



Attestation of Actuarial Equivalence for RDS Program: A Timely Review of Requirements, Issues, and Qualifications

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Presenters*

- Karen Smith, MAAA, FSA, FCA, EA, MSPA, Chairperson, Committee on Qualifications
- Dale Yamamoto, MAAA, FSA, FCA, EA, Chairperson, Joint Committee on Retiree Health
- Moderator: Sheila Kalkunte, Academy Assistant General Counsel

*The statements and opinions expressed herein are solely those of the panelists and do not constitute official statements or positions of the Academy, or the Committee on Qualifications





Agenda

- Review of Practice Note – Attestation of Actuarial Equivalence for Plan Sponsors Accepting A Retiree Drug Subsidy Under The Medicare Drug Program (March 2006)
- Review of qualifications under Precept 2 of the Code of Professional Conduct and the U.S. Qualification Standards





■ REVIEW OF PRACTICE NOTE





Goals of Practice Note

- Review Centers for Medicare & Medicaid (CMS) guidelines for actuarial attestation of plan sponsor's prescription drug programs compared to the standard benefit design of Medicare program
- Address the process for an actuarial attestation
- Discuss the professional aspects of performing the attestation





What the Practice Note Is Not

- Complete process for performing work
- Binding on any actuary
- Definitive statement about generally accepted actuarial practice
- Promulgated by the Actuarial Standards Board





What the Practice Note Is

- Advisory information to the actuary performing actuarial attestations
- Examples of possible responses to certain situations
- Drafted by an Academy work group with experience working with employer and union groups that sponsor retiree health plans
 - All members are health actuaries and have expertise to provide technical guidance in this relatively new area





Overview

- Prescription drug benefits added to Medicare program in 2006
- To encourage plan sponsors to continue offering retiree prescription drug coverage, a retiree drug subsidy (RDS) was offered
 - Required attestation by a “qualified actuary” that plan is at least as good as the standard benefit design of the Medicare program
 - Qualified actuary is defined as a member of the American Academy of Actuaries





Generally Accepted Actuarial Principles

- No specific ASOP drafted to perform attestation
- Work group points to several ASOPs:
 - No. 5: Incurred Health and Disability Claims
 - No. 6: Measuring Retiree Group Benefit Obligations
 - No. 8: Regulatory Filings for Health Plan Entities
 - No. 23: Data Quality
 - No. 25: Credibility Procedures Applicable to Accident and Health, Group Term Life, and Property/Casualty Coverages
 - No. 41: Actuarial Communications
 - No. 42: Determining Health and Disability Liabilities Other Than Liabilities for Incurred Claims





Generally Accepted Actuarial Principles

- Other practices not published in ASOPs
 - Prescription drug price and utilization experience
 - Continuation tables and claims distributions
 - Adjustments required to project historical medical and prescription drug claims data
 - External influences
 - Plan design changes





Actuarial Equivalence Concepts

- Specific meaning under attestation process
- Gross test and net test
 - Gross test is total benefit value
 - Net test is plan sponsor-provided value
- Tests are “pass/fail”
 - Volatility of experience creates uncertainty
- Actuary is certifying to plan sponsor that plan is equivalent to receive federal funds
 - Subject to the federal False Claims Act





Summary of Regulations

- Published CMS regulations and guidelines
 - Allows actuary to use reasonable interpretations for situations not discussed
- Each benefit option within a group health plan must pass gross test
- Benefit options within a plan may be aggregated for the net test
- For drug coverage offered with medical coverage, retiree contributions can first be allocated to medical under net test





Claim Cost Sources

- CMS suggests that calculations should be based on plan sponsor's own claims experience
- Data is often not available or not credible
 - Alternative normative databases are allowed
- Credibility is subjective judgment
 - Depending on situation, 1,000 to 5,000 life years
- Care required in using normative databases
 - CMS regulations provide illustration of normative database but has limited use





Methodology

- Key steps
 - Preparation for testing
 - Claim cost selection and adjustment
 - Gross value test
 - Net value test
- CMS guidelines for unique situations
 - Simplified testing for credible coverage
 - Account-based plans (addresses HRA, FSA, HSA)





Reports

- Report should include documentation on:
 - Actuarial equivalence
 - Participant data
 - Summary of plan provisions
 - Total rates and retiree contributions
 - Actuarial assumptions and methods





Attestation Language

- Sample language
- Offered for educational purposes
 - In practice, may vary depending on company practices
- RDS application process includes certification that the actuary signs electronically





- REVIEW OF QUALIFICATION REQUIREMENTS





Precept 2

- Actuaries credentialed by the five U.S.-based actuarial organizations must adhere to the Code of Professional Conduct and its 14 precepts (the “Code”).
- In particular, Precept 2 of the Code requires actuaries to perform actuarial services only when qualified to do so.





Precept 2

- Precept 2 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 the applicable qualification standards.”





Precept 2

- In Precept 2, there are two important requirements:
 - A look yourself in the mirror test, *and*
 - Satisfy any applicable qualification standards.





Precept 2

- Simply being a member of the Academy is *not* sufficient to sign RDS attestations.
 - The wording of the statute does not lessen the professional requirements.
 - You must satisfy both components of Precept 2 *and* be a member of the Academy.





Look in the mirror test

- In the context of an actuary issuing an RDS attestation, it is imperative that the actuary consider whether he or she has the relevant basic and continuing education and experience sufficient to provide such attestation of actuarial equivalence.
- The first part of Precept 2 is a “look yourself in the mirror test,” but on the next few slides, we will cover some factors to consider.





Look in the mirror test

- Do you have education and experience in the following areas identified in the March 2006 practice note?
 - Prescription drug cost and utilization experience
 - Medical and prescription drug claims
 - Use of continuation tables
 - Use of claims distributions
 - Adjusting claims data to future years
 - Adjusting claims data for benefit changes





Look in the mirror test

- Do you have education and experience in the following areas?
 - The CMS regulations
 - The applicable ASOPs
 - The 2006 practice note





Look in the mirror test

- Experience in completing retiree medical valuations for FAS 106 and similar purposes may not by itself provide sufficient experience for RDS attestations.





U.S. Qualification Standards

- An RDS attestation is a Statement of Actuarial Opinion.
- If an actuary feels that he satisfies the “look yourself in the mirror test” of Precept 2, an actuary must additionally satisfy the Qualification Standards.





U.S. Qualification Standards

- Precept 2 directs actuaries to review the relevant qualification standards in the jurisdiction in which he or she renders actuarial services.
- The current applicable qualification standards in the United States, which became effective January 1, 2008, are the Qualification Standards for Actuaries Issuing Statements of Actuarial Opinions in the United States promulgated by the American Academy of Actuaries.





U.S. Qualification Standards

- Section 2.1 sets forth the general basic education and experience requirements needed to be qualified:
 - Having actuarial credentials from the Academy, ASPPA, the CCA, the CAS, the SOA, or an IAA member organization;
 - Three years of responsible actuarial experience, and
 - Knowledge of the law applicable to the SAO.





U.S. Qualification Standards

- *Additionally*, Section 2.1 requires that, to the extent that an area of practice is covered by exams or a specialty track offered by CAS, SOA, or ASPPA, the actuary must have either
 - Completed the exams or specialty track and obtained the highest designation (e.g., a fellow),
 - Have the highest designation (from another specialty track) and have worked a minimum of one year in the area of actuarial practice relevant to the SAO under the review of an actuary qualified in that area of practice, or
 - Have worked a minimum of three years in the area of actuarial practice relevant to the SAO under the review of an actuary qualified in that area of practice.





U.S. Qualification Standards

- An RDS attestation is a health practice Statement of Actuarial Opinion.
- The health area of actuarial practice is generally covered by a specialty track of exams offered by the Society of Actuaries.
- Therefore, to be qualified under the 2008 Qualification Standard, an actuary signing RDS attestations would need to be either
 - An SOA FSA with the health specialty track,
 - An FSA, FCAS, or FSPA (no health specialty track) and one year of health experience, or
 - A non-fellow actuary with three years of health experience.





U.S. Qualification Standards

- Section 2.1.2 of the Qualification Standards provides that an actuary only needs to satisfy the basic education and experience in a practice area once.
- If an actuary was practicing in the health practice area and was qualified to do so prior to January 1, 2008, then the actuary does not need to satisfy the basic education and experience requirements again for the health practice area.





Continuing Education

- Under Section 2.2 of the qualification standards, an actuary must meet the continuing education requirements in order to be qualified to issue statements of actuarial opinion, such as the RDS attestation.
- Generally, 30 relevant CE hours annually of which 6 hours must be from organized activities and 3 hours must be on professionalism topics.





■ QUESTIONS?

