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

The following are my comments on the second ASOP No. 6 Exposure Draft:

A. Subsidies

1. General comment - Subsidies in a pooled health plan come in the form of subsidies from active employees to retirees and subsides from some employers to other employers. While I am pleased that the treatment of the subsidy from active employees to retirees for employers participating in community rated plans has been clarified, I think that ASOP No. 6 should include guidance on how actuaries should treat subsidies from other employers. My recommendations in this regard are shown in paragraph A.5.

2. Subsidy differences - It is important to recognize that these two subsidies are different in the following respects:

   a.. The subsidy from actives to retirees is referred to as "implicit" as it only affects the internal allocation of costs between the two groups. It has no effect on the organization's cash outlay.

   b. The subsidy from some employers to others is a real subsidy in that actual cash outlays are affected in the form of premiums lower or higher than what the employer's expected claims experience would require. As John Bartel has demonstrated in his July 12, 2012 comment letter for the first ASOP No. 6 Exposure Draft, unless the demographics of an employer participating in a pooled health plan are the same as the demographics of the total health pool, normal age adjusting of the health premium produces illogical accounting results.

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3. <u>Subsidy from other employer examples</u> - I have used Mr. Bartel's three examples to illustrate how an adjustment to the normally determined age adjusted health costs for the subsidy from other employers would eliminate such illogical results within the context of basic age adjusting principles. Such examples are included in the attached Exhibit A. The following are my comments with respect to these examples:

   a.. <u>Expected cost determination</u> – For pooled health plans that base the premium on the demographics of the total health pool, the normally determined age adjusted expected costs can be determined from the premium, average age of the total health pool and a set of aging factors. While there may be some (or many) health pools not prepared to provide the average age of the total health pool, some will provide such information. Over time, average ages of different industry health pools will become publically available. In the meantime, an average age, such as 40, could be made. In the absence of health pool specific aging data, the factors in Jeff Petertil's 2005 paper could be used.

   b. <u>Adjusted expected cost determination</u> - It will be noted that with the adjustment for subsidies from other employers, adjusted expected costs of the participating employer are determined which equals such employer's premiums. Because the age adjusted costs for actives and retirees are adjusted with a constant percent, the relationship of the retiree to active health costs is the same before and after such adjustments are made. After making the adjustment for subsidies from other employers, the illogical results noted by Mr. Bartel are eliminated since the actual employer liability would then match the expected employer liability. Without the adjustment, the actuarial valuation would produce an OPEB liability that is either too large or too small depending on whether the average age of the participants in the participating employer's group is either higher or lower than the average age of the total pool.

   c. <u>Reordered expected cost</u> – I have added the per capita subsidy from other employers and reordered the examples so that they are in ascending order of such cost. It will be noted that there is an inverse relationship between the implicit subsidy and the per capita subsidy from other employers. This relationship is most evident with Example #2 which, because it has no active employees, has the highest per capita subsidy from other employers. When there is no implicit subsidy it becomes apparent that age adjusting the premium is not appropriate. The adjustment for subsidies from other employers provides a systematic method of supporting not adjusting the premium in this situation while making a logical adjustment to the age adjusted premiums in other situations where the employers' demographics do not match the demographics of the total pool.

4. <u>Negative subsidies from other employers</u> - It needs to be noted that all the examples were situations where the employer received a positive subsidy from other employers. Negative employer subsidies need also to be treated in a similar fashion in order for this adjustment process to be credible. It is for this reason that the subsidy from other employers adjustment should be addressed in ASOP No. 6, in my opinion.

5. Summary recommendation – The second paragraph of Section 3.7.8 should be modified as follows:

   a. Situations where the pooled health plan bases the premium on the demographics of the total health pool

      (1) Recommendation – I recommend that ASOP No. 6 be worded so as to include the following principles:

         (a) age adjusting the premium based on the demographics of the total health pool should be required

         (b) recognition of the subsidy from other employers (both positive and negative) should be required

      (2) Comment – It is my understanding that the second Exposure Draft requires the age adjusting of the premium based on the total health pool but does not permit the recognition of the subsidy from other employers.

   b. Situations where the premium is explicitly based, at least in part, on the demographics of the participating employer

      (1) Recommended requirement - age adjusting the premium based on the demographics of the total health pool should be required

      (2) Recommended encouragement - recognition of the subsidy from other employers (both positive and negative) should be encouraged

      (3) Comment - The phrase "to the extent appropriate" in the thirteenth line of the second paragraph of paragraph 3.7.8 appropriately leaves the decision regarding the use of employer demographics up to the actuary. However, it does not encourage such use to the extent appropriate, in my opinion. ASOP No. 6 should be more explicit in encouraging the use of employer demographics in this situation while acknowledging that recognizing the subsidy from other employers is inherently more difficult in this situation since the actuary would also need the manual premium rates of the total health pool and the credibility factor assigned to the participating employer.

B. <u>Definitions</u> – Benefit Plan is one of the three significant definitions related to what is customarily considered in the definition of a "plan" (the others being Retiree Group Benefits and Retiree Group Benefits Program). In order to make the three definitions consistent, I suggest changing "Benefit Plan" to "Retiree Benefit Plan". If this suggestion is adopted, it would seem to require changing "Benefit Plan Member" to "Retiree Benefit Plan Member". It would also suggest that "Benefit Option" might be changed to "Retiree Benefit Option".

I would like to thank John Bartel for his review of this letter and very helpful suggestions.

Sincerely,

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Exhibit A - Examples

Example		Active	Retiree	Total
		Participant category		
Example		Active	Retiree	Total
1	Census count	3	3	6
	Total expected costs - unadjusted	21,960	30,960	52,920
	Total premiums paid	20,700	20,700	41,400
	Other employers' subsidy - dollar amount	1,260	10,260	11,520
	Other employers' subsidy - percent			21.77%
	Total expected costs - adjusted	17,180	24,220	41,400
	Retiree / active expected cost relationship:			
	Unadjusted			1.410
	Adjusted			1.410
	Other employers' subsidy per capita			1,920
3	Census count	20	40	60
	Total expected costs - unadjusted	129,840	432,000	561,840
	Total premiums paid	138,000	276,000	414,000
	Other employers' subsidy - dollar amount	(8,160)	156,000	147,840
	Other employers' subsidy - percent			26.31%
	Total expected costs - adjusted	95,674	318,326	414,000
	Retiree / active expected cost relationship:			
	Unadjusted			3.327
	Adjusted			3.327
	Other employers' subsidy per capita			2,464
2	Census count	0	10	10
	Total expected costs - unadjusted	0	108,000	108,000
	Total premiums paid	0	69,000	69,000
	Other employers' subsidy - dollar amount	0	39,000	39,000
	Other employers' subsidy - percent			36.11%
	Total expected costs - adjusted	0	69,000	69,000
	Retiree / active expected cost relationship:			
	Unadjusted			N/A
	Adjusted			N/A
	Other employers' subsidy per capita			3,900