

August 30, 2013

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

Re: ASB COMMENTS -- ASOP No. 6 Second Exposure Draft March 2013

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

The comments contained in this letter 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 also dated August 30, 2013, which focused on the proposed language related to pooled health plans.

Section 1.2 Scope

In section 1.2 of the Exposure Draft, the scope of the standard is said not to “apply to measurements of pension obligations and social insurance programs.” The equivalent section in the pension exposure draft for ASOP 4 stated that the pension standard would not apply “when performing professional services with respect to individual benefit calculations, individual benefit statement estimates, annuity pricing, nondiscrimination testing and social insurance programs ...” Similar exclusions for benefit calculations or statements and for non-discrimination testing would be appropriate in this context as well.

Section 2.11 Contingent Participant

The Exposure Draft includes in section 2.11 a definition of contingent participant to include an individual who is not currently a participant, but who may reasonably be expected to become a participant through future action. Section 3.6.3 includes an illustration of what the drafters have in mind as a contingent participant; a retiree who has opted out of current enrollment in the retiree group benefit, but whom may later elect to coverage.

On the other hand, the definition of participant in Section 2.26 includes someone who is reasonably expected to receive benefit coverage upon satisfying eligibility or participation requirements. To me, that individual who has opted out of coverage, but who is reasonably expected to later elect coverage meets that definition of participant, since they would be getting benefit coverage when they met the participation requirement of electing coverage. Thus, such a person would not be a “contingent participant” as defined.

I do not believe that the separate definition for “contingent participant” adds any clarity to the concept expressed in Section 3.6.3, and suggest that it be eliminated.

Section 3.5.1(d)(3) and 3.5.1(d)(5) Reference to Benefit Amounts vs. Contribution Amounts

The Exposure Draft has been edited surrounding the difference between prefunding contributions and participant contributions. In most places, this greatly adds to the clarity of the language. However, in these two sections, I think that the concept does not express what is desired. For example, in Section 3.1.5(d)(3), I think that what was intended is that the actuary

should consider how those pre-retirement contributions affect future benefit eligibility and future employer provided benefit amounts. Likewise, in 3.1.5(d)(4), caps are much more likely to directly limit future employer subsidized payouts instead of plan sponsor periodic cost or prefunding contributions.

Section 3.5.1(e) Clarification Requested

The language refers to retiree medical savings accounts or terminal leave balances as third party sources, implying these amounts come from somewhere other than the employer or retiree. Yet, in my experience those amounts come from the employer in some fashion, albeit not necessarily be considered part of the particular plan. For example, a defined contribution retiree medical savings account could be set up into which the employer contributes while the participant is employed, which then provides amounts towards required participant contributions in the main retiree medical “defined benefit” plan after retirement until exhausted. In that situation, the retiree medical savings account is clearly not from a third party, but could be considered outside of the particular program.

In some governmental situations, amounts may come from some third source. For example a state wide pension system may make contributions towards the cost of municipality provided coverage, in addition to any subsidy provided directly by the municipality. Both the municipal provided benefit and pension system contribution are group retiree benefits, and I believe these should be separately measured and reflected. Yet the state wide pension system has been funded by municipal contributions, typically during active employment if not retirement, again making it in some sense employer funded.

I suspect that what might have been intended is a provision about looking at funding sources outside of a particular program, rather than third party outside of participant and employer. But whether or not my conjecture is correct, I request that this language be clarified.

Section 3.17(a) Actuarial cost method – Non Accruing Service

Section 3.17(a) as written in the Exposure Draft permits the use of an actuarial cost method that can develop a normal cost for a participant who is not accruing benefits, but is still active, while the corresponding section in the exposure draft for ASOP No. 4 would not have allowed this. The subcommittee requested comments regarding which language was felt to be more appropriate. I personally believe that the less restrictive language in the ASOP 6 Exposure Draft is more appropriate, especially in the OPEB context, where benefits are less likely to “accrue” using a formula based on service through retirement.

Section 3.17(b) Actuarial cost method—Normal Cost allocation by Formula

I note that Section 3.17(b) in the ASOP 6 exposure draft is not entirely consistent with the language in the pension exposure draft. The 3.17(b) language says that attribution of normal cost should be a reasonable relationship to compensation or service. The equivalent section in draft ASOP 4 also allowed attribution based on plan formula, which I also think should be permissible for the measurement of retiree group benefits. 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).

Section 4.1(s) Disclosures of Funded Status when spread gain method is used

The language in §4.1(s) would require that an actuary calculate and disclose a funded status on an immediate gain actuarial cost method (presumably either entry age normal 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 particular situation. Alternatively, I suggest that it be clarified that the immediate gain results not necessarily need to be provided on the same assumptions as used for the spread gain calculation. For example, that a U.S. GAAP accounting Accumulated Postretirement Benefit Obligation using trend and bond market related discount rates be considered a sufficient immediate gain method disclosure along with an aggregate calculation made for funding of a non-bargaining VEBA using an after tax expected rate of return and no trend.

Please let me know if you have any questions.

Very truly yours,

A handwritten signature in cursive script that reads "Robin B. Simon".

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