in black ink, appearing to read "Neil Parmenter". The signature is fluid and cursive, with a large initial "N" and a long, sweeping underline.

Neil Parmenter
President, Society of Actuaries