



## **ACTUARIAL STANDARDS BOARD**

---

### **Repeal of Actuarial Standard of Practice No. 16**

### **Actuarial Practice Concerning Health Maintenance Organizations and Other Managed-Care Health Plans**

**Developed by the  
Task Force to Revise ASOP No. 16 of the  
Health Committee of the  
Actuarial Standards Board**

**Repealed by the  
Actuarial Standards Board  
April 2007**

---

**(Doc. No. 104)**

## **TABLE OF CONTENTS**

Transmittal Memorandum	iii
Appendix 1	1
Appendix 2—Comments on the Exposure Draft and Responses	3

April 2007

**TO:** Members of Actuarial Organizations Governed by the Standards of Practice of the Actuarial Standards Board and Other Persons Interested in HMOs and Other Managed-Care Health Plans

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

**SUBJ:** Repeal of Actuarial Standard of Practice (ASOP) No. 16

This document notes the repeal of ASOP No. 16, *Actuarial Practice Concerning Health Maintenance Organizations and Other Managed-Care Health Plans*.

### Background

Managed care health plans (MCHPs) accounted for a small proportion of total health care financing until the 1980s. The actuarial information related to them was much less abundant than for indemnity health plans. In June 1989, the ASB requested that its Health Committee draft a standard of practice concerning such plans and released an exposure draft in October 1989. At the time, the standard was written to supplement the general health insurance standards and to deal with a number of considerations unique to or of greater significance for managed-care health plans.

Given the evolution of HMOs and managed care health plans over the past fifteen years, much of the information in the current standard is dated. Further, the standard gets into more detail and educational background than generally expected in an ASOP. While this type of information and guidance was likely necessary at the time it went into effect, many of the issues included in the standard are commonplace today.

The current scope for ASOP No. 16 applies for actuaries “performing professional services in connection with areas requiring special consideration for HMOs and other MCHPs.” Many of the items generally refer to practice as it relates to determining liabilities and setting rates. In general, it is believed that the guidance provided in the standard is covered, either explicitly or implicitly, in other ASOPs (for example, Nos. 5, 8, 23, 28, 31, and 42). Appendix 1 provides a grid listing pertinent sections from ASOP No. 16 and a cross reference to other ASOPs, NAIC Instructions, or the Code of Professional Conduct, where actuarial guidance exists for the related item, or notes where the item was considered educational and should not be included in the body of any ASOP.

### Exposure Draft

The exposure draft of this repeal document was issued in a blast e-mail in November 2006 with a comment deadline of January 15, 2007 that was subsequently extended to February 1, 2007. Thirteen comment letters were received. Most comments supported the repeal, but several raised issues that were considered by the Task Force to Revise ASOP No. 16, the Health Committee, and the Actuarial Standards Board in finalizing this repeal document. For a summary of the substantive issues and the reviewers' responses, please see appendix 2.

The Actuarial Standards Board wishes to thank all who commented on the repeal.

### Action

The ASB voted in April 2007 to repeal ASOP No.16.

ASOP No. 16 is repealed for any work performed on or after April 26, 2007.

## Appendix 1

*Note:* This appendix is prepared for informational purposes only.

The Task Force to Revise ASOP No. 16 prepared the following grid highlighting sections 2 and 5 of the current ASOP as a cross reference against other ASOPs, NAIC instructions, or the Code of Professional Conduct to reflect where appropriate actuarial guidance already exists for the related item or where the item would have been considered educational material and, therefore, not included in any proposed revision other than possibly an appendix.

Current Section		Reference to Applicable Standards or Other Guidance
Section 2	Definitions	
2.1	Capitation	ASOP No. 5
2.2	Exclusive Provider Organization	Educational – not needed in standard
2.3	Fee-For-Service	Educational – not needed in standard
2.4	Funding Arrangements	Educational – not needed in standard
2.5	Group-Model HMO	Educational – not needed in standard
2.6	Group Practice	Educational – not needed in standard
2.7	Health Care Budget	Educational – not needed in standard
2.8	Health Maintenance Organization	Educational – not needed in standard
2.9	Hold-Harmless Clause	Educational – not needed in standard
2.10	Indemnity Plan	Educational – not needed in standard
2.11	Individual Practice Association (IPA) – Model HMO	Educational – not needed in standard
2.12	Managed-Care Health Plan	Educational – not needed in standard
2.13	Mixed-Model HMO	Educational – not needed in standard
2.14	Non-Indemnity Plan	Educational – not needed in standard
2.15	Point-of-Service Product	Educational – not needed in standard
2.16	Preferred Provider Organization	Educational – not needed in standard
2.17	Prepaid Health Care Plan	Educational – not needed in standard
2.18	Primary Care Physician	Educational – not needed in standard
2.19	Providers	Educational – not needed in standard
2.20	Risk Pool	
2.21	Specialist	Educational – not needed in standard
2.22	Staff-Model HMO	Educational – not needed in standard
2.23	Uncovered Expenditures	NAIC Blank Instructions
2.24	Withhold	Educational – not needed in standard

Section 5	Analysis of Issues and Recommended Practices	ASOP No. 5; ASOP No. 8; ASOP No. 42
5.1	Transfer of Financial Risk to Providers	ASOP No. 5 (3.3.6, 3.5.1 - 3.5.5); ASOP No. 8
5.1.1	Capitation Contracts with Providers	ASOP No. 5 (3.3.6); ASOP No. 42 (3.5.4)
5.1.2	Stop-Loss Provisions	ASOP No. 5; ASOP No. 42 (3.5.3)
5.1.3	Supplemental Payments	ASOP No. 42 (3.5.3, 3.5.5); ASOP No. 5
5.1.4	Financial Condition of Capitated Providers	ASOP No. 42 (Sec 3.2, 3.5); ASOP No. 5
5.1.5	Primary Care Physician Financial Incentives	ASOP No. 42 (Sec 3.5.5); ASOP No. 5
5.1.6	Provider Settlements (General)	ASOP No. 42 (Sec 3.5); ASOP No. 5
5.1.7	Covered Liabilities	Implicit in Code of Professional Conduct, General Disclosures, Reliance Section
5.1.8	Experience Rating	Educational – not needed in standard
5.2	Management of Health Care Delivery System	
5.2.1	Effect on Claims Liability	ASOP No. 5 (3.3.6); ASOP No. 42 (3.2.1 - 3.2.2)
5.2.2	Effect on the Rate Setting Process	ASOP No. 5 (3.2.1-3.2.7); ASOP No. 8 (5.3 - 5.5); ASOP No. 31 (3.7.1 - 3.7.2); ASOP No. 42 (3.2.1 - 3.2.6); ASOP No. 7; ASOP No. 22
5.2.3	Changes in Mix of Providers	ASOP No. 5 (3.3.6); ASOP No. 8 (3.2.4); ASOP No. 42 (3.5.1 - 3.5.5)
5.2.4	Effect on Data Monitoring	ASOP No. 5 (3.6); ASOP No. 23
5.2.5	Basis for Claim Reports	ASOP No. 5 (3.4); ASOP No. 23 (3.4 - 3.5)
5.3	Multiple Delivery Systems and Financial Structuring	
5.3.1	Scope of Services by Contract	ASOP No. 5 (3.2.1, 3.2.6, 3.3.6)
5.3.2	Change in Membership Mix	ASOP No. 5 (3.2.1, 3.2.4, 3.3.6)
5.4	Capitation Paid to a Provider	ASOP No. 8 (3.2.5)
5.5	Health Care Budget	ASOP No. 8 (3.2.2)
5.6	Reliance on Data or Other Information Supplied by Others	ASOP No. 8; ASOP No. 23; Code of Professional Conduct
5.7	Documentation	ASOP No. 8; ASOP No. 31; ASOP No. 41

## Appendix 2

### Comments on the Exposure Draft and Responses

The exposure draft of the repeal of ASOP No. 16, *Actuarial Practice Concerning Health Maintenance Organizations and Other Managed-Care Health Plans*, was issued to the membership by blast e-mail in November 2006 with a comment deadline of January 15, 2007 that was subsequently extended to February 1, 2007. Thirteen comment letters were received, one of which was submitted on behalf of multiple commentators, such as a firm or committee. Seven commentators stated they agreed with the repeal of this ASOP. Four commentators did not make any affirmative statement either for or against the repeal but did not raise any opposition to the repeal. Two of these raised certain process issues and are not included in the responses below, while the other two offered comments and suggestions. Two commentators either opposed or offered an alternative to repealing ASOP No. 16. The ASB, Health Committee, and Task Force to Revise ASOP No. 16 carefully considered all comments received. Summarized below are the significant issues and questions contained in the comments and responses to each.

GENERAL COMMENTS	
Comment	One commentator suggested that ASOP No. 16 be retained with all text being deleted except the references to the ASOPs that are appropriate to HMOs and other managed-care health plans.
Response	This repeal document lists the ASOPs that provide guidance for HMOs and other managed-care health plans. In addition, appendix 1 has been added, which shows sections 2 and 5 of ASOP No. 16, and whether guidance is provided in other ASOPs, by NAIC instructions, or by the Code of Professional Conduct, or the material is considered educational and is not appropriate for inclusion in an ASOP.
Comment	One commentator opposed repeal of ASOP No.16. The commentator expressed concern regarding certain regulatory issues and statutory reserve requirements. The commentator also stated that he/she believes the purpose of an ASOP is to inform/educate actuaries of past and current risks that have been identified and urged the task force to revise ASOP No. 16 rather than repeal.
Response	The reviewers believe that instruction on regulatory and statutory requirements should not be explicitly incorporated in an ASOP. All ASOPs require that the actuary comply with applicable law. Both ASOP No. 5, <i>Incurred Health and Disability Claims</i> , and ASOP No. 42, <i>Determining Health and Disability Liabilities Other Than Liabilities for Incurred Claims</i> , which deal with actuarial liabilities, cover this topic. The reviewers believe that the purpose of ASOPs is to give guidance on appropriate practices, not to educate and inform.

Comment	One commentator expressed concern that statutory minimum reserves for uncovered claims, which are mentioned in ASOP No. 16, are not covered in ASOP No. 42 and thus not identified as a standard of practice.
Response	The reviewers note that the concern expressed by the commentator is implicitly covered in NAIC Blank Instructions. As noted in the previous response, the reviewers believe that instruction on regulatory and statutory requirements should not be explicitly incorporated in an ASOP. All ASOPs require that the actuary comply with applicable law. Both ASOP Nos. 5 and 42, which deal with actuarial liabilities, cover this topic.
Comment	One commentator suggested certain items from ASOP No.16 be incorporated into other ASOPs, namely, handling of risk sharing-capitation, withholds, and stop loss provisions; financial conditions of risk sharing providers; experience rating as it compares to community rating; PCP financial incentives; and effect of data monitoring. The commentator also suggested adding or expanding comments on reliance on clinic data and personnel, highlighting differences between the different types of managed-care health plans, and risk based capital.
Response	The reviewers believe that the other ASOPs noted in the repeal document adequately address the items from ASOP No. 16 as noted above. The reviewers note that appendix 1 has been added, which indicates where these items are covered in other ASOPs or are considered educational material and would not have been included in any revision to ASOP No. 16. The task force also believes the other items that the commentator suggested be added to any revision are considered educational and are not appropriate for inclusion in an ASOP.