July 13, 2012 - Comment 11 - 3:50 p.m.

ASOP No. 6 Revision
Actuarial Standards Board
1850 M. Street, NW, Suite 300
Washington, DC 20036

Re: Comments on ASOP No. 6 Exposure Draft

To the Actuarial Standards Board:

I have the following comments and suggestions on the Exposure Draft for the Proposed Revision of Actuarial Standard of Practice (ASOP) No. 6, Measuring Retiree Group Benefits Obligations and Determining Retiree Group Benefits Plan Costs or Contributions. In general, I believe this is an improvement of the current ASOP. This is a very detailed, thorough and long ASOP about a subject covering multiple actuarial practice areas. I commend the ASB for their commitment, hard work and a job well done.

The language and organization of the proposed ASOP No. 6 is very similar to ASOP No. 4 – sometimes exactly the same. I would suggest an additional review of ASOP No. 6 focusing on the duplicate wording of the two ASOPs, removing items from ASOP No. 6 that only pertain to pensions, and rewriting items that still pertain to be more focused on retiree group benefits. Also, I suggest adding language that if there is a conflict between ASOP No. 4 and ASOP No. 6 involving retiree group benefits, ASOP No. 6 should govern. It may be necessary to review the exposure draft of ASOP No. 4 to make sure the two are consistent in this respect before either standard is finalized.

Section 3.5.3, Reviewing the Modeled Retiree Group Benefits Plan, says that the actuary should consider if administration has deviated from what is modeled and whether such deviation is temporary or permanent. Similarly, Section 3.7.6, Impact of Medicare and Other Offsets, says that the actuary should consider significant inconsistency between Medicare integration as administered and as communicated to the actuary. Depending on the scope of the assignment, the actuary may not be able to reasonably make determinations like this one way or the other. These requirements seem to be pushing the boundary of Section 3.1.7 of the Introductory Actuarial Standard of Practice which states that the ASOPs are principles-based and do not attempt to dictate every step and decision in an actuarial assignment. Moreover, Section 3.7.6 is one specific example but there may be more specific examples that exist which aren’t highlighted. Section 3.10, Administrative Inconsistencies, provides a more reasonable actuarial process for these types of situations in general. I suggest removing Sections 3.5.3 and 3.7.6 and keeping Section 3.10. Specific examples of administrative inconsistencies and methods for the actuary to determine them would be more useful in a Practice Note from the American Academy of Actuaries.
Section 3.7.8, Pooled Health Plans (including Community Rated Plans), second paragraph states that if a group participates in a pool the actuary should use information from the total pool. Total pool information is not always available. I suggest clarifying that this should be done to the extent that sufficient total pooled data is available. The third paragraph of this same section states “In some very limited cases, the use of the pooled premium rate may be appropriate without regard to adjustments for age.” This is followed by a specific example of Medicare Advantage plans. If the purpose of this paragraph is to provide education, I suggest that it be removed from the ASOP. If the purpose of this paragraph is to allow for the possibility of cases where it is acceptable to use pooled premium rates without age adjustments, I suggest the phrase “in some very limited cases” be changed to “in some cases.” The term “very limited” without further clarification is hard to interpret. If the general consensus is that this methodology should only be used rarely and for good reason, perhaps the ASOP should include a requirement for disclosure of the actuary’s rationale for determining that this approach was acceptable.

Section 3.7.12, Adjustment for Trend, includes statements that the actuary “should consider” using separate trend rates for major cost components. There may be cases where this is outside the scope of the assignment and/or the purpose of the measurement. I suggest changing “should consider using” to “may use” or alternatively deleting this detail from the ASOP and including it in a Practice Note from the American Academy of Actuaries.

Section 3.17, Allocation Procedure, second sentence states, “When selecting a cost or contribution allocation procedure, the actuary should consider factors such as the timing and duration of expected benefit payments and the nature and frequency of plan amendments.” (Emphasis added). This may be a carryover from ASOP No. 4. The frequency of plan amendments has different implications for pension benefits and retiree group benefits. Often regular changes to pension benefits lead to increases in benefits and liabilities over time whereas regular changes to health benefits lead to decreases in benefits and liabilities over time. In practice, it is rarely acceptable to anticipate future decreases in benefits. I suggest deleting the emphasized wording.

Section 3.17.1 Consistency Between Contribution Allocation Procedure and the Payment of Benefits, discusses situations where a cost allocation policy does not accumulate adequate assets to pay benefits when due. All the examples are pension examples. A pertinent retiree group benefit example may be establishing a qualified trust for a new retiree group benefit plan heavily weighted toward retirees with a long amortization period of the unfunded actuarial accrued liability.

Due to my last minute submission, I have the advantage of reading other comments on the exposure draft posted on the ASB’s website.

One commenter mentioned that Sections 2.20, Fully Funded, and 2.21, Funded Status, were more pertinent to ASOP No. 4 and should be deleted. While it is generally the case that retiree group benefit plans are not funded in the private sector, there are some cases in the public sector where prefunding is starting to occur and even rare cases where plans are very well funded. Even though “full funding” is rare for retiree group benefits, I think it’s a good idea to have these sections be as consistent with ASOP No. 4 as possible.
One commenter mentioned that Section 3.14, Measuring the Value of Accrued or Vested Benefits, should be deleted for several reasons in part because the terms “vested” and “accrued” were more in line with pensions and the wording of this section appeared to match Section 3.10 of the ASOP No. 4 Exposure Draft. I concur that the wording seems pension specific and that the concept of “vested” benefits for retiree group benefits is very different than for pension and the term should be deleted from ASOP No. 6. However, I do believe that some portion of the language of this section needs to remain in the ASOP, possibly as part of Section 3.16, Actuarial Cost Method. The commenter is correct that retiree group benefits don’t “accrue” in the same way as pensions; however most actuarial cost methods do attribute costs to past and future service of active members which is even referred to in Section 3.16 as actuarial “accrued” liability. I suggest that Section 3.16 should include more discussion on the term actuarial accrued liability, what it means in the context of retiree group benefits as opposed to pensions, and what disclosures are necessary to distinguish “accrual” and “attribution.”

Thank you for the opportunity to provide comments on the ASOP Exposure Draft. These views are my own and do not necessarily represent the views of Gabriel, Roeder, Smith & Company.

Sincerely,

David T. Kausch, FSA, FCA, MSPA, MAAA, EA
Chief Actuary

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