



AMERICAN ACADEMY *of* ACTUARIES

July 14, 2012

ASB Comments
Actuarial Standards Board
1850 M Street NW, Suite 300
Washington, DC 20036

Re: Comments on Proposed Revision of ASOP No. 6

To Whom It May Concern:

On behalf of the American Academy of Actuaries'¹ Joint Committee on Retiree Health, I thank you for the opportunity to comment on the proposed revision to Actuarial Standard of Practice (ASOP) No. 6, *Measuring Retiree Group Benefits Obligations and Determining Retiree Group Benefits Costs or Contributions*. Our comments are divided into three categories: an overview of general comments on the exposure draft (ED), responses to the ASB's specific request for comments, and a section-by-section discussion of concerns about substance and wording in the ED.

General Comments

We appreciate the work devoted to updating this ASOP; the ED does include new and helpful guidance for some areas of retiree group benefits (RGB) practice and retains important parts of the current ASOP. We have serious reservations, however, about certain aspects of the ED and whether it appropriately describes standards of practice that should be applied to RGBs.

With exceptions that we will note, many of the elements in the current ASOP that were dropped in the new draft do not seem particularly significant to practice. There are some items that were added, however, that also seem insignificant to likely practice. Most of these are related to the ASB's attempt to create agreement between RGB and pension standards, which may not be as feasible in practice as it is in theory. We support the ASB's intention to coordinate guidance for the two practice areas by linking "umbrella" standards for each practice to other standards that address aspects that are common to both practice areas, except when the guidance in either the umbrella standard or the common standards is inappropriate. For example, ASOP No. 6 should not be made consistent with ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*, if ASOP No. 4 was written without any substantial regard for the RGB practice, which appears to be the case.

ASOP No. 6 includes language and concepts taken directly from the second ED of ASOP No. 4 without consideration of its applicability to RGB work. One example is the use in Section 3 of

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terms such as “accrued” or “vested”—use of these terms in the RGB area is inappropriate and should be removed from the ED. While including some concepts/language from ASOP No. 4 may not result in poor specific guidance, it may dilute the overall guidance by focusing on practices that are irrelevant to a majority of RGB-specific assignments. Many of these items are of limited relevance in RGB actuarial practice and, thus do not deserve as much attention in RGB work and in this ASOP. Inclusion of these items may mislead individuals, inside and outside the profession, who are interested in guidelines and practice standards. We strongly encourage substantial modifications in the ASOP No. 6 ED to remove the overreliance on language and concepts from ASOP No. 4.

We are concerned that since the 2001 adoption of the current ASOP No. 6, which references other ASOPs, several pension standards have been written and rewritten with little consideration of the assumptions and methods appropriate to long-term projections of health and other group benefits. In addition, a standard that did have relevance for RGB practice, ASOP No. 31 (*Documentation in Health Benefit Plan Ratemaking*), was repealed, but none of its useful material has been incorporated in the current ED. It would be inappropriate if the standard for RGB suggests a work product be more balanced toward pension practice than the work actually is or should be.

Finally, the ED has two sections labeled “Background”—one in the introduction from the subcommittee and one in the Appendix. We suggest a consolidation, possibly including the Section 3.1 “Overview,” since there is some redundancy among the three. In addition, the background section should explain briefly why Actuarial Compliance Guideline (ACG) No. 3 and ASOP No. 31 were repealed.

The background section in the introductory letter states that practice has evolved since the last update in 2001. While this is true (since most actuarial practice evolves), there is no further indication of what that evolution has been and whether this evolution was significant enough to cause a rewrite of ASOP No. 6. The rest of the paragraph, however, is devoted to the likely reason the update was undertaken—revisions to pension standards. Having recently reviewed the revisions of ASOP Nos. 4 and 27, we see relatively little in those revisions that reflect any change in practice of RGB. There is mention that ASOP No. 4 is an umbrella standard and that No. 6 is to serve the same purpose, but no explanation is offered as to what this means. We understand that the ASB would like ASOP No. 6 to touch briefly on some topics that are covered in ASOP Nos. 27, 35, and 44 and then have the RGB practitioner reference those standards for guidance. This is not explained in ASOP No. 6, however. An explanation of why an RGB practitioner would be held to a standard written for pension practitioners could be useful, particularly since the revision to the pension standards was accomplished without any designated input from RGB practitioners. As seen in the exposure draft of No. 27 issued earlier in 2012, the revisions show discontinuities with RGB work that need to be addressed before No. 27 and the others provide clear guidance for RGB work.

Responses to Request for Comments

The ASB requests comments on five specific aspects of the proposed changes to ASOP No. 6. Our comments are as follows:

1. *Is the level of guidance and educational content appropriate?* The level of guidance and educational content is not balanced. The material added to the ED is largely not applicable to the RGB work that practicing actuaries engage in. On the other hand, assumed per capita health care costs, an area of major concern, has been clarified and more attention could be directed to this area.
2. *Is the distinction among retiree group benefits plan, benefit plan, and optional benefits helpful to the actuary or not? Could it be further clarified?* We support the proposal to distinguish among the types of “plan.” There could be further clarification of language and the intent of the distinction. This is discussed in more detail later.
3. *Is the revised guidance regarding the use of the “community-rated concept” appropriate? Are there any challenges that an actuary could encounter in deriving age-specific claims costs for employers participating in fully pooled health plans covering active participants and retirees? For those respondents who can do so, please provide specific examples of any challenges encountered in obtaining information from manager of pooled health plans.* While the guidance regarding community rates is useful, the availability of age-specific data from plan managers is unlikely to be as universal as the ED implies. For this reason, further clarification is needed. We suggest an approach later in this letter that may be more effective in directing guidance that meets the larger goal of understanding the long-term cost of a retiree health benefit.
4. *Are the changes made to the standard to make it consistent with ASOP No. 4 appropriate?* Many of the changes to the current ASOP No. 6 to make it consistent with the proposed ASOP No. 4 are not appropriate or necessary, and given the added volume of text, could be a distraction to the more critical points covered by the current ASOP No. 6. This suggests that the applicability of ASOP No. 4 concepts to RGB may be less relevant than the ASB thought—or that ASOP No. 4 concepts need to be revised to make them more universal. We observe that prominent concerns regarding pension practice may not be of great concern in RGB practice and vice versa. For example, one professional concern among pension practitioners in recent years has been inadequate sponsor-contribution allocations (to meet long-term funding targets). RGB practitioners generally do not have this concern, since many plans are not funded in advance. Rather, they have the professional concern that payment levels to beneficiaries are not properly analyzed in determining the basis of long-term projections, which does not seem to be a concern addressed in ASOP No. 4.
5. *Are there any other areas in which the guidance should be revised?* There are some other areas in which guidance should be revised. Some of these may be related to the consistency problem between ASOP Nos. 4 and 6 noted above. Distinctions may be needed among use of the terms “member,” “participant,” and “retiree,” as well as “contribution of retirees” versus “contribution of sponsors.” The use of the term “contributions” in the title seems to incorporate into this standard some unintended actuarial practices. Clarification is needed to exclude short-term pricing of employee premium contributions. If an actuary advising on the amount of money that should be contributed the following year by employees and retirees reads the ED title and scope, he

or she would not necessarily recognize that the standard is not intended to apply to such short-term projects. We have similar concerns about some shorter-term assignments that are mentioned in the Appendix with the implication that they are covered in the standard. Since RGB likely will be an area of significant change for some time, erring on the side of more-than-sufficient guidance would facilitate educational needs for potential growth in this practice area. But we are concerned that the ASB not overreach with this one standard.

Section-by-Section Comments

Section 1. Purpose, Scope, Cross References, and Effective Date

1.1 Purpose

The opening paragraph of the standard should define the purpose of this standard accurately; we question whether that has been achieved. The first sentence currently reinforces the title of the ASOP and states that the ASOP provides guidance when “determining costs or contributions for” RGB plans. But we question whether this ASOP is intended to provide guidance to an actuary who is asked, by an employer offering health coverage, to determine the contribution amount for the following year by employees and retirees. The likely request from the client is “What will be the cost of our plan next year, and how much do the retirees need to contribute?” The actuary responding to that very common request may be misled in looking to this ASOP for professional guidance—as will a person outside the profession seeking to understand actuarial practice in this area. In short, while reading the title and purpose of this ASOP could imply that this is the appropriate standard in this area, it is not.

This is a problem that recurs throughout the ED—that is, the use of language from pension practice as if the meaning in RGB practice is the same. This has not been an issue in previous versions of ASOP No. 6. The problem may arise this time from a reliance on pension-specific terminology in this ED. This is evident in the definition of terms such as “cost” and “contribution” in a manner that is similar to usage in pension practice but inappropriate or less clear to health or life practitioners. This view is detrimental to the integrity of the RGB practice area and the actuarial profession. Inclusion of terms familiar to actuaries practicing in a different area, but with a different meaning in RGB and health insurance practice, may result in misguidance and poor practice.

In contrast to the concise but targeted purpose of the current ASOP No. 6, the description of the purpose in the ED speaks to what the ASOP is attempting to do but does not describe a purpose of the standard, which is especially needed given the potential confusion from the title and initial sentence. The use of the words “specific,” “broader,” and “all” are without particular relevance to the purpose and appear to be placed here to track with language of ASOP No. 4. This is not helpful in improving or ensuring quality in RGB work and also may reflect negatively on pension work. Even if the background section of the cover letter can state more fully the relation of pension standards and this standard, this opening section is another place to add clarity about that connection.

The last sentences of Section 1.1 in ASOPs No. 4 and No. 6 are different in that No. 4 refers to “a plan” while No. 6 refers to “a RGB plan.” The inference that a standard addressing a plan of

benefits must be addressing a pension plan should be avoided by the ASB if Nos. 4 and 6 are both to be regarded as “umbrella” standards.

1.2 Scope

Inappropriate transference of ASOP No. 4 language continues in this section, with less significant aspects of RGB valuations given more prominence than is warranted. Few actuarial assignments involve determining RGB funded status, solvency assessments, market measurements, or assigning contributions to time periods. (The confusion in this standard about “contributions” is covered elsewhere in this letter.) In Subsection 1.2.d, the ASOP No. 4 language is supplemented by a clause that adds to the confusion as to whether determining one-year retiree contributions are within the scope of this ASOP.

Of equal or more importance, the ASB should reconsider use of ASOP No. 4 language here, since the current ASOP No. 6 standard more accurately defines the necessary scope of the standard of practice.

1.4 Effective Date

This section includes language concerning roll-forwards that is not used in ASOP No. 4. This difference would seem to be sanctioning roll-forwards in RGB that are not appropriate.

Section 2. Definitions

There are more defined terms in this ED (39) than in the current ASOP (19), presumably to coordinate more closely with the proposed ASOP No. 4. Including pension-only terminology in a proposed ASOP for RGB may create some confusion. We suggest the ASB consider paring down the number of pension-only terms in this ED.

Each term is capitalized when defined in Section 2, but not when used in other parts of the ED. Capitalizing each defined term throughout the ED would help remind actuaries that the term is a specifically defined term in the ED, rather than merely being a commonly used term open to interpretation by the actuary. Given the greater number of defined terms in ASOP No. 6 (39) compared to those in ASOP No. 4 (21), it would provide clarity if the defined terms were capitalized throughout.

2.9 Benefit Plan (in connection with Definition 2.8, 2.34, and 2.35)

The distinction between RGB plans and optional benefits needs further clarification. The term “benefit plan” is commonly used in a variety of ways, among actuaries as well as others dealing with the documents and benefit provisions involved with RGBs. It is quite possible to hear a sentence such as, “We have a retiree health plan that includes medical plans with several plan options.” Such a sentence makes perfect sense and yet gives no indication at all of how the word “plan” may be used in the sentences that follow. The distinction among the three identified is important, if only for the purposes of clarification in this standard.

We encourage the ASB to go further in defining a distinction between a sponsor’s designation of retirement eligibility for benefits and the particular arrangements available in an enrollment period. As we understand the ED, the former is a “Retiree Group Benefits Plan” and the latter is a “Benefit Plan.” We note, however, that there are instances in the ED in which “a plan” or “the

plan” is mentioned without clear reference to which of these two are meant. This is inevitable and can be prevented only by changing one of the two to exclude the word “plan.” We suggest the use of “Retiree Group Benefit Program” to designate what the ED terms “Retiree Group Benefits Plan.” We realize that “program” may not be widely used today, but we believe that it will be less confusing for those reading the ASOP than to use “benefit(s) plan” twice. While on the retirement income side, most speak of defined benefit (DB) plans or defined contribution (DC) plans, there are few retirement plans *within* the retirement income plans. In health benefits, there are health plans within retirement plans. There is the possibility of a switch of plans once a year or more in both active and retirement years. To us, the word “program” suggests the overall administration of the retirement promise to the beneficiary, within which various plan coverage and options might be changed periodically.

The need to match language with the pension standard has little upside here. We realize this small change will ripple through the document, from the beginning title to items in the Appendix, but the language distinction proposed in the ED is not strong enough to establish the distinction. The sentence above then might read, “We have a retiree health program that includes medical, dental and vision coverage, with the medical plans having several benefit options.”

It may be helpful to consider the Retiree Group Benefits Program as including Benefit Options as defined in Section 2.8 (i.e., choices between types of medical plans—to the extent choices are offered—as well as options to choose additional coverages: for example, contributory dental). The Retiree Group Benefit Plan might be defined to include a particular type of benefit (e.g., medical) in which a contribution structure for retirees could be established to cover the specific benefits provided under that plan. Eligibility rules also might distinguish the Retiree Group Benefit Program.

If the ASB does not adopt this suggestion, it should check the standard carefully to avoid the use of the word “plan” in cases in which it is not immediately clear which of the two plans are being referenced. It also would be helpful to comment somewhere about the distinctions being made in the ASOP and the relation to everyday use of “plan,” which often will not conform to the ASOP use.

2.12 Contribution

This new definition is the opposite of the term “Contributions” that was used in the 2001 version of ASOP No. 6. The definition now refers to potential contributions made by the plan sponsor to pre-fund the plan, rather than contributions made by plan participants. Since the definition now refers to potential prefunding contributions by the plan sponsor, there should be some clarification as to the context. Defining this term as “Funding Contribution” or “Sponsor Funding Contribution” may eliminate this potential confusion. Many retiree group benefits plans are not prefunded so clarification would be helpful.

2.13 Contribution Allocation Procedure

The first sentence uses “prefunding” with no hyphenation. Elsewhere, it is hyphenated.

2.17 Covered Population

The last sentence of 2.17 could be expanded by adding the words “and assumed dependents, if eligible for coverage.” Note that the definition of “Contingent Participant” in 2.11 is not explicit on the point that the participant’s coverage also might lead to additional covered dependents.

2.18 Dedicated Assets

This definition might be amended to include, after the four examples, a sentence that reads: “Monies that have been approved, in a transparent forum, by the entity providing retiree group benefits, to be used to offset the obligation for retiree group benefits, may be considered dedicated assets.”

2.19 Dependents

The language in the ED is sufficient to suggest inclusion of all dependents and is an improvement over the separate definitions of spouses and dependents that were provided in the current ASOP 6. The change to use the term “Surviving Dependent” (Section 2.38) is similarly sufficient.

2.20 Fully Funded

This definition does not seem necessary. The only place it is used is in the Disclosure section. Since it is not discussed in Section 3, why is it documented? It seems, once again, to have been added because of ASOP No. 4 and does not appear to be needed for RGB valuations. We suggest deleting this definition (or at least clarifying the requirements of what disclosures would be needed in situations in which the plan is prefunded).

2.21 Funded Status

This definition is not pertinent to retiree RGB valuations. The specific disclosure requirements referred to in this definition are foreign to RGB valuations. We suggest deleting this definition as well as the disclosure requirements.

2.23 Measurement Date

We suggest removing the parenthetical phrase.

2.24 Measurement Period

We suggest modifying the end of the last sentence to read, “The period often ends at the time the last participant is expected to receive the final benefit.”

2.25 Medicare Integration

A fourth way private plans are managed with Medicare might be discussed separately in this section, possibly as a short paragraph after the discussion of the three Medicare integration methods. Medicare Supplement plans (sometimes called “gap-fillers”) could be considered, since these plans (such as the standard 10 Medicare Supplement plans) do enhance coverage in the Medicare years. We also note that, in this section and often throughout the standard, the term “health plan” appears but it has not been defined.

2.31 Premium

The emphasis on risk-bearing would seem to exclude administrative-services-only rates, which is then contradicted by language in the Appendix about “premium rates.” A reconciliation of the language around “cost,” “premium,” and “rate” is needed.

2.39 Trend

The definition of “Trend” is not fully consistent with Sections 3.7.1(b) and 3.12.1(a). The definition in this section refers to per capita expected benefit payments, which is not defined elsewhere. In contrast, the definition of “Trend” in the current ASOP No. 6 refers to the rate of change, over time, of the per capita health care rates. There are no cross references to other sections for further discussion. There also is no mention of whether these expected benefit payments are equivalent to per capita claims costs (gross claims), claims costs net of other provider payments (e.g., Medicare), or whether they are only the share of benefits that the plan sponsor would be paying. Section 3.7.1 refers to the differences between gross and net claims, as well as whether they are on a paid or incurred basis. Section 3.12.1(a) discusses the “Health Care Cost Trend Rate” as the increase in per capita health cost rates over time. There needs to be some consistency among these three sections or, if intended to be different, some distinction of these terms.

Section 3. Analysis of Issues and Recommended Practices

We recommend Section 3 be ordered or categorized differently, to reflect the order of considerations and steps made in actual practice. We noted earlier that imposing language from ASOP No. 4 on this ASOP has some negative effects in terms of the substance of the guidance. Here we will note that using No. 4 as an organizing principle also has its drawbacks in terms of length of standard and flow of concepts.

That the length of the standard is a problem can be stated quantitatively in a comparison of Section 3 as seen in three different ASOPs. While the current ASOP No. 6 has just 14 primary subsections and covers 20 pages, the ED for No. 6 proposes 23 subsections over 28 pages. In further contrast, the ED for ASOP No. 4 has 16 primary subsections covered in only 11 pages. Thus, the ASB is positing No. 6 as an umbrella standard that will refer to all the same standards as No. 4, but No. 6 is twice as long. While quantity may not reflect quality or importance, the effectiveness of any standard is diminished by adding pages of marginally relevant material.

Despite its length, the ED covers few new and upcoming changes facing RGB practitioners since the current ASOP No. 6 was written. The Appendix may be a more appropriate place for coverage but these would include complexities coming out of new federal legislation and changes to Medicare (Medicare Modernization Act, Employer Group Waiver Plan, trending of zero-premium Medicare Advantage plans), Governmental Accounting Standards 43/45, and the SOA long-term trend model.

The other general drawback we will note is the organization of Section 3. In the current ASOP No. 6, there is an orderly progression of subsections that reflect how an actuary would proceed with a valuation, starting with understanding the plan provisions and the people covered. There are several problems with the flow of concepts in Section 3 in the ED.

3.1 Overview

This section shares some similarities with the two background sections. The title for Section 3 is “Analysis of Issues and Recommended Practices,” but the content of 3.1 has little to do with it. We believe that the main reason for the content being placed in Section 3.1, as opposed to elsewhere, is to mirror ASOP No. 4. As a result, the current ASOP No. 6 provides greater value to the practitioner than the language proposed in this ED. Eliminating Section 3.1 and moving any relevant content to a single background section will improve an actuary’s understanding of the standard.

On the subject of the content of Section 3.1, the third paragraph regarding other ASOPs is long and ends awkwardly with the phrase “not specifically addressed in this standard.” While this paragraph generally follows the language in ASOP No. 4, No. 4 does not contain that last phrase. The addition is presumably necessary because ASOP No. 6 contains guidance on actuarial assumptions that probably should be in ASOP Nos. 27 and 35 if those ASOPs are under the umbrella of No. 6. But they are not in ASOP Nos. 27 or 35, they are in No. 6. When reference is made to Nos. 27 and 35, modifying language must be added. If ASOP No. 6 is intended to be an umbrella standard, Nos. 27 and 35 should be amended to include all economic and noneconomic assumptions relevant to RGB—or at least amended to acknowledge that they do not include those relevant assumptions. While the titles of ASOP Nos. 27 and 35 explicitly mention pension obligations, the scope of Nos. 27 and 35 also covers post-retirement obligations. As recommended in our comment letter on ASOP No. 27, the titles should be changed so that other post-retirement benefits are included specifically. Along the same lines, at some appropriate place in ASOP No. 6, it should be made clear either that ASOP No. 6 governs ASOP No. 4 in matters other than pensions or that No. 4 provides no guidance in RGBs.

3.2 General Procedures

This section includes many elements of little relevance to RGB. The inclusion of this section disrupts the flow of concepts, which may confuse the reader. There are 17 procedures (a through q) listed in Section 3.2, but, for most assignments relevant to this RGB ASOP, 80 percent of the actuarial work will involve the three subsets of procedure (c). Almost all of an actuary’s time will be spent on (d), (g), and (p). The attention devoted in this ED to items applicable to pension work with only marginal applicability to RGB practice has the effect of watering down the practice standard for RGB work. At the same time it possibly misleads observers, inside the profession as well as outside, as to the items the actuary should address. We are concerned that this standard may cause an actuary to follow practices that do not represent good practice.

3.3 Purpose of Measurement

This is another instance of reference to procedures rarely relevant to RGB practice. Benefit plan settlements, funded status assessments, market value assessments, evaluating benefit security, and comparisons among different plan sponsors are not common. While there is some merit in mentioning them in the ASOP, it would be misleading to focus so much attention on them in this section. This also might be another place to note that the purpose of the standard is not to provide guidance for one-year calculations of participant costs and contributions.

3.3.3 Risk or Uncertainty

This section may need more clarification. We note later that Section 3.12.4 states, in essence, that some items of high uncertainty (the indefinite continuation of the plan) should be regarded as certain. Is this consistent with Section 3.3.3?

3.5.1 (b) Components of the Modeled Retiree Group Benefits Plan (eligibility conditions)

We recommend the words “date of hire or” be added before the word “service.”

Guidance provided in Section 3.5.1(d)(4) regarding the actuary’s considerations when the plan sponsor has incorporated caps on employer costs should be expanded. It should indicate that the actuary understands the plan sponsor’s administrative process for ensuring adherence with the employer’s cap on costs, as well as historic practice with respect to increases in the cap, if any, to ascertain the proper application of the cap for modeling (discussed further in Section 3.5.2(b)).

3.6 Modeling the Covered Population

In Sections 3.6.1 (Census Data) and 3.6.3 (Contingent Participants), we recommend references be expanded to explicitly include non-retired former employees who may be eligible to elect coverage in the future. In 3.6.1 this can be accomplished by adding the words “or other former employees” after the word “retirees” in the last sentence. In Section 3.6.3, we recommend replacing the last sentence with the following text: “For example, the actuary may need to make a re-enrollment assumption in situations in which retirees or other former employees have opted out of medical coverage or deferred coverage at retirement or termination, but later may elect to resume or begin coverage.”

3.6.4 Dependents and Surviving Dependents of Participants

We recommend explicitly referencing disabled adult dependent children since costs may differ significantly. We suggest adding the words “including disabled adult dependent children” after the word “children” in the second sentence of the second paragraph.

3.6.7 Hypothetical Data

We have serious concerns about the addition of this section. While we understand this language may have been added for parallel structure with ASOP No. 4, the term “hypothetical data” is not defined in ASOP No. 6 and there are no examples in the ASOP No. 6 ED explaining what “hypothetical data” may mean or what limits might be placed on it. (In the ASOP No. 4 ED, the text states that assumed demographic characteristics may be used for current or future participants in developing measurements when appropriate.)

For ASOP No. 6, we question the value that this section adds given the looseness of the text. We suggest this section be removed from the ED. If the ASB believes it is necessary to allow the actuary latitude to impute data, it may be best to allow for this under Section 3.18 (Approximations and Estimates) in which there is some reference to professional judgment and materiality.

3.7 Modeling Initial Per Capita Health Care Costs

We note that early in this section the word “costs” has replaced the word “rates,” which is used in the current ASOP. The reason is unclear since later in the section reference is made to “claims

rates,” “premium rates,” and “community rates.” We would recommend including a rationale in the Background section. The word “cost” also seems to be used differently than the way it is used in the title of the ASOP and in the Definitions section—it is significantly different from the common usage of *per capita claim cost* to a definition that states “the portion of plan obligations assigned to a period for purposes other than funding.” This is another example of imposing pension language on RGB.

Throughout Section 3.7 the term “health plan” is used. It has not been defined, although Section 2.9 uses many words besides “health” in defining “benefit plan.” That would seem to be the appropriate place to use “health” and maybe distinguish between “health” and “medical,” though the Background section is another avenue. To the extent that “health plan” is a concept that includes dental, vision, and other plans in addition to medical plans, the ASB should consider whether Section 3.7.6 on Medicare integration should refer to medical plans rather than health plans. With that said, the few changes made to the current ASOP in Sections 3.7.1 to 3.7.7 are appropriate. In Section 3.7.7, in the first paragraph, we suggest changing “benefit costs increase by age” to “benefit costs increase as age increases.”

Section 3.7 includes a significant change from the current standard in the inclusion of 3.7.8—Pooled Health Plans (including Community Rated Plans). We appreciate the need for the change and the work that went into 3.7.8 in particular, but additional or different clarification is needed. We considered various approaches to the problem and want to mention one approach the ASB could consider.

It is preferable to use recent plan claim experience as a starting point for modeling future claim costs, with awareness of the effect of changes in plan provisions and population. The actuary responsible for making the measurement should have a good understanding of the claims experience and how it fits with the projection model. For a self-insured plan, this means the actuary must ask for the claims experience and be persistent if told it is not available in any detail. Under a fully insured plan, the actuary is even more likely to be told experience is unavailable and that he or she may have to settle for premium rates. The actuary then needs to determine if the premium rate is appropriate for the model being used in the measurement. Often there is a subsidy in such rates that cannot be sustained over the life of the program. This subsidy may or may not be under the sponsor’s control. The plan sponsor may not want to acknowledge that the annual cost is greater than shown on a rate sheet—much less have the hidden subsidy measured over the life of the beneficiaries.

Section 3.7.8 provides some guidance on aspects of this problem. The standard could address this problem more directly (and it is a significant problem) than through a section on pooled or community-rated plans, the title of which has the potential to deflect attention from the subsidy issue and the claims experience behind the premium rate. Renaming the section along the lines of “Identification and Measurement of Hidden Subsidies” might be a first step. A distinction might be made between self-insured plans and fully insured plans. We agree with the intent of the section; we suggest that the intent might be conveyed more effectively through a slightly different approach. If the terms “pooled” or “community-rated” are used, they should be defined in Section 2.

We have some concern about the substance of the guidance here as it may be difficult in practice to obtain the demographic and other data mentioned. Guidance may be needed regarding treatment of the adjustment in the case of individual coverage versus group coverage, particularly under the Affordable Care Act. The second sentence of the second paragraph of Section 3.7.8 could be revised as follows: “To the extent the premiums are based on the demographics of the total pool, and not adjusted by the demographics of the group under consideration, the actuary performing a retiree group benefits valuation for a group should use age-specific costs based upon the pool’s total age distribution and the pool’s total expected claims costs or premium equivalent rather than based on the group’s own age distribution and its own expected claims costs or premium equivalent.” The following then could be added: “If, however, the premiums are based, in part, on the composition of the group under consideration, the actuary may base the age-specific costs on a distribution of the considered group’s members by age, or by age and gender.”

3.7.9 Adjustment for Plan Design Changes

This section includes some differences from the current ASOP that are confusing. The first sentence of the current ASOP No. 6 references “benefit plan designs,” but the ED drops the word “benefit,” leaving it unclear which of the two plan definitions from Section 2 apply here. A second sentence has been added that refers to “other provisions,” introducing a word undefined (and little used until 3.7.10, in which it is used in a different way), followed by a reference to “contributions,” which does not reflect the 2.12 definition of that word.

3.7.12 Adjustment for Trend

We recommend the use of the word “should” rather than “may” in the second sentence. Basing the trend adjustment on plan experience that is different than what was experienced regionally or nationally may be inadequate to reflect past experience.

3.7.13 Adjustment When Plan Sponsor is Also a Provider

The ASOP could advise the actuary to check internal controls for the proper delineation of plan sponsor and provider services and payments, as well as analyzing charges and reimbursements.

3.10 Administrative Inconsistencies

In this section, when administrative inconsistency is discovered—particularly if it is unresolved—how does the actuary adjust the model? Should the actuary do more than disclose unresolved inconsistency?

The ordering of concepts within Section 3 disrupts the actuary’s usual progression through tasks, which is apparent after 3.10. Given that the model has been defined in the prior sections, “projection assumptions” would seem to be the next task. It interrupts the flow when 3.11 (Types of Actuarial Present Values) is interjected before 3.12 (Projection Assumptions) in which present values would seem to depend on projections to be valued. Several of the subsections that follow are of little relevance to RGB work and seem to be included to conform to ASOP No. 4, seemingly without due consideration to the impact on RGB. Sections 3.11, 3.14, 3.15, 3.17, and 3.19 appear to be included in a standard for RGB practice without tailoring language and examples to RGB practice. We recommend these sections be deleted from the ASOP. An acceptable alternative might be a rewrite that would consolidate some of these sections and place

emphasis on RGB language and practice examples. Section 3.16 would be among the sections that would benefit from this.

Section 3.12 Projection Assumptions

In the first paragraph of Section 3.12.1 (Health Care Cost Trend Rate), we suggest adding a sentence before the last one. The new sentence would be, “The mix of these services is usually significantly different with or without Medicare coverage, so the actuary should consider separate trend assumptions under age 65 and for ages 65 and older.”

The second paragraph of this section states that the actuary *should* (emphasis added) determine the appropriate length of a select period for transitioning between the initial trend assumption and the long-term trend assumption. The ED could be amended to include an example of a generally appropriate horizon or describe when a horizon is too brief. As an alternative, the ED could include an example of when a horizon is not considered generally appropriate. This is an area in which the standard could provide useful guidance.

It also may need to clarify for actuaries the distinctions between trend rates for total claims incurred (and approved) under the plan, as opposed to net claims being paid by the employer. The current discussion indirectly addresses this in recommending potentially different trend rates for various components of medical care. It does not discuss the leveraging effect if using trend rates for net claims. Language that might be added after the last sentence about maximums is as follows: “In addition, the actuary should adjust the trend assumption to reflect leveraging that occurs when trend is applied to gross charges versus the more common net claim costs.” Mention in the Appendix is not sufficient as this effect may be material; lack of inclusion of this effect may understate health trend assumptions.

In the first paragraph, last sentence, in Section 3.12.1(d) (Adverse Selection), we suggest the following modification: “When a retiree group benefits plan offers benefit options, consider the impact of adverse selection on plan costs.” We also note that adverse selection is a phenomenon, not a process. In addition, consideration might be given to drafting a paragraph highlighting the need to review levels of participant contributions relative to benefits received and how that participant payment percentage influences enrollment and is, essentially, another measure of adverse selection.

3.12.2 Demographic Assumptions

In Section 3.12.2 (a) (Demographic Assumptions—Assumptions based upon Related Pension Plan Valuation) some mention also should be made that there be consistency between assumptions other than retirement age, which in a pension valuation may be a weighted average of expected ages or simply the normal retirement age if other retirement ages have actuarially equivalent benefits.

In Section 3.12.2 (d) (Mortality), the introductory qualifier, “When the per capita health care costs are expected to increase during the projection period,” is not necessary and we recommend it be removed.

3.12.3 Participant and Dependent Coverage Assumptions

We suggest the last sentence be modified to add at the end, “along with administrative practices and plan experience related to enrollment/re-enrollment for contingent participants and dependents, when allowed.”

3.12.3 (a) Retiree Group Benefits Plan Participation

Should changes in law also be considered?

3.12.3 (b) Dependent Coverage

We suggest mention should be made regarding situations in which both spouses work for the same employer, as can occur with major employers in a community. Adjustments should be made to avoid double-counting dependents and retirees.

3.12.4 Effect of Retiree Group Benefit Plan Changes on Assumptions

The first paragraph shows some of the problem that comes with ambiguous use of the word “plan.” It appears that, to avoid using the word “plan” in a paragraph that would not otherwise change from the current ASOP, the word “provisions” has been used. In the same sentence, the word “element” is used. The two different words seem to refer to the same thing, although one is plural and the other singular.

In the first paragraph, second to last sentence, we suggest a change to “... add HMO coverage options that may be selected by a portion of its retiree group...” rather than the current “add...for a portion” The HMO example given in this paragraph no longer clearly illustrates the point about a plan change affecting assumptions. (The differences brought on by an HMO may have been clearer in 2000 than in 2012, which is evidence in itself.) The addition of the sentence about short-term and long-term implications is unnecessary, since the previous sentence mentions current costs and future trends.

The second paragraph in this section is an unsatisfactory change from the current language that makes a similar point. First, “should consider” is not used in this paragraph, only “should.” Then, the ED says “for most ...purposes” the actuary “should assume” programs “will continue indefinitely even though” that is unlikely. There is a strong “should” statement “for most purposes” without any indication in this sentence or the remainder of the paragraph to what purposes the “should” applies. The next sentence adds to the confusion with a “should” in the opposite direction “when appropriate” without any indication of when it would be appropriate and when not. That sentence also includes the words “probability” and “significantly,” which makes the guidance almost completely obscure.

The final sentence includes “should disclose” language that applies only to the assumption in the sentence before (when change is modeled). The implication is that the actuary does not need to disclose the assumption that the plan will continue indefinitely. Actuaries disclosing RGB results, however, often include language that cautions any reader that the valuation results should not be taken as indication that the plan will continue indefinitely. This would seem appropriate in many situations and the ASOP also should advise the actuary similarly.

It is essential to provide guidance as to how assumptions about the future should fit the realities of the present, which include an expectation on the part of sponsor and beneficiary that current plan provisions will change. The current ASOP No. 6 paragraph is better than the ED Section 3.12.4 and could be updated with some reference to what we have learned about risk measurement in the intervening years. Note our earlier comment on Section 3.3.3.

Is there anywhere in the ED that advises what to do with a plan that has a history of periodic changes in co-pay amounts? Defining the substantive plan was Federal Accounting Standard Board's answer to this and it has proven to be satisfactory.

3.14 Measuring the Value of Accrued or Vested Benefits

As noted previously, we find this section particularly inappropriate in its references and selection of words. It should be deleted. We also find Sections 3.11, 3.15, 3.16, 3.17, and 3.19 to be inappropriately worded for a RGB standard and recommend deletion, or major rewrites to provide a proper and helpful RGB context.

3.18 *Approximations and Estimates*

This section also should specify that the actuary disclose the use of approximations or estimates, as described in Section 4.1 (h), (j), and (x).

3.20.1 *Modeled Cash Flows Compared to Recent Experience*

We suggest changing the phrase “small benefit plans” to “benefit plans with limited credible experience.” (We also note that this section, Reasonableness of Results, does not have a parallel in ASOP No. 4 and suggest that this is one of several advances that have appeared in ASOP No. 6 that would benefit the pension standard.)

3.22 *Reliance on a Collaborating Actuary*

Guidance in this section regarding collaboration could be strengthened. Rather than say actuaries “may collaborate,” we suggest “should consider” or possibly “it may be advisable” that actuaries collaborate if not having appropriate qualifications in a practice area. If “issuing the actuarial opinion” does not imply signing it, the language should be strengthened. Practice might be strengthened if there was guidance in the ASOP regarding identification of the actuary responsible for health assumptions, the actuary responsible for the retirement assumptions, and the actuary responsible for assessing the reasonableness of results. The language and guidance should be consistent with the Qualification Standards.

Section 4. Communications and Disclosures

Again in Section 4, as elsewhere in this ED, the overall effectiveness of the guidance offered is diluted each time words or concepts are inserted that clearly refer to pension concerns with limited if any relevance to RGB practice. Subsections that fall into that category include (l), (m), (n), (o), (p), (q), (r), (s), and maybe (w). Subsection 4.1.h might be amended to include a description of the analysis used to merge the claims costs analysis within the long-term projection of results.

General Comments on the Appendix

In the Current Practices section, we recommend removal of the inclusion of “2. Evaluations of Current Funding Status” and “3. Projection of Cash Expense,” for reasons mentioned earlier in this letter.

We have concerns about “4. Evaluations of the Impact of Government or Third Party Funding.” We focus here on the “retiree drug subsidy.” Consideration of assumptions based on this funding source is now common within RGB valuations. This is a new program since the last ASOP revision, and thus may involve new assumptions, but this topic gets no guidance in the body of the ED. This subject and associated guidance could be listed among the important valuation assumptions, along with funding from the Early Retiree Reinsurance Program enacted under the Affordable Care Act (ACA).

With that said, this “purpose” should not be listed in the Appendix as a stand-alone task that is covered by this ASOP, since it is mentioned in the Appendix for the first time. The ASB should reconsider whether a health insurance actuary offering an actuarial opinion on the following year’s financial differences between the retiree drug subsidy and the Part D plan’s federal subsidy should be held to this RGB standard of practice. Such work may be based on more detail and yet lack the long-term probabilities that go along with an RGB valuation.

Similar to our two major retiree drug subsidy concerns, we have the same concerns with Subsections 4.b. and 4.c., the federal subsidy on Part D plans as well as manufacturer discounts within the coverage gaps. These are assumptions on which an RGB practitioner needs guidance.

The next sections on Modeling of Retirement Obligations and Possible Data Inconsistencies bring up real issues that often are unexpectedly uncovered with the RGB practice area. We appreciate the explicit mention of these concerns, as this can enlighten the practice and encourage important questions. We also appreciate the overview of the ACA provisions.

The Joint Committee on Retiree Health appreciates the opportunity to provide comments and general concerns on the exposure draft of ASOP No. 6. The Joint Committee on Retiree Health is available to discuss any of these items with the Actuarial Standards Board. Please contact Heather Jerbi, the Academy’s senior health policy analyst (jerbi@actuary.org, 202.785.7869), if you have any questions or would like to discuss these issues further.

Sincerely,

Jeffrey Petertil, ASA, MAAA
Chairperson, Joint Committee on Retiree Health
American Academy of Actuaries