Comment #16 - July 14, 2012 – 3:26 p.m.

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

Re: ASOP 6 Exposure Draft

To the Members of the Actuarial Standards Board:

I am writing on behalf of the Segal Company with comments on the Exposure Draft of the Proposed Revision of the Actuarial Standard of Practice No. 6—Measuring Retiree Group Benefits Obligations and Determining Retiree Group Benefits Plan Costs or Contributions.

For over 70 years, Segal has been providing benefits and human resource consulting for multiemployer trust funds, public sector organizations and corporate employers. More than 8 million employees and their dependents in the US, Canada, and abroad are covered by benefit programs sponsored by Segal’s thousands of clients in the private, public and non-profit sectors. Segal has approximately 1,000 staff members and 150 credentialed actuaries.

We thank you for the opportunity to comment on the Exposure Draft. We are generally pleased with the proposed revisions with a few areas of concern described below:

➤ Section 3.11—Types of Actuarial Present Values

- We believe that the this section should coordinate with the framework of the proposed revisions to ASOP No. 4—Measuring Pension Obligations and Determining Pension Plan Costs or Contributions and the revisions to ASOP No. 27—Selection of Economic Assumptions for Measuring Pension Obligations. The revision to ASOP 4 defines 3 types of present values (as does this revision to ASOP 6)—those based on plan assets, those not based on plan assets and market-consistent present values. We have submitted comments on the Exposure Draft to ASOP 4, seeking reconsideration of the market-consistent category as we think that it is better described as a subset of a broader class of market related measures. We suggest that ASB consider a similar restructuring of Section 3.11 of ASOP No. 6 to reflect the following classifications of Present Values:
  - Based on expected earnings of plan assets
  - Based on market pricing of cash flows which would include:
    » Market-consistent (as in the ASOP 4 Exposure Draft)
    » Other general market derived/observed
Based on other rates of return—while there are not many situations that fall under this category, there are some calculations used for different purposes that have no relationship either to earnings on plan assets or market based discount rates.

Examples of each class should be given to give clarity, in particular for both market-consistent and the more generally market derived rates that fall within the class based on market pricing.

Section 3.7.8—Pooled Health Plans (including Community Rated Plans)

We have a few concerns about the section regarding using rates adjusted for age-sex in a community rated plan.

- “Community rated plan” should be explicitly defined. We understand that some plans are calling themselves community rated when they are not.

- The second paragraph of this section says: “To the extent the premiums are based on the demographics of the pool, 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 availability of the age-gender distributions of the community rated health plans will be an issue. While some plans have indicated to ASB that this information will be made available, we don’t believe that all plans will make such information available. Even if the age-gender distribution is made available, actuaries would also need the morbidity factors used to develop the community rate. Actuaries may use different age-sex morbidity factors to estimate costs and the differences between those factors can be significant. In addition, even if the community rated plans provide the age-sex adjustment factors, which is uncertain, actuaries would need to determine whether or not those rates are reasonable for their work, since it is provided by an outside party.

- The first paragraph of this section includes a statement that applies “regardless of the size of the group being valued.” However, a small group of 100 participants in a plan of 500,000 participants has no impact on the rate that is developed by the pool. A much larger group, for example of 200,000, would have an impact on the development of the rate. We recommend that credibility of the participant group in developing the pool rate be considered to determine whether or not the rate should be age/sex adjusted.

- In general, we feel this section needs further clarification with some examples in how to implement.

We thank you for your consideration of these comments.

Sincerely yours,

Mary Kirby, FSA, MAAA
Vice President & Consulting Actuary