Red Quill Consulting
Employee Benefit Strategies

June 20, 2012

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

My comments to the ASOP No. 6 revision are primarily concerning the fourth question asked under "Request for Comments," in the transmittal letter. Specifically, "Are the changes to the standard to make it consistent with ASOP No. 4 appropriate?"

Since there are several areas in the revision that were done for ASOP 4 consistency, I only highlight additions that do not appear to be appropriate in the context of retiree group benefit (RGB) valuations.

**1.2 Scope**
Subparagraph a. seems to be forced into being similar to ASOP 4. RGB valuations are seldom performed to determine funded status, assessments of solvency upon plan termination or market measurements. I suggest deleting this subparagraph.

Subparagraph d. Retiree contributions are seldom determined using actuarial valuations of obligations but instead on one year actuarial projections of expected costs. Oftentimes, the actuary performing these calculations is not the one involved in the RGB valuation process. This standard does not provide any guidance to an actuary setting retiree contribution rates. I suggest deleting this subparagraph or change it to more properly reflect the results of RGB valuations. For example, it could read, "development of a contribution allocation procedure used to determine contributions for a plan when the plan sponsor pre-funds the obligations."

Personally, subparagraphs a. through f. seem forced to match ASOP 4. My preference is to keep the current ASOP 6 scope subparagraphs as they more appropriately define what the standard provides.

**2.13 Contribution Allocation Procedure**
First sentence uses "prefunding" with no hyphenation and is the only place that is done.

**2.20 Fully Funded**
Definition does not seem needed. The only place it is used is in the disclosure section so Section 3 does not explain what it is. Since it is not discussed in Section 3, why is it documented? Again, seems to be added because of ASOP 4 and not needed. Suggest deleting.

**2.21 Funded Status**

This definition also seems somewhat forced to fit ASOP 4 and not pertinent to RGB valuations. The disclosure requirements referred to in this definition are particularly strange to RGB valuations. I suggest deleting this definition as well as the disclosure requirements.

**3.11 Types of Actuarial Present Values**

This entire paragraph does not seem appropriate in a standard on valuing retiree group benefits. All of the language used is relative to pension plan valuations and serves absolutely no purpose in this standard. I suggest deleting the whole paragraph.

**3.14 Measuring the Value of Accrued or Vested Benefits**

This paragraph must definitely be removed for several reasons. Retiree group benefits never use the term "vested" and generally, there is no concept of "accrued" benefits. Perhaps a benefit that is based on service may appear to have an accrued benefit but they can be eliminated at any time in the future so they do not have the same meaning as they do for pension plans. More importantly, in conversations with several ERISA attorneys, they all expressed concern that including this paragraph in an actuarial standard will allow plaintiff's bar to point to it to support their argument that retiree group benefits can be viewed as vested because actuaries "may measure the value of … vested benefits." This entire paragraph should be deleted as it is not pertinent to RGB and appears to only be included to match ASOP 4 language (word for word, from ASOP 4, paragraph 3.10).

**3.16 Actuarial Cost Method**

This paragraph is slightly different than ASOP 4 which makes sense due to differences in benefits. Subparagraph b. seems overly restrictive in that it suggests that normal costs should only be set relative to compensation or service. In some cases, it may be appropriate to match the way plan sponsor subsidies are set. For example, if the subsidies are 2% of cost for ages 40 to 50 and 4% for ages 50 to 60, it may make sense to allocate costs over the service periods up to those 20 years and a higher allocation in the last ten years. The actuary should be allowed to make such a decision.

Paragraph c. appears to be a carryover from pension plan valuations as RGB expenses are almost always included in the claim costs. RGB expenses are never (a dangerous term to use but probably appropriate in this context) considered an adjustment to the investment return assumption. I would suggest deleting the last two sentences and replacing with an example that is more prevalent in how expenses are handled in an RGB valuation such as, "For example, expenses are typically included in the claim cost assumption." Keep in mind that expenses for RGB valuations are typically the costs to administer a health plan benefit and not to manage assets.

Is Paragraph d. needed? It basically states an actuarial tautology that is taught in exams.

**3.17 Allocation Procedure**
The term "principal" is first used in this paragraph. It appears to denote "intended user" to use the terms of ASOP 41. However, in subparagraph 3.17.1.b, it appears to be used as synonymously as "owner." The final use of the term is found in 4.1.x where again it is used as intended user. The term is not defined. I suggest changing the first and third uses to "intended user" to match ASOP 41. For 3.17.1.b, I suggest changing to, "using the aggregate funding method for a plan covering the owner and two employees, in which the owner is near retirement and the other employees are relatively young; and"

Aside from above, this whole paragraph appears to be more applicable to pension plans and is in fact a word for word copy of ASOP 4, paragraph 3.13. Subparagraphs 3.17.2 through 3.17.5, in particular, seem inappropriate for ASOP 6. I suggest retaining the current paragraph 3.9 for this whole paragraph 3.17.

**4.1 Communication Requirements**
Subparagraph 4.1.l. is not required if paragraph 3.11 is deleted as suggested above.

Subparagraph 4.1.m. seems to be more applicable to pension plan valuations than RGB valuations. This is mostly due to the parenthetical example so to improve; I would suggest deleting the parenthetical.

Subparagraph 4.1.p. should be deleted.

Most RGB programs are unfunded so I assume to satisfy subparagraph 4.1.q., that all reports must disclose the fact that the funded status of the plan is zero. Or, for unfunded plans, does anything need to be disclosed. This section needs to be clarified. Perhaps subparagraphs q. and r. could be combined to something like,

> "if the plan is funded, the funded status.
>
> 1. funded status based on the market value of assets if the above funded status is not based on market value of assets.
> 2. funded status based on an immediate gain actuarial cost method if the above funded status is based on a spread gain actuarial cost method. The immediate gain actuarial method used for this purpose should be disclosed in accordance with section 4.1(m);"

Subparagraph 4.1.s. does not seem needed. Suggest deleting.

That concludes my comments and I would be happy to provide further explanation.

Sincerely,

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