



---

AMERICAN ACADEMY *of* ACTUARIES

---

*Objective. Independent. Effective.™*

# The New ASOP 6: Does Your Actuarial Work Measure Up?

November 24, 2014

*Sponsored by  
the Academy's Council on Professionalism and  
cosponsored by the ASPPA (ACOPA), CAS, CCA, and SOA*



# Panelists

- **A. Donald Morgan, IV**, MAAA, FSA, FCA, EA  
Chairperson, Retiree Group Benefits Subcommittee  
Actuarial Standards Board
- **Jim Whelpley**, MAAA, ASA, EA  
Member, Joint Committee on Retiree Health
- **D. Joeff Williams**, MAAA, FSA  
Member, Committee on Qualifications
- **Moderator: Jeffrey P. Petertil**, MAAA, FCA, ASA  
Chairperson, Joint Committee on Retiree Health



# Disclaimer

- **Please note:** The presenters' statements and opinions are their own and do not represent the official statements or opinions of the Actuarial Board for Counseling and Discipline (ABCD), the Actuarial Standards Board (ASB), the Committee on Qualifications (COQ), or any Academy boards, councils, committees, or task forces.



# Agenda

- The new ASOP No. 6: *Measuring Retiree Group Benefits Obligations and Determining Retiree Group Benefits Program Periodic Costs or Actuarially Determined Contributions*
- Code of Professional Conduct and U.S. Qualification Standards
- Application to California Public Employees' Retirement System (CalPERS) Health Plan



# Actuarial Standard of Practice (ASOP) No. 6



# The New ASOP No. 6

- Reflects changes in practice since 2001
  - More complex plan designs
  - Medicare changes (e.g., Part D)
  - More sophisticated modeling
  - Public sector accounting requirements
- Provides more guidance in certain areas
- Adds new disclosure requirements
- Improves consistency with ASOP No. 4 in areas common to pension and retiree group benefits



# Prescribed Assumptions and Methods

- Modifies guidance provided in ASOP No. 41
  - “Set by law” does not include
    - Rules set by a government entity for a program sponsored by that entity or a political subdivision
    - Section 2.34 and 3.22
  - “Set by another party” does include these types of rules
    - Section 2.33
  - More disclosure required if “set by another party”
    - Sections 4.1(x) and 4.2



# Different Layers of Benefits

- ASOP No. 6 defines the following:
  - Retiree Group Benefits Program specifies
    - Eligibility requirements
    - Participant contributions
    - Design of the benefits being provided
    - Section 2.36
  - Benefit Plan: an arrangement providing medical, prescription drug, dental, legal, or other benefits
    - Section 2.10
  - Benefit Options: choices available under a benefit plan (e.g., levels of coverage)
    - Section 2.9



# Pooled Health Plans

- Retiree group benefits programs that participate in a pooled health plan
  - In general, the actuary should reflect full age-specific costs.
  - If premiums based on demographics of pool, the actuary should use pooled health plan's age-specific costs, otherwise should use those of the group being valued.
  - If information on pooled health plan is not available, the actuary may make a reasonable assumption about its demographics, or may use manual rates or other sources relevant to the plan of benefits.
  - Section 2.31, 3.7.7(b)



# Pooled Health Plans

- In some very limited cases, the actuary may use the premium without adjustments for age, if appropriate. The actuary should consider factors such as
  - The purpose of the measurement
  - Whether for the type of benefit being valued, the impact of using age-specific costs would not be material
  - The extent to which there are no age-related implicit subsidies between actives and retirees
  - Whether the pooled health plan and its premium structure are sustainable over the measurement period if other groups and active participants cease to participate
- Section 3.7.7(c)



# Selection of Trend Rates

- When setting trend rates, consider
  - Known or expected changes in per capita health costs
  - Sustainability of current trends over an extended period
  - Possible need for a long-term trend assumption and an appropriate select period and transition pattern
    - In doing so, consider relevant long-term economic factors (e.g., projected growth in per capita GDP, projected long-term wage inflation and projected health care expenditures as a percentage of GDP).
  - Section 3.12.1(a) and 4.1(j)



# Selection of Various Demographic Rates

- Provides more guidance on the selection of acceptance, lapse, and re-enrollment rates
  - These rates may have a significant impact on obligations.
  - Past changes in plan design may have influenced experience.
  - The relationship between value of benefits and participant contributions may affect elections.
  - The availability of coverage from other sources (e.g., spouses) may affect elections.
  - Sections 3.6.1, 3.12.3(a), 3.20(b)



# Dedicated Assets

- Clarifies that the definition of “dedicated assets” may include assets such as earmarked book reserves or assets that are not part of an irrevocable trust, but only if legal or accounting requirements permit
  - Sections 2.15 and 3.13



# Medicare

- Provides more guidance on the treatment of Medicare benefits, including prescription drug subsidies
  - Sections 2.10, 2.23, 2.35, 3.7.6, 3.9.2(b), 3.12.1(a)



# New Disclosure Requirements

- Disclose analysis and rationale for changes in assumptions and methods
  - Sections 4.1(i) and 4.1(x)
- Disclose rationale for changes in cost or contribution allocation procedure
  - Section 4.1(y)



# New Disclosure Requirements

- Assess implications of contribution allocation procedure or plan sponsor's funding policy on
  - Future expected contributions
  - Funded status
  - Ability of retiree group benefit program to make benefit payments when due
  - Section 4.1(o) and 4.1(p)



# New Disclosure Requirements

- Disclose additional information if the retiree group benefit program's funded status is disclosed
  - Sections 4.1(s) and 4.1(t)
- Address prescribed assumptions or methods
  - Set by another party (including government entity that directly or indirectly sponsors program)
  - Set by law
  - Section 4.2



# Effective Date

- Effective for measurement dates on or after March 31, 2015.
- If roll-forward techniques used, not effective until three years after last full measurement before March 31, 2015.
- Earlier adoption is permitted.



# The Code of Professional Conduct and U.S. Qualification Standards



# The Code of Professional Conduct: An Overview

- The Code of Professional Conduct (Code)
  - Took effect January 1, 2001
  - Sets forth professional/ethical standards for credentialed actuaries
  - Was adopted by the Academy, ASPPA (ACOPA), CAS, CCA, and SOA
- Actuaries who commit material violations of the Code are subject to counseling or discipline.



# Code Overview

(continued)

- Actuaries are required to comply with all 14 Precepts of the Code.
- Precepts are standards; annotations assist with interpretation/application.
- Follow applicable standards of conduct and practice wherever you practice.
- When the Code and applicable Law conflict, follow the Law.



# Professional Integrity

## Precept 1

- Act honestly, with integrity and competence, and in a manner that fulfills the profession's responsibility to the public and upholds its reputation.
  - Perform professional services with skill and care.
  - Refuse to provide professional services that would violate or evade the law, or damage the profession's reputation.



# Professional Integrity

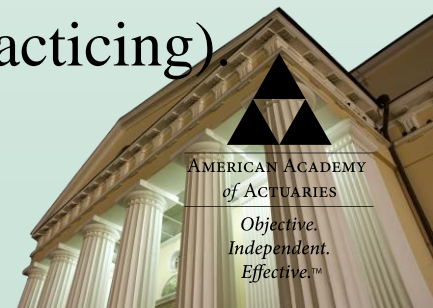
- Do not engage in professional conduct that involves dishonesty, fraud, deceit, deception, or misrepresentation, or act in a way that will reflect adversely on the actuarial profession.
- Note the profession's responsibility to the public.
- Precept 1 is almost always triggered when other Precepts violated.



# Qualification Standards

## Precept 2

- Perform professional services only when qualified to do so **AND** in compliance with the U.S. Qualification Standards (USQS).
  - Know and follow applicable qualification standards; in U.S., the USQS published by the Academy.
  - The absence of a qualification standard does not relieve you of the duty to be qualified (“look in the mirror” test).
  - Has a “When in Rome” clause (follow qualification standards of the jurisdiction where you are practicing).



# Standards of Practice

## Precept 3

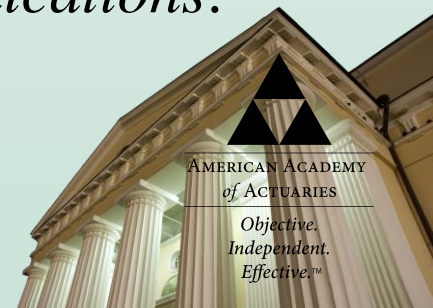
- Make sure that work performed by you, or under your direction, meets applicable standards of practice.
  - Know and follow applicable standards; in the U.S., ASOPs promulgated by the ASB.
  - When applying standards, use professional judgment.
  - Be prepared to disclose and justify deviations.
  - Has a “When in Rome” clause.



# Communications and Disclosure

## Precept 4

- Take appropriate steps to ensure that communications are clear, appropriate to the circumstances and intended audience, and comply with applicable ASOPs.
  - Identify yourself as the person responsible for your communications.
  - Indicate your availability to provide supplemental information.
  - Remember ASOP No. 41, *Actuarial Communications*.



# Actuarial Standards of Practice

- ASOPs provide
  - Guidance to practicing U.S. actuaries when they do the work, and
  - Documentation of then-current practice in the event of a later dispute.
- Purpose of guidance is to give the intended users of the actuarial work product assurance as to its quality and suitability.
- “Intended users” are an important part of our audience.
- ASOPs do not represent best practice but rather “appropriate” practices.



# ASOP Drafting

- The ASB drafts ASOPs to provide guidance.
- ASOPs are generally not prescriptive.
- The ASB generally avoids endorsing one method (or approach) over other competing methods unless there exists a wide consensus that the one method is superior to the others and is the only appropriate method.



# ASOP No. 1

## ■ Section 1 - Overview

- “Sets forth principles that have been broadly applicable to the work of the ASB since its inception”
- Carries the same weight and authority as other ASOPs
- Applies to all ASOPs and all practice areas



# ASOP No. 1

- **Section 2 – Definitions, Discussions, and Related Guidance: “Must/Should”**
  - Subtle but important distinction
  - Must = ASB does not envision any scenario where there would be a reasonable alternative
  - Should = what is normally the appropriate practice to follow
  - “Should consider”
  - Allowed to deviate if actuary follows ASOP No. 41



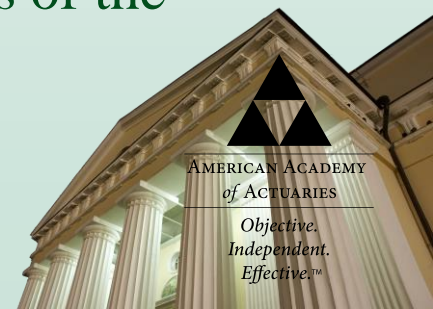
# ASOP No. 41 – Cross Practice

- Applies to communications that include
  - Actuarial opinion, or
  - Other actuarial findings.
- Definitions
  - 2.1 Actuarial Communication – A written, electronic, or oral communication issued by an actuary with respect to actuarial services
  - 2.4 Actuarial Report – The set of actuarial documents that the actuary determines to be relevant to specific actuarial findings that is available to an intended user
  - 2.8 Oral Communication – An actuarial communication made orally that has not, to the knowledge of the actuary, been recorded or transcribed



# ASOP No. 41 – Cross Practice

- Clarifies that the actuary is responsible for all assumptions used in the work, unless explicitly disclosed
- Re-organized content to gather the requirements for disclosures in one section
- Must be prepared to identify any content that you omit and justify that omission
- If deviate *materially* from the guidance of *any* ASOP, can comply with that ASOP by providing “an appropriate statement in the actuarial communication with respect to the nature, rationale, and effect of such deviation”
- Another actuary should be able to review the actuarial report and make an objective appraisal of the reasonableness of the work



# The U.S. Qualification Standards

## The Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States (effective January 1, 2008)

### U.S. Qualification Standards



# Background

- In fulfilling its professionalism mission, one of the Academy's tasks is to promulgate and monitor the U.S. Qualification Standards (USQS) for basic education and experience and continuing education
- Precept 2 of the Code of Professional Conduct states in relevant part that:

*“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.” (emphasis added)*



# Background

- The Academy's Committee on Qualifications (COQ) is charged with promulgating, and revising, as necessary, the USQS.
- The USQS took effect January 1, 2008.



# Structure of U.S. Qualification Standards

The USQS are set out as follows:

- Introduction (including definitions)
- General Qualification Standard
  - Basic Education and Experience Requirements
  - Continuing Education Requirements
- Specific Qualification Standards (when necessary)
- Changes in Practice and Application (general and specific)
- Acknowledgement of Qualification (suggested language)
- Recordkeeping Requirements



# What is a Statement of Actuarial Opinion

- “Statement of Actuarial Opinion” is defined in the U.S. Qualification Standards as “an opinion expressed by the actuary in the course of performing Actuarial Services and intended by that actuary to be relied upon by the person or organization to which the opinion is addressed.”
- Most tasks an actuary performs will be considered an SAO, and it does not have to be written, it may be oral.



# Statement of Actuarial Opinion

- “Actuarial Services” are defined in the *Code of Professional Conduct* as “[p]rofessional services provided to a Principal [client or employer] by an individual acting in the capacity of an actuary. Such services include the rendering of advice, recommendations, findings, or opinions based upon actuarial considerations.”
- Appendix 1 to the USQS sets forth various examples of what constitutes an SAO and what does not constitute an SAO.



# Basic Education and Experience (BEE) Requirements

- To satisfy the General Qualification Standard before issuing a Statement of Actuarial Opinion, an actuary must meet the following criteria:
  - Be a Member of the Academy, a Fellow or Associate of the SOA or the CAS, a Fellow of the CCA, a Member or Fellow of ASPPA, or a fully qualified member of another IAA-member organization; and



# BEE Requirements

(continued)

- Have three years of responsible actuarial experience, which is defined as work that requires knowledge and skill in solving actuarial problems; and
- Be knowledgeable, through examination or documented professional development, of the Law applicable to the statement of actuarial opinion. Law is defined in the Code of Professional Conduct.



# Additional BEE to Issue SAOs in Specialty Track (i.e., changing practice)

- The standards also require the actuary to satisfy one of the three requirements below to issue SAOs in a practice area covered by SOA specialty tracks, or CAS or ASPPA exams:
  - Attain the highest possible actuarial designation in an International Actuarial Association (IAA) full-member organization (other than the Academy) and complete a specialty track in the area of actuarial practice relevant to the subject of the SAO; or



# Additional BEE to Issue SAOs in Specialty Track

- Attain the highest possible actuarial designation in an IAA full-member organization (other than the Academy) and have a minimum of one year of responsible actuarial experience in the area of actuarial practice relevant to the subject of the SAO under the review of an actuary who was qualified to issue the SAO at the time the review took place under standards in effect at that time; or
- Have a minimum of three years of responsible actuarial experience in the area of actuarial practice relevant to the subject of the SAO under the review of an actuary who was qualified to issue the SAO at the time the review took place under standards in effect at that time.



# Relevant Continuing Education

- Section 2.2.7 of the USQS defines continuing education as “**relevant**” if:
  - it broadens or deepens an actuary’s understanding of one or more aspects of the work an actuary does; or
  - the material expands an actuary’s knowledge of practice in related disciplines that bear directly on an actuary’s work; or
  - it facilitates an actuary’s entry into a new area of practice



# General CE Requirements

- **30 CE Hours** – Actuaries subject to the revised USQS must complete and document at least **30 hours** each calendar year of relevant CE
- **Organized Activity Requirement** – At least six (6) hours must be from “Organized Activities.”
- **Professionalism Requirement** – At least three (3) hours must be on professionalism topics.
- **Cap on General Business Courses** - General business courses are limited to three (3) hours per year.



# Qualification Issue Related to ASOP No. 6

- Section 2.3.2 – Statements of Actuarial Opinion that Blend Elements of Two of More Areas of Actuarial Practice
- Section 2.4 – Statements of Actuarial Opinion Issued by More than One Actuary
  - Allows more than one actuary to jointly issue a Statement of Actuarial Opinion.
  - Actuaries issuing the SAO “will be deemed to meet the General Qualification Standard if their collective basic education and experience and continuing education are sufficient as to all areas of actuarial practice.”



# ASOP No. 6 Section Related to SAO

- Section 3.23 – Reliance on Collaborating Actuary
  - “While each actuary may concentrate on his or her area of expertise during the project, the actuary (or actuaries) issuing the actuarial opinion must take professional responsibility for the overall appropriateness of the analysis, assumptions, and results.”



# Application to CalPERS Health Plan



# Application to CalPERS Health Plan

- Public Employees Medical and Hospital Care Act (PEMHCA) is the health plan of CalPERS.
  - Providers include several HMOs, PPOs, and other
  - Five premium regions in CA, plus out-of-state
  - “Basic” premium for each provider/region reflects a mix of active and non-Medicare retiree experience
  - 612k HMO/PPO subscribers + 665k dependents in 2013
- California Employers' Retiree Benefit Trust (CERBT) is the Section 115 Trust set up by CalPERS for any CA public employer to prefund OPEB obligations.



# Application to CalPERS Health Plan

- PEMHCA premiums can be converted to age-based retiree-only costs using data now posted at bottom of the website for CERBT valuation requirements.
  - <https://www.calpers.ca.gov/index.jsp?bc=/employer/retiree-ben-trust/opeb-assumption-model.xml>
  - XLS file = CalPERS PEMHCA Implicit Rate Subsidy Info
  - Now based on 2013 experience, updates every other year
- Due to competitive concerns, full data not provided on individual providers/regions, instead it was aggregated for all HMOs then again for all PPOs.



# Application to CalPERS Health Plan

- Data like below provided for HMOs vs. PPOs, subscribers vs. dependents, and active vs. non-Medicare retiree vs. Medicare retiree

Age Group	Female		Male		Both	
	Score	Count	Score	Count	Score	Count
15-19	*	*	*	*	*	*
20-24	0.564	1,138	0.317	1,038	0.447	2,175
25-29	0.809	9,469	0.372	8,521	0.602	17,990
...						
70-74	1.409	665	2.550	766	2.020	1,432
75-79	1.555	161	3.027	158	2.286	319
80-84	*	*	*	*	*	*
85+	*	*	*	*	*	*
Aggregate:	1.179	146,474	1.103	135,136	1.143	281,610

*Source: CalPERS implicit subsidy data for 2013*



# Application to CalPERS Health Plan

## ■ Data notes

- Asterisk cells have less than 100 lives, but included in total.
  - Risk scores are normalized so that weighted average is 1.000 for all non-Medicare combined (HMO/PPO, active/retiree).
  - Medicare scores do not reflect a Medicare benefit offset (though such offset is reflected in the PEMHCA premiums).
- Aggregated data can be used to create age-based costs from current premiums for a particular provider/region (e.g., system-wide counts & scores could be applied *as if they were from just one provider/region*).



# Application to CalPERS Health Plan

- CalPERS also provided a full breakdown of counts (not risk scores) in format below, Basic vs Medicare

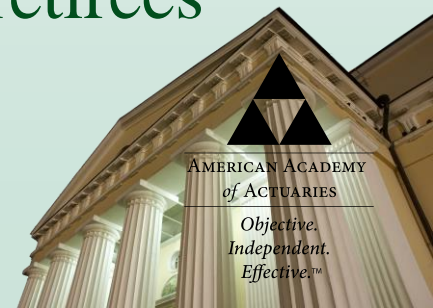
Age	Gender	Tier	Status	Provider	Region	Relationship	Count
05-09	Female	Family	Active	Blue Shield Access+	Sacramento	Dependent	118
20-24	Male	Family	Active	PERS Select	Los Angeles	Dependent	139
35-39	Female	Single	Active	PERSCare	State Employer	Subscriber	6
35-39	Male	Family	Active	Kaiser	Bay Area	Subscriber	1,265
55-59	Female	Single	Retired	Blue Shield Access+	Other SoCal	Subscriber	79
60-64	Female	2-Party	Retired	PERS Choice	State Employer	Dependent	1,165
70-74	Male	Single	Retired	Kaiser	Sacramento	Subscriber	4
75-79	Male	2-Party	Retired	Blue Shield NetValue	Bay Area	Dependent	1
...	...	...	...	...	...	...	...

Source: CalPERS implicit subsidy data for 2013



# Application to CalPERS Health Plan

- Notes on detailed count breakdown
  - Very large: 10,800 lines for Basic, 3,700 for Medicare
  - Total count off slightly from that in HMO/PPO data set
  - Excludes non-HMO/PPO (CCPOA, PORAC, & CAHP)
- Detailed counts can be used to convert premiums to age-based costs for a particular provider/region if the actuary has a way to develop their own risk scores.
- Any cost development methodology would be separately applied to non-Medicare actives/retirees versus Medicare retirees



# Illustrative Results

- Premium/mo. = \$476 non-Medicare, \$341 Medicare

Age Group	total cost		premium only		implicit subsidy only	
	member	spouse	member	spouse	member	spouse
40-44	794	433	476	476	318	(43)
45-49	820	514	476	476	344	38
50-54	767	534	476	476	292	58
55-59	796	639	476	476	320	163
60-64	852	695	476	476	376	219
65-69	296	282	341	341	(45)	(59)
70-74	340	326	341	341	(1)	(15)
75-79	385	373	341	341	44	32
80-84	407	419	341	341	66	78
85+	403	415	341	341	62	74

- The Academy does not advocate a specific methodology.
- A practice note may be developed on this topic.



# Survey Questions

- *If you have a PEMHCA client, will you use the CalPERS aggregated HMO/PPO counts and scores to produce age-based costs for your future valuations?*
- *If you have a PEMHCA client, will you use the CalPERS detailed counts with your own risk scores to produce age-based costs for your future valuations?*
- *What other U.S. states or entities with large pooled health plans would you like for the Academy to approach for similar demographic data?*



# Questions?

