Comment #3– 1/21/19 – 12:13 p.m.

Comments on Proposed Revision of ASOP No. 32

Submitted by Eric Klieber

Section 1.2, first paragraph: I question whether an actuary serving on an actuarial advisory committee or technical panel convened according to statute is providing professional services to an employer or client and, therefore, whether the actuary is providing actuarial services as defined in ASOP No. 1. Such an actuary is certainly not providing services to an employer. The ASOP does not define "client," but there does not appear to be a professional-client relationship in the ordinary sense of the word. Who is the client and what is the nature of the actuary-client relationship?

Section 1.2, item b: The first sentence should be expanded to two sentences as follows: "financing is, in whole or in part, by contributions (for example taxes or premiums) from or on behalf of individual participants according to a formula that may take into account the wages and other income of the individual participants but that does not take into account the risk profile of or the amount of potential future benefits payable to the individual participants. These contributions may be supplemented by government income from other sources." That contributions are not based on the characteristics of the individual participants except for income seems such an essential feature of social insurance programs that leaving this out is untenable. I find it hard to believe CSITARIA left this out, so I'll assume it just got lost in the shuffle. If contributions are based on the characteristics of the individual participants, that is, if the program includes underwriting, it becomes an ordinary insurance program run by the government. Absence of underwriting of individual participants is what makes social insurance social.

Section 1.2, item d: Remove "or premium increases may apply to those who exceed an income threshold." since this is covered by item b as revised above.

Section 1.2, item e: This paragraph can be eliminated since it is covered by item b as revised above. In insurance of all kinds, whether commercial or social, the thing insured, *i.e.*, the benefit, is defined first and the contribution determined so as to support the benefit. Therefore, the fact that benefits and contributions are not directly related is a characteristic of the contributions, not of the benefits.

Section 1.2, paragraph immediately below item g: The second sentence is not consistent with the definition of "participant" in ERISA Section 3(7) in the context of the Pension Benefit Guaranty Corporation (PBGC).

Section 1.2, list of programs to which the ASOP applies: delete PBGC. An earlier paragraph in this section states that a program must have all of seven characteristics to be considered a social insurance program. The PBGC lacks the following two characteristics: (1) Benefits are not prescribed by statute or regulation, but by the provisions of the terminated plans trusteed by PBGC. ERISA prescribes limits on benefits guaranteed by PBGC, not the benefits themselves. IRC Section 415 prescribes limits on the benefits of all defined benefit plans, but this does not mean their benefits are prescribed by statute. (2) It is not funded by contributions paid by or on behalf of participants but by transfers of the trust fund assets of terminated plans trusteed by PBGC and by premiums which are not paid by or on behalf of participants. Employer-paid PBGC premiums benefit employees, in the same manner as employer expenditures for providing a safe work environment, also required by law, benefit employees. However, benefiting employees does not mean the same thing as paying on behalf of employees. Employer contributions to OASDI, Medicare and the Railroad Retirement System are attributed to individual employees; PBGC premiums are not. Maybe PBGC needs its own ASOP. Reluctance to write a separate ASOP for PBGC is no reason to include it here.

Section 1.2, list of programs to which the ASOP does not apply: This list should be eliminated, since it is clear from the definition of social insurance program what programs the ASOP does and does not apply to. It's also okay if this ASOP applies to programs to which other ASOPs apply. It would be awkward if the ASOP specifically excludes an otherwise applicable program which decides to hire an actuary.

Section 2.3: This definition is too vague, since "future" can refer to a wide variety of time periods. Section 3.5 discourages the use of the infinite time horizon. Why not do that here as well? How about, "A period long enough to follow to their conclusion patterns and trends in income and expenses that can be reasonably discerned from available data."

Section 2.7: Replace "tax income" with "contributions" for consistency with Section 1.2.

Section 3.1: I'm not sure what is the distinction between "purpose" in item a and "objectives" in item d. These items could be combined in item a as follows: "The purpose of the assignment, including any specific measurements that must be provided, such as the probability of meeting specified funding targets, the degree to which future benefits are secure, and whether costs and benefits are shared equitably across generations." I would move "The role of the actuary" to a new item b. This section would also be an appropriate place to mention that the actuary should perform the assignment in accordance with any prescriptions of statute or regulation.

Section 3.3: The heading "Financing the Program" is misleading, since financing typically applies to the revenue side, but the section talks about both revenue and expenses. Perhaps a better heading would be "Maintaining Program Solvency." There would then be four mechanisms for maintaining solvency in the event income falls short of expenses: (1) administrative adjustments to income and/or benefits; (2) automatic adjustments to income and/or benefits; (3) transfers from general revenues: or (4) reductions in benefits to match income. The valuation should apply the applicable mechanism should income fall short of expenses at some point in the projection.

Section 3.4.3, item a: I suggest changing "rates of retirement" to "rates of labor force participation."

Section 3.4.3, item c: This item is unnecessary, and the word "excess" is an inappropriate editorial comment.

Section 3.4.3, item e: This item is unnecessary if PBGC is taken off the list of applicable programs.

Section 3.6: Change “of the Program being” to “that the Program will be” (or change “Program” to “Program’s”); the current wording is grammatically incorrect.

Section 3.6.1: The last paragraph is unnecessary if PBGC is taken off the list of applicable programs.

Section 3.7: I suggest changing “expected experience” to “the valuation assumptions.”

Section 3.9, item d: I can only assume this refers to an existing measure in the Medicare Trustees Report, which I am unfamiliar with. It seems rather useless to me, since all the amounts included vary over wide ranges, and income from sources other than social insurance programs is ignored. I can’t see how this measure enables the reader to determine the degree to which participants can and cannot afford health care in the future and what this has to do with sustainability anyway.

Section 3.10: I assume “level of guarantee” refers to the PBGC maximum insurance limit. Even if PBGC remains an applicable program, this information seems useless, since only a tiny fraction of participants receiving benefits from PBGC is affected by the limit. Besides, all you’re really doing is illustrating the rate of increase in the National Average Wage.

Section 4.1, item e: No. 2 is obviated by Section 4.2.