

....CPS BULLETIN....

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Introduction

The lead article in this issue of **CPS Bulletin** deals with the Sarbanes-Oxley Act. The Act was signed into law by the President on July 30, 2002. Despite its limited applicability to fraternal societies we have been getting a number of queries from clients about the possible effect on them and we are hoping that this article will answer Frequently Asked Questions regarding the Act.

Also, since summer is here and many of you will be spending time in the garden or the beach, you might wish to use your computers or other electronic gadgets in these locations. Our second article investigates the possibility of using wireless electronic devices to do your work or enhance your leisure almost anywhere.

In the Regulatory Update section, we have information regarding (1) permissible investments for fraternal societies domiciled in NY under section 1404(a) of the NY Insurance Laws, (2) the status of the new 2001 CSO Table's adoption by the various states, (3) the 2004 maximum and minimum AVR factor for equities, and (4) the life insurance valuation and non-forfeiture interest rates for 2005.

We hope that you enjoy receiving this newsletter. If you have any comments or suggestions on how we can improve **CPS Bulletin**, please contact us by visiting our company web site at www.cpsincorp.com. ❖

A Different Kind of SOX (as in Sarbanes-Oxley)

Whenever there's a public outrage over a particular issue, the US Congress usually responds by passing legislation. In response to the Enron, Tyco and WorldCom scandals, the US Congress created the Public Company Accounting Reform and Investor Protection Act, which is known as the Sarbanes-Oxley Act ("SOX"). This article will try and give an overview of what the Act is all about and what a fraternal benefit society should know about the Act.

Who are Sarbanes and Oxley?

Paul Sarbanes is a 5-term Democratic senator from Maryland. Michael Oxley is Chairman of the Congressional Committee on Financial Services and an 11-term Republican congressman from Ohio.

What is SOX intended to do?

The Act was created to protect investors from executive fraud by requiring stricter standards for corporate accounting as well as more oversight. The Act is far-reaching, covering everything from who can sit on a public company's board of directors to penalties for mistreating corporate whistle-blowers. The Act requires that publicly traded companies adhere to significant new governance standards that increase board members' roles in overseeing financial transactions and auditing procedures.

Do non-profits such as fraternal societies have to comply with SOX?

Since fraternal societies have never issued publicly traded equity securities, one would tend to think that fraternal societies are exempt. Although technically not required to comply, it is important for fraternal societies to recognize the implications of the Act and how they will be affected. More and more emphasis is being placed on corporate governance and board members of fraternal societies need to be aware of these

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issues. Any company can benefit by improving its governance practices, and a fraternal may simply want to adopt enhanced governance practices even though it is not obligated to do so.

What are some of the main provisions of the Act?

- The Act makes it clear that board members are fiduciaries with a duty of care to shareholders and have ultimate responsibility for directing the company. Board members should provide active oversight to minimize the company's risk.
- SOX requires that each member of the company's audit committee be a member of the board of directors and be independent. At least one member of the audit committee must be a "financial expert", although the definition of such an expert is still being debated.
- Companies are required to create and disclose a code of ethics.
- The CEO and the CFO must certify the appropriateness of the financial statements and that they fairly present the financial condition and operations of the company. In addition, they must attest to the fact that adequate controls are in place to detect mistakes and fraud.
- The Act generally prohibits loans to any directors or executives of the company.
- Accounting firms are prohibited from providing some consulting services to companies they audit. In addition, SOX requires that the lead and reviewing partner of the auditing firm rotate off the audit every 5 years.
- SOX requires a number of disclosures, including information on internal control mechanisms and corrections to past financial statements.
- New protections are in place for whistle blowers and criminal penalties were established for actions taken in retaliation against whistle blowers.
- The Act addresses destruction of litigation-related documents. The law makes it a crime to alter, falsify or destroy any document to prevent its use in an official proceeding, such as a federal investigation.

Is the NAIC considering any action?

The NAIC is currently considering changes to existing requirements to incorporate key SOX provisions. In April of 2004, the NAIC issued a draft model that excluded companies with less than \$25 million in premiums from SOX related regulation. The main provisions being considered are:

- Assuring auditor independence by limiting the amount of consulting services the auditor can offer and requiring audit partner rotation.
- Increased emphasis on corporate responsibility by requiring CEO and CFO certifications. In addition, there will be stricter punishments for officers for improper influence on audits.
- Requiring enhanced financial disclosures as well as management's assessment of internal controls.
- Development of a code of ethics for senior financial officers.

What should fraternal do now that we live in the era of SOX?

While not subject to SEC oversight, fraternal do have numerous constituencies to which they routinely answer. These include government regulators (both federal and state), their own governing boards and most importantly, their membership. Many fraternal may decide that for public relations and fundraising purposes, they will want to show the world that they comply with the spirit of SOX. Actions that a fraternal can take include the following:

- Create an audit committee if one does not already exist and ensure that it is active and aware.
- Review the adequacy of the internal accounting controls to detect mistakes and fraud.
- Prepare a code of ethics for governing boards and publicize in your publications that your organization has such a code.
- Develop a written document retention and periodic destruction policy. Such a policy will limit accidental or innocent destruction. ❖

It's a (Small) Wireless World After All

A wonder of modern living can be defined as something that once you have it, you believe that you are no longer able to manage without it. One of the wonders of modern conveniences is a wireless phone, whether it is a cordless phone in your home or a cell phone. Another is the remote control for the TV. How did we ever manage without such technology?

More wireless wonders are coming your way to tickle your fancy.

Have you ever barbecued and overcooked the steak or swordfish? A remote cooking thermometer / timer available from, among others, Sharper Image or Brookstone allow you to enter the type of meat and desired degree of "doneness" on the transmitter, stick a probe in the meat and then walk away from the grill. Voila! The transmitter then beeps when your entrée is ready!

Wireless speakers for a home stereo are another wireless invention that is becoming popular. Wireless speakers mean that you can play music anywhere in the house, or even outside, using your current stereo system. Why be limited by running wires throughout your house? These speakers mean that you can bring music anywhere in your home. These speakers are set to work at a frequency that allows the signal to travel through walls and ceilings.

One wireless product that is becoming more and more common in the home is a wireless router. The router allows you to have more than one computer in your house and all of them use the same Internet connection and printer. The router will also allow you to use/connect to the Internet through your laptop just about anywhere in the house without having to plug-in.

Wireless routers for Internet access are now easily self-installed. All you require, assuming your computer is already equipped with a wireless card (and most new ones are these days), is to buy a router and follow step-by-step instructions on a CD and a piece of software called a wireless roaming agent (such as Segue) which selects the correct channel in an area where multiple channels cohabit. The range of such a device is generally greater than 75 feet and enables you to gleefully roam around the house as you surf the

Internet. Having a router is a definite plus when more than one person wishes to use the desktop and its Internet connection simultaneously. When acquiring the router, do not acquire one that is too good for the wireless card. If your card is an 802.11b card (data transfers at up to 11 megabits per second) it does not pay to get an 802.11g router (for rates up to 54 megabits at the same frequency)

You can no longer consider yourself "with it" if you do not possess a wireless mouse and keyboard to accessorize your desktop computer. Just make sure that these items do not get a mind of their own and take over the desktop (which can happen if the control box is badly positioned). When they work, they save you space and allow you more freedom to manage your workspace.

Another fun wireless item coming your way is a wireless version of the (by now ubiquitous) DVD player. For example, Gateway has come out with a DVD player (model ADC-320) that can also communicate with a computer without attaching any wires. It picks up the computer's photo, video and music files **and** displays them on a TV screen. Beware, however, of music files downloaded from the Internet. The DVD player may decide that these songs have been "pirated" and will refuse to cooperate (We understand that new encryption methods should solve that problem by the end of the year).

And how could we do without a Bluetooth Palm or Pocket PC organizer? Bluetooth is a reference to a wireless standard developed by Nokia, Intel and other companies and is used for short range radio communications, devices such as digital cameras, cell phones, organizers, printers and laptops. It can synchronize its calendar and address-book with your computer without requiring a cradle or cable. A Bluetooth computer can send printouts to a Bluetooth printer. A Bluetooth cell phone can serve as a glorified antenna for your palm or laptop.

Where will it end? Should we rush out to invest in a wireless TV? Yes! The Sharp Aquos (LC-15L1U-S) was made for the family who has everything. This is a remarkable flat-panel TV with no strings attached. Billed as "the first battery-operated LCD television in

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the U.S.”, it's a truly digital wireless TV built with a carrying handle so you can move it easily for both indoor viewing in various rooms and outdoor viewing under most dry conditions. Under ideal circumstances the set offers crystal-clear TV, video, and DVD enjoyment virtually anywhere in and around the home without attached wires or cables of any kind.

The largest problem you will encounter at this stage with wireless technology is interference. Many of these gadgets operate on similar frequencies as cordless phones and even some microwave ovens. The most common wavelength used by cordless phones is 2.4 GHz. – precisely the wavelength at which they could cause the most interference. You are likely to be able to reduce this problem by changing to phones using wavelengths of 5.8 MHz or 900 KHz.

By now my article is creating so much interference that I shall have to end it. I will insert my cordless memory stick (up to 256 MB for \$50) in the USB port and back up my day's work with a couple of clicks, remove it and put it in my bag ready to brave this new wireless world. ❖

About CPS

CPS Actuaries and Computer Programming & Systems, Inc.

CPS is an independent company with over 35 years of client service. We offer a wide range of computer and actuarial services, including the following:

- Actuarial valuations
- Annual and quarterly statement preparation
- Policy administration software
- NAIC compliant illustration software
- Web site hosting, instant messaging and e-mail
- Design, install and maintain local and wide area networks
- Hardware & software installation and upgrades

For more information regarding our services, please call us at **203-324-9203**, or visit our web site at **www.cpsincorp.com** ❖

CPS, Inc.
1014 Hope Street
Stamford, CT 06907

Regulatory Update

Update on NY Investment Restrictions

The NY Department has made it clear that NY Ins. Law §1404(a)(2)(ii) mandates that fraternal benefit societies may only invest in the equity of companies whose each and every obligation is rated “A” or higher, immaterial of whether the overall average rating is “A” or higher. In addition, there are currently no bills pending in the NY Legislature that will change this law for this year. Thus, it appears that fraternal licensed in NY are limited to investing in only A-rated or higher bonds for the near future.

2001 CSO Mortality Table Update

The number of states adopting or planning to adopt the 2001 CSO Table has been growing. As of June, there are 28 states that have adopted it, including CA, IL (adopted as of 7/1/2004), IN, MA, NY, OH and PA. There are 9 states that have not yet adopted it but are planning to adopt it soon, including FL and NJ. The adoption date for NY was originally targeted for 1/1/2005; however, Regulation No. 179 has changed the adoption date to 1/1/2004.

Maximum/Minimum AVR Factor for Common Stocks

The maximum/minimum AVR factor for common stocks changed from 0.30/0.15 to 0.20/0.10 in 2003. For 2004, the maximum and minimum factors remained the same as in 2003.

Maximum Valuation and Non-Forfeiture Interest Rates for Life Insurance Policies

The maximum valuation interest rate for 2005 will remain at 4.5%. This is the same rate that has been in effect since 1995. The maximum interest rate for non-forfeiture values remains at 5.75%. ❖

Interest Rate Monitor

The following are some key interest rate benchmarks:

<i>Benchmark</i>	<i>Current</i>	<i>3 Months Ago</i>	<i>1 Year Ago</i>
Fed Funds	1.25%	1.00%	1.00%
Prime Rate	4.25%	4.00%	4.00%
30 yr mortg	5.66%	5.48%	5.23%

Source: www.bloomberg.com as of July 13, 2004.