July 15, 2012 - Comment #18 - 10:52 p.m.

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

Re: ASB COMMENTS -- ASOP No. 6 Revision

To the Members of The Actuarial Standards Board and the Subcommittee on Retiree Group Benefits:

The comments contained in this letter are on my own behalf and not the opinion of my employer Buck Consultants, LLC. They are in addition to the comments I submitted on behalf of my employer dated July 12, 2011, which focused on the proposed revision to the community-rated concept.

Consistency of Language with ASOP No. 4.

The Exposure Draft for ASOP No. 6 is greatly expanded by the addition of material taken from the proposed revision of ASOP No.4. Much of this material relates to setting of contributions, which does not apply to the bulk of retiree medical plans which have no assets set aside for future benefits. In some places, concepts applicable to pension obligations do not fit quite as well when applied to group benefits. And the resulting ASOP 6 drafts winds up being much longer than the current ASOP, and difficult for a user to navigate.

The introductory material to the proposed revision for ASOP No. 4 suggests a different approach to drafting. ASOP No. 4 is to be the umbrella standard for pension obligation measurements. It could readily be the umbrella standard for retirement benefit obligations whether pension income or retiree group benefit. ASOP No. 4 could provide general guidance about funding and contribution determination, with ASOP No. 6 specifying only those concepts where group benefit measurement would differ from pension practice, along with the specific considerations that apply to measuring this different type of benefits. ASOP No. 4 would have to be written to say that ASOP No. 6 governs the measurement of non-income benefits where the two standards differ. Alternatively, ASOP No. 4 need not directly address measurement of group benefits, while ASOP No. 6 could incorporate its guidance by reference, just as it currently incorporates ASOPs No. 27 and 35. I feel this approach would result in a more user-friendly ASOP for group benefits.

If the language from the proposed ASOP No. 4 is left in ASOP No. 6, there is a specific item I suggest should be fixed. Section 3.16(b) says attribution should bear a relationship to pay or service. The equivalent section in the ASOP No. 4 draft (§3.12 (b) also adds that attribution can bear a reasonable relationship to plan's benefit formula. That language should be included if the section is included, since it is my understanding that there are situations under various accounting standards that attribution should be reflecting the plan's non-linear benefit formula. The addition would then make the language consistent with the mention of allocation of multiple or compound benefit formulas in draft ASOP No. 6 §4.1(m).

In terms of additional disclosures that have been added to be consistent with the draft for ASOP No. 4, the new requirement in §4.1(r) would require that an actuary calculate and disclose a funded status on an immediate gain actuarial cost method (presumably either entry age normal

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or unit credit) in a valuation prepared on the aggregate funding method for purposes of determining a tax deductible addition to a qualified asset account for retiree medical or life reserves. I suggest the requirement of the additional calculation be eliminated in that situation.

Administrative Expenses

One of the areas where pension practice does differ from group benefit practice is in the handling of administrative expenses. The incorporation of ASOP No. 4 draft language about expenses into this proposed ASOP leads to some possibly conflicting guidance.

Accounting Standards Codification 715-60-35-98 applicable to U.S. GAAP measurements of group benefits provides “If significant, the internal and external costs directly associated with administering the postretirement benefit plan also shall be accrued as a component of assumed per capita claims cost.” This language is consistent with the Exposure Draft provisions in §3.7.15 (which is virtually identical to the existing language in §3.4.14). That provision permits modeling of administrative expenses in a variety of fashions, including as a per capita, a percentage of claims or a fixed amount. However, this is not completely consistent with the wording in §3.16(c) which allows expenses to be reflected in the normal cost, or as a percentage, but does not directly provide for the most commonly used method of measurement, per capita administrative expenses.

Finally, the definitions for Actuarial Accrued Liability in §2.1 and the definition of Actuarial Cost Method in §2.2, mention the “value of projected benefits (and expenses, if applicable)”. This could be read to imply that expenses are only applicable some of time, perhaps only a minority of circumstances; while in practice, expenses should be included in the majority of group benefit measurements.

Lifetime Maximums

The exposure draft mentions lifetime maximums in four different places. Two of these mentions are relatively general; §3.5.1(c), saying that cost sharing features should be considered, and §3.10, saying that lifetime maximums (along with other claim payment practices) can be an area of administrative inconsistency which may require action by the actuary. The other two mentions each discuss specific valuation calculation practices that could be used in measuring the impact of lifetime maximums; §3.7.11 requiring the actuary consider adjusting large claims for the impact of maximums, and §3.12.1 requiring the actuary consider adjusting trend for the impact of maximums.

Rather than requiring the actuary to consider two specific types of adjustments for the maximums, I think it might be more appropriate to have a general requirement to consider adjusting for maximums using appropriate techniques. The section could then continue to suggest means of measurement, including adjustments of large claims or trend, as well as other techniques such as direct measurement (projected inflated per capita accumulated to a per person amount no greater than the maximum using either deterministic or stochastic projection). Other considerations include whether the maximum included claims amounts made during active employment, how the maximum is integrated with Medicare, when the maximum was last reset, whether the maximum includes carve-outs such as prescription drugs. The section could go on to suggest that there would be occasions where the actuary would need to collect additional data about the amount of lifetime maximum used to date by various participants, either individually or in aggregate.

Other Items

Section 3.12.3 (a) describes various plan specific considerations in setting appropriate participation rates, but does not mention consideration of outside forces. In my practice, I have found the availability of alternative coverage outside the plan (such as when Medicare began offering prescription drug coverage) has a profound impact on participation. The actuary should then consider the impact on participation of future anticipated changes in availability of coverage, such as the implementation of Exchanges which will offer guarantee issued coverage to non-Medicare retirees starting in 2014.

In eliminating the separate terms for spouse and other dependents, the wording in §3.12.3(c) implies that the actuary would have to develop an assumption to account for the difference in age between the participant and their child when assuming dependent children for future retirees. A literal reading would not allow the actuary to make an assumption that a retiree with children covers the child for 5 years after retirement, which is an approach I use, and feel should be considered acceptable under our standards of practice.

Please let me know if you have any questions.

Very truly yours,

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