



**ACTUARIAL STANDARDS BOARD**

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**Actuarial Standard  
of Practice  
No. 31**

**Documentation in Health Benefit Plan Ratemaking**

**Developed by the  
Health Committee of the  
Actuarial Standards Board**

**Adopted by the  
Actuarial Standards Board  
October 1997**

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November 1997

**TO:** Members of Actuarial Organizations Governed by the Standards of Practice of the Actuarial Standards Board and Other Persons Interested in Documentation in Health Benefit Plan Ratemaking

**FROM:** Actuarial Standards Board (ASB)

**SUBJ:** Actuarial Standard of Practice No. 31

This booklet contains the final version of Actuarial Standard of Practice (ASOP) No. 31, *Documentation in Health Benefit Plan Ratemaking*.

### Purpose of Standard

The purpose of this standard is to provide guidance on documentation in the process of health benefit plan ratemaking. It is not a standard on ratemaking itself, but rather on the *documentation* of the ratemaking process. However, since a discussion of the documentation process requires a discussion of the elements of the ratemaking process, the standard lists many of the actual components of ratemaking.

The standard does not apply to work done in connection with Statement of Financial Accounting Standards (SFAS) 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, unless ASOPs pertaining to SFAS 106 specifically call for application of this standard. A task force is being created to address issues related to SFAS 106.

### Background

The health benefit plan ratemaking process is subject to review from many sources—both within an organization and from external sources. Thus, the actuary should document the process used to develop rates. This documentation needs to be available for both the organization for which the rates are developed and for regulators, if appropriate.

A standard already exists on documentation and disclosure in property/casualty insurance rate-making, loss reserving, and valuation (ASOP No. 9). There are also standards of practice in the areas of profit and contingency provisions and the cost of capital (ASOP No. 30), and expense provisions in property/casualty insurance ratemaking (ASOP No. 29). The Health Committee decided that a single standard encompassing documentation in all three of these areas would be appropriate for health benefit plan ratemaking.

## Exposure Draft

This standard was exposed for review in November 1996, with a comment deadline of March 3, 1997. Fourteen letters of comment were received. All of the comments received were thoroughly reviewed. Many of the comment letters showed thoughtful perception of the issues involved, and many of the suggestions made were incorporated into the final standard.

One of the questions frequently raised in the comment letters was why the standard deals with ratemaking (as defined in the standard) rather than pricing. *Ratemaking* is the estimation of the expected value of future costs, and does not address other considerations that may affect a price, such as marketing goals, competition, and legal restrictions. The reason the committee has developed a standard on ratemaking instead of pricing is that ratemaking is a particularly actuarial function, whereas pricing includes consideration of a variety of factors, some of which may be outside the actuary's scope of authority.

The comment letters also indicated some confusion created by the way terms such as *ratemaking*, *profit provision*, *cost of capital*, etc., were used in the exposure draft. The final standard incorporates modified definitions and clarifies the meaning of these and other terms.

Finally, there were a number of comments relating to requirements arising out of an engagement or out of law. Three sets of standards or requirements have generally been recognized that affect a professional's work: professional standards, standards and requirements arising out of the terms of an engagement (either through an employer or client), and legal requirements. Actuarial standards of practice address professional requirements and do not address directly standards and requirements arising out of an engagement or out of law. However, professional standards may indirectly impact the other two sets of standards and requirements. For example, an employer or client has a right to expect that work be done in accordance with professional standards.

For a detailed discussion of how these general issues noted above were addressed by the Health Committee, and for a discussion of the specific issues raised in the comment letters, please see appendix 2.

The Health Committee thanks those who provided input during the exposure process. The ASB voted in October 1997 to adopt the final standard.

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## ACTUARIAL STANDARD OF PRACTICE NO. 31

### DOCUMENTATION IN HEALTH BENEFIT PLAN RATEMAKING

#### STANDARD OF PRACTICE

##### Section 1. Purpose, Scope, and Effective Date

- 1.1 Purpose—The purpose of this standard is to define the documentation responsibilities of an actuary in health benefit plan ratemaking.
- 1.2 Scope—This standard applies to the documentation of the ratemaking process for health benefit plans. *Health benefit plans* include all contracts providing medical, prescription, dental, vision, disability income, accidental death and dismemberment, long-term care, and similar benefits, whether on a reimbursement, indemnity, or service benefit basis, regardless of the form of the risk-bearing organization, including benefits provided by self-insured plan sponsors.

This standard does not apply to the establishment or documentation of *prices*, i.e., the amounts charged to the purchaser. Rather, it is limited to documentation related to the development of *rates*, i.e., the estimates of the expected value of future costs. This standard does not address other considerations that may affect price, such as marketing goals, competition, and legal restrictions.

This standard does not apply to work performed in connection with Statement of Financial Accounting Standards (SFAS) 106 (*Employers' Accounting for Postretirement Benefits Other Than Pensions*) determinations, unless ASOPs pertaining to SFAS 106 specifically call for application of this standard.

- 1.3 Effective Date—This standard will be effective for work performed after April 1, 1998.

##### Section 2. Definitions

The definitions below are defined for use in this actuarial standard of practice.

- 2.1 Actuarial Work Product—The result of an actuary's work. The term applies to the following actuarial communications, whether written or oral: statements of actuarial opinion, actuarial reports, statements of actuarial review, and required actuarial documents.

- 2.2 Cost of Capital—The rate of return that capital could be expected to earn in an alternative investment of equivalent risk.
- 2.3 Experience Period—The period of time to which the historical data used for an actuarial analysis pertain.
- 2.4 Exposure Unit—A unit by which the cost for a health benefit plan is measured. For example, an exposure unit may be a contract, an individual covered, \$100 of weekly salary, or \$100 of monthly benefit.
- 2.5 Health Benefit Plan—A contract providing medical, prescription, dental, vision, disability income, accidental death and dismemberment, long-term care, and similar benefits, whether on a reimbursement, indemnity, or service benefit basis, regardless of the form of the risk-bearing organization, including a benefit plan provided by self-insured plan sponsors.
- 2.6 Rate—An estimate of the expected value of future costs over the rating period. The process of determining a rate is called *ratemaking*.
- 2.7 Rating Period—The period during which the rates are to apply.
- 2.8 Risk Classification—The process of grouping risks with similar risk characteristics so that differences in expected costs may be appropriately recognized.
- 2.9 Risk Provision—A provision for adverse deviation added to the estimate of other future costs.
- 2.10 Trend—A measure of a rate of change, over time, of the elements affecting costs.
- 2.11 Trending Period—The time between the average date of the experience period and the corresponding projected date in the forecast period.
- 2.12 Trending Procedure—A process by which the actuary evaluates how changes over time affect such items as claim costs, claim frequencies, expenses, and exposures; and integrates the trend assumptions into the ratemaking process.

### Section 3. Analysis of Issues and Recommended Practices

- 3.1 Introduction—In the ratemaking process, the actuary normally determines rates for the rating period by procedures that include using the experience period data (claim costs and other relevant data), taking into account credibility considerations and other relevant experience or information, and using trending procedures. These procedures and considerations should be documented.



The documentation should address the actuary's consideration of and conclusions regarding the issues listed in sections 3.3–3.7 and others that might be pertinent to the particular situation. Any significant actuarial judgments applied throughout the ratemaking process should be documented.

- 3.2 Extent of Documentation—It is the actuary's responsibility to develop documentation in support of the actuarial work product. The extent of the documentation should be appropriate to the circumstances and to the materiality of the rates being determined. Appropriate records, worksheets, and other documentation of the actuary's work should be retained by the actuary for a reasonable period of time. The documentation should describe the relevant data, sources of data, material assumptions, methods, and process by which the rates were developed with sufficient clarity that another actuary practicing in the same field could make an objective evaluation of the reasonableness of the work product. The actuary should explain the reason(s) for and describe the effect of any material changes in sources of data, assumptions, or methods from the last analysis. Details regarding availability of documentation are listed in section 4.1.
- 3.3 Documentation Issues Related to Risk—The actuary should document how the following issues related to risk are addressed in the ratemaking process, to the extent that they are relevant and material:
  - 3.3.1 Reinsurance—The effect of reinsurance arrangements, including assessments for pooling arrangements, such as uninsurable pools or those required under small group and individual health insurance reform legislation.
  - 3.3.2 Operational Changes—Operational changes, such as changes in the underwriting process, claims handling, medical cost management, provider contracting, and marketing practices that affect the continuity of the experience.
  - 3.3.3 External Influences—External influences on the expected future experience, such as the judicial environment, regulatory and legislative changes, guaranty funds, economic variables, and high risk mechanisms, including subsidies of high risk pools and rate deficiencies.
  - 3.3.4 Risk Classification Plan—The effect of the risk classification plan.
  - 3.3.5 Ratemaking Process and Exposure Distribution—The result of the ratemaking process when applied to the distribution of exposure units in effect for the experience period.
  - 3.3.6 Experience Rating Process—The effect of the experience rating process.
  - 3.3.7 Investment Income—The effect of net investment income.
  - 3.3.8 Risk Provision—The process by which the provision for the risk of adverse deviation was determined and how this was reflected in the rates.

- 3.3.9 Cost of Capital—The process by which the cost of capital was determined and how this cost was provided for in the rates.
- 3.4 Documentation Issues Related to Data—The actuary should document how the following issues related to data are addressed in the ratemaking process, to the extent that they are relevant and material:
- 3.4.1 Experience Period—The basis by which the experience period was selected.
- 3.4.2 Experience Data—The relevance of the experience data utilized in the ratemaking process to the particular ratemaking task.
- 3.4.3 Credibility—The process by which the actuary determined the credibility of the experience data.
- 3.4.4 External Data—The source and relevance of any external data used in the ratemaking process.
- 3.5 Documentation Issues Related to the Determination of Experience Period Costs—The actuary should document how the following issues related to the determination of experience period costs are addressed in the ratemaking process, to the extent that they are relevant and material:
- 3.5.1 Exposure Units—The exposure units used and how they were determined.
- 3.5.2 Claim Administration Expenses—The extent to which any claim administration expenses are included in claim costs.
- 3.5.3 Large Claims (Shock Loss Claims)—The effect of large claims, including the effect of the large claims on the experience period data and on the projection of historical data to the rating period, and how the cost of large claims is incorporated in the ratemaking process.
- 3.5.4 Policy and Provider Contract Provisions—The effect of deductibles, coinsurance, copays, coverage limitations, coordination of benefits, subrogation and other third-party liability offsets, and other policy provisions on the experience period data and on the projection of historical data to the rating period. The effect of provider contracting arrangements should also be documented.
- 3.5.5 Mix of Business—Distributional changes in deductibles, coverage limitations, or types of risks that may affect the frequency or severity of claims.
- 3.6 Documentation Issues Related to Expenses—The actuary should document how the following issues related to expenses are addressed in the ratemaking process, to the extent that they are relevant and material:

- 3.6.1 Categorization of Expenses—The way in which the expenses are categorized and used in the ratemaking process. The actuary should document among other matters the provision for each category of expenses, the measurement bases of the expenses used, and the way in which expense provisions reflect the conditions expected during the rating period.
- 3.6.2 Start-Up Costs—The effect of amortization of start-up costs for a new policy or product.
- 3.7 Documentation Issues Related to Trending Procedures—The actuary should document how the following issues related to trending procedures are addressed in the ratemaking process, to the extent that they are relevant and material:
  - 3.7.1 Trend Measurement—The basis by which trend is measured.
  - 3.7.2 Claim Cost Trend Factors—The factors affecting the change of claim costs over time. Unless otherwise accounted for, these factors include, but are not limited to, general price inflation; leveraging; changes in provider contracting; medical cost inflation; changes in medical practice; demographics; changes in policy provisions; and utilization.
  - 3.7.3 Other Trend Factors—The factors affecting the change of other ratemaking parameters over time.
  - 3.7.4 Trend Selection—The basis by which trend is selected, including the selection of the rating period.

#### Section 4. Communications and Disclosures

- 4.1 Availability of Documentation—Documentation should be available to the actuary’s client or employer, and it should be made available to other persons when the client or employer so requests and provided such availability is not otherwise improper.
- 4.2 Deviation from Standard—An actuary must be prepared to justify the use of any procedures that depart materially from those set forth in this standard and must include, in any actuarial communication disclosing the results of the procedures, an appropriate statement with respect to the nature, rationale, and effect of such departures.

## Appendix 1

### Background and Current Practices

*Note:* This appendix is provided for informational purposes, but is not part of the standard of practice.

#### Background

Documentation is an essential component of actuarial practice. In the absence of specific standards of practice, the amount of documentation has varied. As the nature of health actuarial work has become more complex and more open to and available for public review, the need to formalize standards for documentation has increased. This standard of practice states that the methodology and material assumptions utilized in health benefit plan ratemaking should be documented and, in some cases, available for disclosure. This standard addresses the extent to which an actuarial work product should be documented and the persons to whom that documentation should be available.

#### Current Practices

Practices have been governed by the former *Guides and Interpretative Opinions as to Professional Conduct*, and their successor document, the Code of Professional Conduct. Practices have varied according to individual interpretations of the *Guides* and the Code.

## Appendix 2

### Comments on the Exposure Draft and Committee Responses

The proposed standard was exposed for review in November 1996, with a comment deadline of March 3, 1997. Fourteen comment letters were received. The Health Committee of the ASB carefully considered all comments received. Summarized below are the significant issues and questions contained in the comment letters, printed in lightface. The committee's responses to these issues and questions appear in **boldface**.

#### General Observations

Many helpful ideas and comments were offered in the comment letters and are reflected in this standard as appropriate.

A few commentators queried the relation between this standard and ASOP No. 23, *Data Quality*; ASOP No. 25, *Credibility Procedures Applicable to Accident and Health, Group Term Life, and Property/Casualty Coverages*; and other ASOPs. **The committee believes that this standard neither supersedes nor contradicts but rather complements these other standards.**

Three commentators queried whether one standard of practice on documentation embracing all areas of practice would be preferable to separate standards on documentation for each practice area. **The committee continues to believe that the most practical approach is a standard on documentation for each area of practice where the need for such a standard is indicated.**

Some concern was expressed that the standard does not allow the actuary to determine for him- or herself whether documentation is necessary. **The committee believes that the standard does not impede actuarial judgment. For example, the standard requires the actuary to document issues if they are relevant and material.**

One comment was received to the effect that the standard might be misinterpreted to mean that the criteria of adequacy, equity, and reasonableness are no longer criteria that apply to ratemaking (the commentator noted that actuarial and related literature on pricing health benefit plans state that pricing "not [be] inadequate, [should be] reasonable, and not [be] excessive or unfairly discriminatory"). **The ASB believes that the commentator is addressing pricing, which, as noted in section 1.2, is outside the scope of the standard.**

The question was raised whether the terms *relevant* and *material* should be defined, as seen in the phrase, *to the extent that they are relevant and material*, used in sections 3.3, 3.4, 3.5, 3.6, and 3.7. **The committee believes it best not to specifically define these terms in each standard; actuarial judgment should be used as needed in each particular situation.**

Some commentators queried whether or not additional product lines, such as travel accident and hospital indemnity coverages, dread disease coverages, Medicare supplement insurance, etc.,

should be mentioned in section 1.2, Scope. **The committee believes that the wording of section 1.2 is (and should be) broad and that the lines of business mentioned therein are representative rather than all inclusive. Note, however, that the standard does not apply to work performed in connection with SFAS 106, unless ASOPs pertaining to SFAS 106 specifically call for application of this standard.**

Finally, a query was raised as to whether disclosure is covered in the ASOP, as stated in the exposure draft's title. **The committee has changed the standard's title and text to clarify that the standard applies primarily to documentation. The subject of disclosure is addressed in section 4.**

### Transmittal Memorandum Questions

In the transmittal memorandum to the exposure draft of this standard, the committee posed the following two questions:

1. Is it clear from reading the text that the standard only addresses documentation and disclosure, and is *not* a standard on the ratemaking process itself?
2. Is the standard not specific enough about the details that need to be documented, or is it too specific?

Comments on the two questions listed above, and the committee's responses to such, follow.

Transmittal Memorandum Question #1: Two comments were received. Both indicated satisfaction that the text addresses only documentation and not the ratemaking process. **Note, however, that the standard's title and text were modified to clarify that the standard applies primarily to documentation, as stated above.**

Transmittal Memorandum Question #2: Five comments were received. Two indicated that the standard is not too specific, two indicated it is too specific, and one indicated that the standard is too specific in the context of certain applications. **No change was made to the standard in this regard. The committee believes that the concerns raised by those commentators who felt that the standard is too specific are already addressed, since documentation of detailed issues is required only if such issues are "relevant and material."**

### Section 1. Purpose, Scope, and Effective Date

Section 1.2, Scope—Comments were offered requesting more clarity with respect to the terms *prices* and *rates*. **Clarifying wording was added to the section.** A question was also raised as to whether the standard applies to cost determinations with respect to each future year. **The committee believes the standard is sufficiently clear in its scope. The standard applies to documentation of the ratemaking process at the time that the process is performed.**

One commentator noted that the words *rate* and *ratemaking* are used differently than the usage found in the *Glossary of Actuarial Terms*. **Where appropriate, the committee used definitions consistent with those in the *Glossary*. However, the words *rate* and *ratemaking* are used differently in this ASOP, since the *Glossary* definitions did not fit well within this standard.**

## Section 2. Definitions

Section 2.1, Actuarial Work Product—One commentator requested definitions of *actuarial reports* and *statements of actuarial review*. **Since these terms are not used in the ASOP itself, there is no need to define them. These terms are defined in Interpretative Opinion 3, *Professional Communications of Actuaries*, and in the *Glossary of Actuarial Terms*.**

Section 2.2, Cost of Capital—Two commentators offered suggestions to clarify the definition. **The committee shortened the definition and added a new section 3.3.9, Cost of Capital, to reflect the comments.**

Section 2.3, Experience Period—One commentator suggested clarifying the definition to note that the experience period refers to each ratemaking parameter. **The definition was made consistent with the *Glossary of Actuarial Terms*. The commentator’s ratemaking parameter concerns are addressed in section 3.5, Documentation Issues Related to the Determination of Experience Period Costs.**

Section 2.4, Exposure Unit—Two commentators suggested that the exposure units listed should be regarded as examples rather than an all-inclusive list. **The definition was changed to include the phrase *for example*.**

Section 2.6, Profit Provision (now section 2.9 and titled Risk Provision)—Several commentators questioned the use of a “profit provision” to pertain only to the cost of capital and whether the risk of adverse deviation should be promulgated as “profit.” **In response to the comments made, the definition itself was changed to Risk Provision and the references to *cost of capital* and *profit* were removed because they are not necessary to the definition.**

Section 2.7, Rate (now section 2.6)—Several commentators questioned the distinction between *rate* and *price*. One commentator suggested adding the word *all* before *future costs*. **The distinction between *rate* and *price* is addressed with revised wording in section 1.2. The inclusion of the word *all* was not felt to be necessary.**

Section 2.8, Rating Period (now section 2.7)—One commentator raised the question whether the rating period considers renewal periods. **The committee believes that if a renewal period has an effect on the rates during the rating period, such effect should be included in the ratemaking process. No further clarification was made to the definition.**

Section 2.10, Trending Period (now section 2.11)—One commentator found the definition confusing. **The committee modified the definition to make it clearer.**

### Section 3. Analysis of Issues and Recommended Practices

Section 3.1, Introduction—Although no specific comments were received on this section, at least one reviewer noted that there is no mention of claim costs. **The committee modified the first sentence of the section to read,**

***In the ratemaking process, the actuary normally determines rates for the rating period by procedures that include using the experience period data (claim costs and other relevant data), taking into account credibility considerations and other relevant experience or information, and using trending procedures.***

Section 3.2, Extent of Documentation—It was suggested that there be more useful guidance regarding the requirement that the actuary keep certain records of his or her work for *a reasonable period of time*. Another commentator suggested that this entire sentence be removed because there may be circumstances, such as an employment agreement, where the actuary does not have control over the retention of documents. **The committee made no change to the text in response to these comments since the phrase, *a reasonable period of time*, is sufficiently broad to encompass circumstances beyond the actuary’s control (for example, where the time period might be established by the actuary’s employer, by the length of the actuary’s employment, or by the statute of limitations in the actuary’s jurisdiction).**

A question was also raised about this section concerning the meaning of the phrase “. . . documentation of the actuary’s work should be *retained by the actuary for a reasonable period of time*” (emphasis supplied). **What is reasonable depends on the circumstances, including the terms of engagement. What is reasonable in a particular case may well be a subject upon which the actuary would be well advised to seek legal advice. For example, an actuary may enter into employment under an employment agreement which provides that the work product and documentation of work done for the employer shall be left with the employer upon termination of employment. The actuary retains such documentation during employment and, upon termination of employment in accordance with the agreement, leaves the documentation with the employer. This might well be held to meet the “reasonable time” requirement, because the governing contract of employment specifies that such documentation be left with the employer.**

Finally, it was also suggested that an inconsistency exists between section 3.2, Extent of Documentation, and sections 3.3 through 3.7, since these latter sections would allow the actuary to document how the issues related to the items required by sections 3.3–3.7 are addressed without providing documentation as to the actual assumptions, adjustments, amounts, etc., that were used. Therefore, according to this commentator, it would not be possible that “another actuary practicing in the same field could make an objective appraisal of the reasonableness and validity of the work product” as required in section 3.2, Extent of Documentation, since the other actuary would not know the actual assumptions that were used. To address these concerns, the commentator suggested that the wording be changed to state “. . . with sufficient clarity that another actuary practicing in the same field could make an objective appraisal that all ratemaking issues were reasonably considered.” **The committee changed the text in section 3.2 to read as**



**follows: . . . with sufficient clarity that another actuary practicing in the same field could make an objective evaluation of the reasonableness of the work product. The committee believes the phrase “with sufficient clarity” is sufficiently broad to include providing documentation of actual assumptions, if necessary and appropriate, so that another actuary practicing in the same field could make an objective evaluation of the work product.**

Section 3.3.2, Operational Changes—It was suggested that the section be modified to include past and assumed future changes. **The committee made no change to the text since operational changes that affect the continuity of the experience would include past and assumed future changes.**

Section 3.3.4, Risk Classification Plan—One commentator suggested that the discussion of risk classification plans be expanded and questioned whether such plans are a component of “pricing.” **The committee made no change to the text since the potential effect of the risk classification plan is a component to be considered in ratemaking, not just pricing. The committee did, however, expand the discussion of risk classification by adding a definition of such from the *Glossary of Actuarial Terms* (see section 2.8).**

Section 3.3.5, Ratemaking Method and Factors (now titled Ratemaking Process and Exposure Distribution)—It was suggested that this section be modified to refer to any change in the ratemaking method and the reason for making the change. **The committee did not modify the text since section 3.2, Extent of Documentation, states that *the actuary should explain the reason(s) for and describe the effect of any material changes in sources of data, assumptions, or methods from the last analysis.***

Comments were also received that this section is unclear and not understandable in the context of issues related to risk. One reviewer asked, “What are ‘factors’ in effect during the studied past experience period?” Another reviewer asked, “What is the ‘result’ that needs documentation that would not already be included in the ratemaking process documentation?” **The committee changed the title of the section (as noted above) and modified the text to read as follows: *The result of the ratemaking process when applied to the distribution of exposure units in effect for the experience period.***

Section 3.3.6, Experience Rating (now titled Experience Rating Process)—One commentator asked to modify the section to refer to “the effect of experience rating processes on the overall *risk* level” (emphasis added), since section 3.3, Documentation Issues Related to Risk, covers risk-related issues. Alternatively, the commentator suggested rephrasing section 3.3 to cover documentation issues related to risk and costs. **The committee decided to eliminate the phrase *on the overall rate*, since the entire effect of the experience rating process should be documented. The committee changed the title of the section to, Experience Rating Process, for purposes of consistency with terminology used throughout the standard.**

There was also some confusion with respect to how experience rating relates to pricing. One commentator suggested that the word *rate* be replaced with *price*. Another stated that the management of the overall rate level is a company decision and should not be addressed in an

actuarial standard of practice. **The committee agrees that the wording may have created some confusion with respect to how experience rating relates to prices. Since section 1.2, Scope, makes clear that [t]his standard does not apply to the establishment or documentation of prices, and since the use of the word *level* could imply a premium level, the committee changed the text by deleting the word *level*.**

Section 3.3.8, Profit Provision (now section 3.3.9 and titled Cost of Capital)—It was suggested that the word *rates* be replaced with the word *prices*. **Since section 1.2, Scope, makes clear that [t]his standard does not apply to the establishment or documentation of prices, the committee did not change the text. See the second paragraph of section 1.2 for a discussion of *rates* vs. *prices*.**

It was also suggested that the word *determined* be replaced with the word *estimated*. **The committee considered this suggestion but made no change to the text.**

Finally, one commentator suggested that a discrepancy exists among sections 2.2, Cost of Capital; 2.6, Profit Provision (now section 2.9 and titled Risk Provision); and 3.3.8, Profit Provision (now section 3.3.9 and titled Cost of Capital). **The committee has addressed this concern through changes to these three sections and through the addition of section 3.3.8, Risk Provision. The terms *cost of capital* and *risk provision* (the latter of which is defined as a provision for adverse deviation) are defined and specified separately. *Profit* is not defined nor specifically included since there is no consensus on the precise relationship of profit to the risk and cost of capital provisions, though many individuals believe all three items are related.**

Section 3.4, Documentation Issues Related to Data—One commentator questioned how to address a situation where there are no data available and no time to search for data. **The committee refers the commentator to ASOP No. 23, *Data Quality*.**

Section 3.4.2, Selection of Experience Data (now titled Experience Data)—It was suggested that the second sentence is superfluous. **The committee agrees that the second sentence in the exposure draft did not apply to experience data and created a new section 3.4.4, External Data, to define documentation requirements applicable to external data.**

Section 3.5, Documentation Issues Related to the Determination of Experience Period Costs—It was suggested that the wording be changed from referring to *experience period costs* to *experience period morbidity costs* to clearly differentiate this section from section 3.6. **The committee made no change to the text since it does not believe a differentiation is required.**

Section 3.6.1, Categorization of Expenses—It was suggested that the section be modified to include information regarding the *experience period*. **The committee believes that no change to the text is necessary because the items listed are not meant to be exhaustive.**

Section 3.7.3, Claim Cost Trend Factors (now section 3.7.2)—It was suggested that an item be added after this section to address trend factors for non-claim costs. **The committee agrees with this suggestion and added section 3.7.3, Other Trend Factors.**

#### Section 4. Communications and Disclosures

**For reasons indicated under the section, General Observations (see above), the standard has been retitled as, Documentation of Health Benefit Plan Ratemaking. For similar reasons, the title of section 4.1 has been changed to Availability of Documentation. Section 4 still refers to disclosure requirements, as the matter relates to disclosure of deviations from the standard, noted under section 4.2.**

Section 4.1, Availability and Disclosure of Documentation (now titled Availability of Documentation)—A number of comments were received noting that the documentation to be made available may not reflect the needs or circumstances of each user. Also, there was concern that the documentation would have to be customized for each situation. Other comments were received noting that the documentation may not reflect the knowledge of each user. **The committee agrees. The documentation should be developed to meet the requirements of section 3.2. Specifically, the documentation should be appropriate to the circumstances and to the materiality of the rates being determined. Also, the documentation should be sufficient in clarity such that another actuary practicing in the same field could make an objective evaluation of the reasonableness of the work product.**

Questions were also raised concerning how long documentation should be maintained and the ownership of documentation. **The committee agrees this is an important issue. The language used in the standard is similar to the language used in other standards, as well as that used in Interpretative Opinion 3.**

One commentator thought that section 4.1 would require an actuary to turn over documentation to any third party when requested by a client or employer, if not illegal, even if there were some other legitimate reason for not doing so. Another commentator was concerned that the standard would be misused if it requires the actuary to explicitly state actual assumptions in the ratemaking process. Of particular concern was the fact that some of these items would be proprietary in nature. **As stated above, the documentation should be developed to meet the requirements listed in section 3.2. Further, the standard does not require the actuary to disclose documentation to a third party if such disclosure would be improper.**

Section 4.2, Deviation from Standard—Two commentators pointed out that since the standard refers to documentation and not to procedures, this section should not use the word *procedures*. **The ASB has standardized the text of this section, which has appeared in all ASOPs since the standardization. This section is intended to accommodate future advances in actuarial practice as well as unusual circumstances that may not have been anticipated in formulating the ASOP.**

**The committee believes that *procedures* is an inclusive term that incorporates application of all the provisions of the standard. No change was made to this section.**

The Health Committee thanks those who took the time and made the effort to send in comment letters. The input was helpful in developing the standard.