

**Comment #11 – 8/30/13 – 4:46 p.m.**

This is to register how deeply disappointed I am at the manner in which revisions to ASOP6 have been handled. This is my first experience directly participating in the process of developing Actuarial Standards of Practice. I certainly hope that development of other standards does not follow a similar pattern to this one.

In the original Exposure Draft issued in April 2012, the question was explicitly asked whether "revised guidance regarding the use of community rating was appropriate". This turned out to be the topic of most concern among actuaries submitting comments. Because comments are not in a form that lends itself to easy statistical summary, it's not possible to concisely summarize the results. However, my attempt to objectively summarize the comments resulted in the following:

18 comments were filed on behalf of 38 named actuaries. However, 7 of the comments were filed by individual actuaries on behalf of seven firms (six actuarial consulting firms and one insurance company) with an indeterminate number of actuaries practicing in relevant specialties.

Of the 38 named individuals, it appears that the comments of 2 did not address the community rating issue. Inasmuch as these 2 were individuals while the other 36 represent perhaps hundreds of actuaries practicing in this area, this issue was of interest to well over 95% of those commenting, representing a large number of actuaries practicing in this area. Such a large response should indicate to the ASB that this is an issue that is

- 1) worthy of careful attention to make sure the ASOP reflects best practice; and
- 2) important enough to discuss and communicate with affected practitioners.

In reviewing comments that were submitted related to the community rating issue, the vast majority were in favor of revising the Exposure Draft. Again acknowledging the difficulty of objectively summarizing the results, it appears that of 36 named actuaries addressing this issue, that 32 were opposed to eliminating the community rating exception. Of the other 4 actuaries, two seemed to be in favor of elimination and it's unclear for the other two.

However, the fact that the 32 opposed to elimination included ALL SIX consulting firms submitting a company response makes it clear that well over 90% of practicing actuaries in this area that responded opposed elimination of the community rating exception entirely. While there was not necessarily a consensus on how a community-rating exception should be proscribed, there was overwhelming agreement that one should be preserved.

Subsequent to receiving the above responses, the ASB issued a second Exposure Draft to ASOP6 in March of 2013. It included some cosmetic changes but retained language eliminating the community rating exception! Even worse, despite the time taken by commenters to thoughtfully articulate reasons for disagreeing with the original Exposure Draft in this regard, the second Exposure Draft contained **not a single** response to any of the well-reasoned objections other than that the reviewers disagreed and made no changes. At the very least, the ASB should have made an effort to consolidate the objections and respond to each one.

The ASB's treatment of interested actuaries shows utter disrespect for those of us who took time to explain why the proposed guidance was flawed. It is difficult for me to fathom how the ASB can issue something purported to be a standard of practice when well over 90% of actuaries practicing in related fields disagree with a key provision of the proposed standard.

I certainly hope that the ASB reconsiders its refusal to acknowledge actuarial practice in this area. I would be happy to participate more directly in coming up with a better standard in this regard and I don't doubt that many other commenters would be willing to, as well.

I'm at a loss to understand how the ASB could so thoroughly ignore the input of the vast majority of practicing actuaries. I suspect it is because, for a variety of reasons, this issue overwhelmingly affects public sector plans. The community-rating exception was widely used for small public plans, in particular, so flaws in the original ASOP6 did not interfere with practice in this area. I can only infer that actuaries practicing in the public sector plans and small employer plans are underrepresented in the committee responsible for this ASOP. Even so, the Committee should have taken seriously the overwhelming input of those commenting. The remedy for underrepresentation on the committee should be solicitation and consideration of comments. But as far as I can tell comments are, instead, just a hollow gesture to make actuaries feel involved while the reality is that the only comments the committee pays attention to are those that substantiate the committee's own views.

If the final ASOP is issued without due regard for the opinions of practicing actuaries, this will end up giving our profession a huge black eye. It is difficult to see how this ASOP could be used to guide practice when I have overwhelming evidence that it is not the effective standard of practice in this area. Publishing something purporting to be a standard of practice does not make it one. Should ASOP6 not be modified to reflect best practice; and given the overwhelming objection to this section of the ASOP by actuaries practicing in this area, I see little alternative than to use my best efforts – perhaps in cooperation with other practicing actuaries – to fashion a separate standard that actually does reflect best practice and is based on sound actuarial principles and practical considerations – in other words, do what the ASB should have done in the first place.

There is obviously a serious flaw in the oversight of the standard-setting process for something like this to be possible. Perhaps there is a need for someone independent of the committee responsible for particular standard to review written comments and make sure that there is not a disregard of input from practicing actuaries.

Geoffrey L. Kischuk, FSA, FCA, MAAA