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February 1, 2019

Actuarial Standards Board
1850 M Street, NW, Suite 300
Washington, DC 20036-4601

Re: Proposed ASOP 32 Revision – Social Insurance

Dear Board Members:

Sustainability

I make the following comments:

- Fundamentally political – Social Insurance Programs are fundamentally political, as they are instituted through the political process, and create a tension between recipients and taxpayers. Experience has shown that the political tension should not be underestimated.

- Profession's duty to the public – I have noted elsewhere that the public, broadly, should be considered a or the Principal with respect to publicly funded programs. I reiterate that comment, and note that the profession should not self-censor, in spite of the tremendous political context.

- Adverse consequences of sustainability – The public takes their economics very seriously, as shown by the violent protests generated by seemingly non-essential matters such as college tuition in England, to more essential problems seen in the austerity programs in Greece and Spain, or the political/economic issues in Argentina and Venezuela. Further, the recent protests in France over gasoline taxes (although not a social insurance program) demonstrates the limitations of the funding aspect of sustainability.

- Structural sustainability – The standard excludes programs for government employees and retirees (to which other actuarial and GASB standards apply.) However, there is a combined effect of local, state and federal employee/retiree benefits, along with the Social Security, Medicare and Medicaid, and which is further exacerbated by medical cost trends which outstrip economic growth. This suggests a question of structural sustainability, where the outlook for continued public funding of any <u>one</u> program is contingent on the tax burden imposed by the <u>many</u> programs.

(715) 381-1345 • 719 Crosby Drive, Hudson, WI 54016
www.rosshealthactuarial.com • timross@rosshealthactuarial.com

- Risk of Adverse Deviation – The standard refers to various economic assumptions, and sensitivity testing. With the U.S. national debt on a par with the total economy, and with an average maturity of 6 or 7 years, a rising interest rate scenario would result in a materially increased debt service cost, which would compete with the Social Insurance Programs for tax revenues. Conversely, debt financing (rather than increased taxation) would create other, potentially more unstable scenarios.

- Risk of Social Assessment Spiral – Social programs are not inherently productive, and their tax costs adversely impact economic growth. Social programs also carry the risk of moral hazard, specifically that they may result in dependency on the program. Further, the loss of benefits with rising income (food stamps 20%, housing 20%, and Medicaid as a cliff) creates what is perhaps the highest marginal tax rate; i.e. a disincentive to leave the program. This suggests the risk of a social assessment spiral, where the mix of productive economy and social benefits becomes unsustainable.

- Recipient Response – As noted above, recipient response to program reductions can be extreme, which suggests great emphasis should be placed on assessing sustainability.

- Taxpayer Response – Similar concerns for taxpayer response to rising taxes, as well as creating a disincentive to taking risks for productive activities.

- Tax Avoidance – Social Corruption – Excessive tax costs can promote social corruption. For example, black market cigarettes. More relevant, Medicaid nursing home recipients have a tremendous incentive to transfer assets to the next generation, at the expense of the program. Greater background levels of tax burden, program dependency, or economic weakness, create a greater tendency for the programs and taxes to promote social corruption. In other words, otherwise law-abiding people may be corrupted when faced with difficult economic choices.

- Applicable to Academy Public Statements – The Academy should consider these issues in making any comments about Social Insurance Programs (broadly defined), whether as to the funding status, or the creation or expansion of programs. Implicit in my comment is that program sustainability may be in question over the long term, which could result in ***unpleasant scenarios***. Addressing this issue will typically be outside the scope of most actuarial work products prepared in most cases (at least until it is too late.) Further, to some extent this involves economic modeling, which is beyond the scope of most actuarial work. For this reason, the responsibility would seem to fall upon the Academy.

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- Other standard – The draft notes that perhaps a different ASOP is needed for issues not addressed in the (narrowly) defined scope of ASOP 32. That makes some sense. Many of my comments here are to suggest that an ASOP is needed to address the actuarial communications of the Academy. The academy is frequently asked to comment on political issues. My suggestion is that the academy has an obligation, where indicated by questions of program stability, to "beat the drum," ***incessantly***, when making comments. As noted at the outset of my comments, these issues are fundamentally and unavoidably political, and the profession should not self-censor for fear of political backlash.

Comparison to Climate Change

The intensely political issue of climate change provides a good comparison. Essentially, the argument boils down to the following:

- There is a man-made problem.
- There are experts who can analyze and evaluate the problem.
- Computer models project there will be significant/disastrous adverse consequences in the next 50 to 100 years if the problem is not addressed.
- Delays in addressing the problem will result in greater consequences.
- There is nonetheless some pain involved in addressing the problem immediately.

In the case of Social Insurance, actuaries are the experts, we have our models and projections, and delays in adjusting funding levels or benefit provisions result in greater adjustments being required at later dates. As an actuary, the science of the coming storm in social insurance seems considerably simpler than that of climate change.

To be clear, I am not making any specific pronouncements regarding social insurance. An "up to standard" evaluation is beyond the scope of what I can personally address, and perhaps clearly beyond my expertise and qualification. However, it seems to me there are clear indications of potential future problems. **Addressing these concerns is squarely within the public responsibility of the profession.**

Other

Please note that the Affordable Care Act (ACA) is not just a risk-adjustment program. The premium subsidy feature is a benefit which requires public funding, and raises similar issues of sustainability.

If you have any questions, please contact me at (715) 381-1345.

Respectfully submitted,

Timothy M. Ross, FSA, MAAA