

Comment #3 – 8/2/13 – 2:47 p.m.

Dear ASB:

Please first extend my appreciation to the group that prepared the excellent and necessary Exposure Draft: “Proposed Revision of Actuarial Standard of Practice No. 8”.

Also please accept for your consideration the following comments regarding this Exposure Draft:

Section 3.4 Assumptions: The introductory paragraph states “The actuary should determine which assumptions are necessary . . .” The subsections 3.4.1 through 3.4.9, however, seem to be very prescriptive with mostly “The actuary should . . .” statements. I suggest that it be clarified that most (all?) of the assumptions listed be reviewed by the actuary for “necessity and relevancy to the rate filing”. For example, Section 3.4.3 states “The actuary should consider . . . morbidity, mortality, and lapsation rates. In my experience, short-term health care rate filings rarely, if ever, consider mortality and generally do not include specific lapse rate assumptions (I understand that the ASOP is not limited to short-term health care products). My confusion is exacerbated since several of the subsections clearly state that the actuary may or may not consider the assumption (e.g. investment earnings). I believe the ASOP should clearly state what, if any, assumptions the actuary “should consider” (which I interpret as assumptions that must be explicitly made and reflected in the rate filing unless the actuary can document and justify the reasons for not reflecting certain assumptions in the rate filing). My preference and suggestion is that Section 3.4 follow the approach used in Section 3.7 for which there are no “should’s”. That is, list the potential assumptions with an introductory paragraph that says something like “These assumptions may include, but are not limited to:” (and then merely list the assumptions the actuary may consider).

If Section 3.4 retains its current format, I have the following explicit concerns with respect to Sections 3.4.4 and 3.4.7:

Section 3.4.4 Non-Benefit Expenses: The last sentence says “The actuary should consider the adequacy of the non-benefit expense component of premium rates relative to projected costs.” The same section, however, notes that an acceptable method for reflecting non-benefit costs is the “use of a target loss ratio”. In my experience the use of a target loss ratio is generally mutually exclusive of a specific analysis of the projected [non-benefit] costs. I suggest that the ASOP go no further than stating something like “the actuary should consider the reasonableness of the non-benefit cost component of the premium rates.”

Section 3.4.7 Expected Financial Results: The second to last sentence says “The actuary should consider the adequacy of the profit margin/surplus in relation to current surplus levels.” I do not believe that this statement is universally consistent with current practices nor do I believe it should be. For example, current surplus levels may not be specifically considered for relatively small or periodic (e.g. quarterly) rate filings. Surplus levels may be considered annually (or, perhaps as part of a 5-year plan) and serve as the general “marching orders” for rate filings. But most rate filings, in my experience, do not explicitly consider an evaluation of current surplus levels and the projected impact of the rate filing in relation to current surplus levels. Therefore, I believe that this section should be much less prescriptive than “should consider” with respect to any particular rate filing. As a minimum I suggest that “should consider” be replaced with “may consider”.

Section 3.6 Use of Business Plans: The opening sentence says “The filing actuary should request and, if available, review relevant business plans for the health plan entity . . . My concern here is the same as that noted above for surplus levels. That is, I do not believe that business plans are generally reviewed for every rate filing. Business plans may provide “marching orders” for rate filings in general but, in my opinion, they are not necessarily considered for a particular rate filing. I would again suggest that, as a minimum, “should consider” be replaced with “may consider”.

Section 3.8 Recognition of Plan Provisions: This statement states that “The actuary should consider . . . administrative procedures, and any arrangements with providers . . . that affect plan administration.” This is a tall order that I doubt any actuary could satisfy. Do actuaries ever understand or consider everything that impacts administrative procedures and plan administration, which is my interpretation of this section? Perhaps something like: “The actuary should consider administrative procedures and provider contracts that the actuary can reasonably be expected to quantify with respect to the impact on the medical costs reflected by the rate filing.”

Section 3.9 Rating Factors: Should the word “variation” in the first sentence of the second paragraph be “variations”?

Background: The last sentence in the opening paragraph says “Beginning in 2013. . . .” Since HHS promulgated its “10% threshold for unreasonable rate increases” in 2011, should “2013” be “2011” (or perhaps even 2010 with the passage of the ACA).

Thank you for any consideration with respect to the above suggestions.

Best Regards,

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