



ACTUARIAL STANDARDS BOARD

**Repeal of
Actuarial Standard
of Practice
No. 31**

**Documentation in Health
Benefit Plan Ratemaking**

**Developed by the
Health Committee of the
Actuarial Standards Board**

**Repealed by the
Actuarial Standards Board
June 2009**

(Doc. No. 115)

TABLE OF CONTENTS

Transmittal Memorandum	iii
Appendix 1	1
Appendix 2—Comments on the Exposure Draft and Responses	3

June 2009

TO: Members of Actuarial Organizations Governed by the Standards of Practice of the Actuarial Standards Board and Other Persons Interested in Documentation in Health Benefit Plan Ratemaking

FROM: Actuarial Standards Board (ASB)

SUBJ: Proposed Repeal of Actuarial Standard of Practice (ASOP) No. 31

ASOP No. 31, *Documentation in Health Benefit Plan Ratemaking*, has been repealed by the ASB.

Background

ASOP No. 31, *Documentation in Health Benefit Plan Ratemaking*, was effective in 1998 and relied heavily on Interpretative Opinion No.3 of the *Guides and Interpretative Opinions as to Professional Conduct* of the American Academy of Actuaries.

In 2002, the ASB repealed Interpretative Opinion 3: Professional Communications of Actuaries when the Board adopted ASOP No. 41, *Actuarial Communications*, which supersedes the guidance of Interpretative Opinion No. 3. ASOP No. 41 is applicable to all areas of actuarial practice and provides guidance with respect to written, electronic, or oral communications.

The Health Committee of the ASB has reviewed ASOP No. 31 and compared its guidance to ASOP No. 41 and other ASOPs. The committee concluded that the guidance in ASOP No. 31 is addressed in ASOP No. 41 and other ASOPs.

Exposure Draft

The exposure draft of this repeal document was issued in September 2008 with a comment deadline of December 31, 2008. Four comment letters were received. For a summary of the substantive issues and the reviewers' responses, please see appendix 2.

The Actuarial Standards Board wishes to thank all who commented on the repeal.

Action

The ASB voted in June 2009 to repeal ASOP No.31.

ASOP No. 31 is repealed for any work performed after June 30, 2009.

Health Committee of the ASB

Paul R. Fleischacker, Chairperson
Mike S. Abroe John C. Lloyd
Robert G. Cosway Cynthia S. Miller
James M. Gutterman Nancy F. Nelson

Actuarial Standards Board

Stephen G. Kellison, Chairperson
Albert J. Beer Robert G. Meilander
Alan D. Ford James J. Murphy
Patrick J. Grannan Godfrey Perrott
Thomas D. Levy James F. Verlautz

The ASB establishes and improves standards of actuarial practice. These ASOPs identify what the actuary should consider, document, and disclose when performing an actuarial assignment. The ASB's goal is to set standards for appropriate practice for the U.S.

Appendix 1

Note: This appendix is prepared for informational purposes only.

The Health Committee prepared the following grid, which identifies provisions of section 3 of ASOP No. 31 cross referenced against ASOP No. 41, *Actuarial Communications*, and other ASOPs to reflect where pertinent actuarial guidance already exists.

Section 3. Analysis of Issues and Recommended Practices		
Current Section		Cross Reference
3.1	Introduction	ASOP No. 41 (3.1, 3.3.3)
3.2	Extent of Documentation	ASOP No. 41 (3.3.3, 3.6)
3.3	Documentation Issues Related to Risk	ASOP No. 41 (3.3.3, 3.6)
3.3.1	Reinsurance	ASOP No. 41 (3.3.3, 3.6); ASOP No. 5 (3.3.3); ASOP No. 8 (3.2.2(i)); ASOP No. 26 (3.4.1(b))
3.3.2	Operational Changes	ASOP No. 41 (3.3.3, 3.6); ASOP No. 5 (3.2.1, 3.2.3); ASOP No. 8 (3.2.3)
3.3.3	External Influences	ASOP No. 41 (3.3.3, 3.6); ASOP No. 5 (3.2.2, 3.2.5); ASOP No. 18 (3.3)
3.3.4	Risk Classification Plan	ASOP No. 41 (3.3.3, 3.6); ASOP No. 5 (3.2.4); ASOP No. 12 (3.4); ASOP No. 26 (3.4.1)
3.3.5	Ratemaking Process and Exposure Distribution	ASOP No. 41 (3.3.3, 3.6); ASOP No. 8 (3.2.2-3.2.6, 3.2.9); ASOP No. 26 (3.4.1)
3.3.6	Experience Rating Process	ASOP No. 41 (3.3.3, 3.6); ASOP No. 8 (3.2.4)
3.3.7	Investment Income	ASOP No. 41 (3.3.3, 3.6); ASOP No. 5 (3.3.1 (d)); ASOP No. 8 (3.2.2(e)); ASOP No. 18 (3.2.6)
3.3.8	Risk Provision	ASOP No. 41 (3.3.3, 3.6); ASOP No. 5 (3.3.1(c)); ASOP No. 18 (3.3)
3.3.9	Cost of Capital	ASOP No. 41 (3.3.3, 3.6)
3.4	Documentation Issues Related to Data	ASOP No. 41 (3.3.3, 3.6)
3.4.1	Experience Period	ASOP No. 41 (3.3.3, 3.6); ASOP No. 8 (3.2.4)
3.4.2	Experience Data	ASOP No. 41 (3.3.3, 3.6); ASOP No. 5 (3.3.1(b), 3.4); ASOP No. 8 (3.2.4); ASOP No. 18 (3.2.1)

3.4.3	Credibility	ASOP No. 41 (3.3.3, 3.6); ASOP No. 8 (3.2.4); ASOP No. 18 (3.2.1); ASOP No. 25 (Section 3)
3.4.4	External Data	ASOP No. 41 (3.3.3, 3.6); ASOP No. 5 (3.4); ASOP No. 18 (3.2.1)
3.5	Documentation Issues Related to Determination of Experience Period Costs	ASOP No. 41 (3.3.3, 3.6)
3.5.1	Exposure Units	ASOP No. 41 (3.3.3, 3.6); ASOP No. 8 (3.2.2-3.2.4)
3.5.2	Claim Administration Expense	ASOP No. 41 (3.3.3, 3.6)
3.5.3	Large Claims (Shock Loss Claims)	ASOP No. 41 (3.3.3, 3.6); ASOP No. 5 (3.3.4)
3.5.4	Policy and Provider Contract Provisions	ASOP No. 41 (3.3.3, 3.6); ASOP No. 5 (3.2.1, 3.2.2, 3.3.1(a), 3.3.6); ASOP No. 8 (3.2.2, 3.2.4, 3.2.5); ASOP No. 18 (3.1, 3.2.1); ASOP No. 26 (3.4.1)
3.5.5	Mix of Business	ASOP No. 41 (3.3.3, 3.6)
3.6	Documentation Issues Related to Expenses	ASOP No. 41 (3.3.3, 3.6)
3.6.1	Categorization of Expenses	ASOP No. 41 (3.3.3, 3.6); ASOP No. 8 (3.2.2(d)); ASOP No. 18 (3.2.4)
3.6.2	Start-Up Costs	ASOP No. 41 (3.3.3, 3.6); ASOP No. 8 (3.2.2d); ASOP No. 18 (3.2.4)
3.7	Documentation Issues Related to Trending Procedures	ASOP No. 41 (3.3.3, 3.6)
3.7.1	Trend Measurement	ASOP No. 41 (3.3.3, 3.6); ASOP No. 8 (3.2.2, 3.2.4)
3.7.2	Claim Cost Trend Factors	ASOP No. 41 (3.3.3, 3.6); ASOP No. 8 (3.2.2, 3.2.4)
3.7.3	Other Trend Factors	ASOP No. 41 (3.3.3, 3.6); ASOP No. 8 (3.2.2, 3.2.4)
3.7.4	Trend Selection	ASOP No. 41 (3.3.3, 3.6); ASOP No. 8 (3.2.2, 3.2.4)

Appendix 2

Comments on the Exposure Draft and Responses

The exposure draft of the repeal of ASOP No. 31, *Documentation in Health Benefit Plan Ratemaking*, was issued to the membership in September 2008 with a comment deadline of December 31, 2008. Four comment letters were received. The ASB and Health Committee carefully considered all comments received. Summarized below are the significant issues and questions contained in the comments and responses to each. The term “reviewers” in appendix 2 includes the Health Committee and the ASB.

GENERAL COMMENTS	
Comment	<p>The four commentators generally shared the same concerns in that they believed ASOP No. 31 should not be repealed but updated instead as to not create a void in actuarial guidance relative to ratemaking. The following is a summary of each comment letter received:</p> <ul style="list-style-type: none"> • Although ASOP No. 31 contains parts of other ASOPs that provide similar guidance, it is unique in that seven other ASOPs had to be referenced in comparison and, therefore, it should not be repealed. The commentator also noted that certain assumptions, such as credibility and trend, are referenced in ASOP No. 31, but not ASOP No. 41. • The repeal of ASOP No. 31 “proves” that the ASOP is unnecessary as five of the eight Health ASOPs and two of the six General ASOPs were referenced. However, given the importance of ratemaking, ASOP No. 31 should not be eliminated but rather updated, and perhaps the title should be changed to <i>Considerations in Health Benefit Plan Ratemaking</i>. • The current ASOP No. 31 is an excellent guide to the specific task of documenting the ratemaking process for health benefit plans and should not be repealed. The commentator believes it would be distracting and confusing to have to reference so many ASOPs whereas now all the requirements are contained in ASOP No. 31. • Although general guidance with regard to documentation of the health actuary’s work for ratemaking is likely addressed in other ASOPs, ASOP No. 31 is used by many health actuaries not only as documentation guidance but also as a valuable checklist of elements and aspects that should be considered and addressed in ratemaking for health benefit plans. Therefore, having such reference is especially important for actuaries working on heavily regulated products, and a repeal of ASOP No. 31 would thus create a void in the actuarial guidance for health benefit plan ratemaking.
Response	<p>The reviewers note that the cover memorandum to ASOP No. 31 specifically states that, “It is not a standard on ratemaking itself, but rather on the <i>documentation</i> of the ratemaking process.” Also, in section 1 of the ASOP, the purpose and scope, as described, are limited to documentation of the ratemaking process. The same is true for ASOP No. 41 and, as such, does not include references to specific assumptions. Appendix 1 could have been limited to providing guidance to actuaries regarding documentation requirements on ratemaking as contained in other ASOPs. This would have reduced the references in appendix 1 primarily to ASOP No. 41.</p>

	<p>However, the reviewers believe that it would be helpful to practicing actuaries to have a more comprehensive list of cross references than those pertaining to just documentation. Thus, appendix 1 was developed to provide guidance to practicing actuaries regarding all ASOPs that can be referenced on specific issues as it relates to ratemaking, including documentation. In addition, the reviewers note there are several ratemaking and pricing sources that a practicing actuary can reference, including study notes, practice notes, and textbooks in addition to the referenced ASOPs noted in appendix 1. The reviewers further note that much of the material contained in ASOP No. 31 is also contained in ASOP No. 8. Therefore, the reviewers believe the repeal of this ASOP is appropriate.</p>
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