

## **COMMENT 17: DECEMBER 26, 2008**

**From:** Bogush, Katia

**Sent:** Friday, December 26, 2008 5:24 PM

**To:** ASB Comments

**Subject:** ASB COMMENTS ASOP No 41 Revision

To: Actuarial Standards Board (ASB)

Re: Proposed Revision of ASOP No. 41, "Actuarial Communication"

From: Yekaterina Bogush, FSA, MAAA

Date: 12/26/2008

Response to specific questions posed by ASB in Request for Comments:

1. *"Do you believe it appropriate to require the actuary to be responsible for assumptions and methods used within an actuarial communication unless otherwise disclosed?" Yes*

2. *"This ASOP is titled "Actuarial Communications" even though it also addresses documentation. Does this create any confusion? If so, what would be a better title be?"*

"Actuarial Communication and Disclosure Requirements" is probably a better title that would be less confusing to a non-actuarial audience when the reference to this ASOP is made in their presence, for example during Medicaid rate-setting discussions. It also would strengthen the message that actuarial communication alone about Ratemaking is not sufficient without appropriate documentation.

3. *"Does this draft make it sufficiently clear when the actuary should issue an actuarial report disclosing methods, procedures, assumptions, and data as opposed to issuing another form of actuarial communication that does not make these disclosures?"*

No. Specifically, in one particular situation of Medicaid rate-setting this is not clear at all. Medicaid rate-setting environment is not currently addressed at all in ASOP no 41 in definition of the principal, where only a client or an employer are listed. Further, section 3.6 states that "documentation should be available to the principal". Therefore, a state actuary, who is typically employed by a consulting firm and engaged by a state has a state as a principal in all communication for Medicaid rates

that are set for next fiscal year and are paid to participating managed care companies. Even though most materially affected parties are the managed care companies that have to accept these rates (or exit the business in the state), they are not a principal according to the ASOP No. 41.

Therefore, as it stands right now, actuaries representing these managed care organizations can only *hope* from the state actuary for appropriate disclosure of methods, assumptions, data adjustments or abnormalities but can not ask for any level of documentation, illustrations or disclosure under the current form of ASOP. While many states and their actuaries do provide disclosure to the standard of section 3.6 of "another actuary qualified in the same practice area could evaluate reasonableness of the actuary's work", unfortunately, there are also states that do not allow any or very limited visibility of the basis of material adjustments, assumptions or exclusions of data sets from analysis.

Medicaid rate-setting is the area of high visibility for actuarial work by public officials and multiple business entities. Therefore, any ambiguity or resistance in appropriate disclosure and justification of Medicaid rates has a potential high risk for a perception of credibility of actuarial profession in general. It is also extremely important for a clear standard to be applied to sustain desire of managed care organizations to participate in state's Medicaid programs and ensure their long term viability. If definition of principal within ASOPs No. 41 is extended to "all of the principal parties that are materially affected by any given actuarial analysis", the resulting dialog of qualified practicing health actuaries during rate-setting discussion will go a long way towards achieving these goals.

Sincerely,

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