ACTUARIAL STANDARDS BOARD

Actuarial Standard of Practice No. 32

Revised Edition

Social Insurance

Developed by the ASOP No. 32 Task Force of the Actuarial Standards Board

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June 2020

TO: Members of Actuarial Organizations Governed by the Standards of Practice of the Actuarial Standards Board and Other Persons Interested in Social Insurance Programs

FROM: Actuarial Standards Board (ASB)

SUBJ: Actuarial Standard of Practice (ASOP) No. 32

This document contains the revision of ASOP No. 32, *Social Insurance.*

History of the Standard

ASOP No. 32 was originally adopted in January 1998 and updated only for deviation language effective May 1, 2011. In 2016, the ASB reviewed ASOP No. 32 and appointed a task force to further review and produce an exposure draft of a revised standard.

The reasons for the review included the following:

1. some government programs covered by the standard, and some not covered by the standard, had evolved significantly since 1998;

2. standards in related practice areas had evolved significantly since 1998; and

3. the financial status of social insurance programs had become the subject of intense public scrutiny.

The task force members include actuaries practicing in each of the listed programs covered by the standard, actuaries with experience in related areas, and a non-actuary with expertise in the field of social insurance.

First Exposure Draft

The first exposure draft was issued in October 2018 with a comment deadline of February 1, 2019. Seven comment letters were received and considered in making changes that were reflected in the second exposure draft.

Second Exposure Draft

The second exposure draft was issued in December 2019 with a comment deadline of February 14, 2020. One comment letter was received and considered.

Notable Changes from the Second Exposure Draft

There were no notable changes from the second exposure draft. However, changes were made to improve readability and clarity.

Notable Changes from the Existing ASOP No. 32 Adopted January 1998

Notable changes from the existing ASOP No. 32 adopted January 1998 include the following:

1. Section 1.2, Scope, was expanded to apply to actuaries when performing actuarial services in connection with an actuarial analysis of a Social Insurance Program when the actuary's principal is not a government agency with responsibility for the valuation of a Social Insurance Program. Such actuaries should follow the guidance to the extent practicable.

2. Section 1.2, Scope, was clarified to cover situations when a program was not specifically included or excluded from the scope.

3. Section 2.9, Social Insurance Program, was modified to include the characteristics of a Social Insurance Program previously included in section 1.2, Scope.

4. Language was added to section 2.9, Social Insurance Program, which states that financing is not based directly and fully on the risk profile of individual participants.

5. Requirements were added to sections 3.5 and section 4.1(e)(4) for situations where only a short-range valuation period is used, to include an explanation for why long-range projections were unreliable or inappropriate.

6. A disclosure requirement was added to section 4.1(d)(4) to indicate whether, in the actuary's professional judgement, the assumptions, other than prescribed assumptions or methods set by law or another party, are reasonable both individually and in combination.

7. A disclosure requirement was added to section 4.1(f)(5) to indicate that the results of actuarial projections performed in the future may differ materially from the results of current projections.

The ASB thanks everyone who took the time to contribute comments and suggestions on the exposure drafts. The ASB voted in June 2020 to adopt this standard.

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The Actuarial Standards Board (ASB) sets standards for appropriate actuarial practice in the United States through the development and promulgation of Actuarial Standards of Practice (ASOPs). These ASOPs describe the procedures an actuary should follow when performing actuarial services and identify what the actuary should disclose when communicating the results of those services.

ACTUARIAL STANDARD OF PRACTICE NO. 32

SOCIAL INSURANCE

STANDARD OF PRACTICE

Section 1. Purpose, Scope, Cross References, and Effective Date

1.1 Purpose—This actuarial standard of practice (ASOP) provides guidance to actuaries when performing actuarial services with respect to **Social Insurance Programs**.

1.2 Scope—This standard applies to actuaries when performing actuarial services in connection with an actuarial analysis of a **Social Insurance Program** when the actuary's principal is a government agency with responsibility for the valuation of a **Social Insurance Program**.

The standard also applies to actuaries with oversight responsibility for the actuarial services for **Social Insurance Programs** when serving as an auditor, reviewer, a member of an actuarial advisory committee, or a member of a technical panel. Such actuaries should follow the guidance to the extent practicable.

This standard applies to actuaries when performing actuarial services in connection with an actuarial analysis of a **Social Insurance Program** when the actuary's principal is not a government agency with responsibility for the valuation of a **Social Insurance Program**. Such actuaries should follow the guidance to the extent practicable.

This standard also applies to actuaries issuing an actuarial opinion related to a **Social Insurance Program** required by law or regulation and embedded in another document.

For **Social Insurance Programs** that provide protection directly to the population, *participant* or *individual* refers to a person. For **Social Insurance Programs** that provide protection through a guaranty or insurance-type arrangement, *participant* or *individual* may also refer to a plan or other entity.

This standard applies, but is not limited to, the following **Social Insurance Programs**:

- the Federal Old-Age and Survivors Insurance (OASI) program and the Federal Disability Insurance (DI) program, together known as the Social Security program;

- the Hospital Insurance (HI) and the Supplementary Medical Insurance (SMI) programs, together known as the Medicare program;
- Pension Benefit Guaranty Corporation (PBGC) programs; and
- the Railroad Retirement account program.

This standard does not apply to the following programs:

- workers' compensation programs;
- programs that primarily provide property/casualty insurance;
- the Railroad Unemployment and Sickness Insurance account programs;
- Medicaid;
- Children's Health Insurance Program;
- Health Insurance Exchanges under the Affordable Care Act;
- Supplemental Security Income Program;
- state-mandated disability income programs; and
- state-sponsored unemployment insurance programs.

This standard does not apply to actuaries performing actuarial services on behalf of private organizations that contract with the Medicare Advantage or Medicare Prescription Drug Programs.

If the actuary deviates from the guidance set forth in this standard in order to comply with applicable law (statutes, regulations, and other legally binding authority), or for any other reason the actuary deems appropriate, the actuary should refer to section 4 for guidance on disclosing such deviation.

1.3 Cross References—When this standard refers to the provisions of other documents, the reference includes the referenced documents as they may be amended or restated in the future, and any successor to them, by whatever name called. If any amended or restated document differs materially from the originally referenced document, the actuary should consider the guidance in this standard to the extent it is applicable and appropriate.

1.4 Effective Date—This standard will be effective for any actuarial services performed on or after September 1, 2021.

Section 2. Definitions

The terms below are defined for use in this actuarial standard of practice and appear in bold throughout the ASOP.

2.1 Actuarial Status—A measure of the relative value of **Program income** and **Program assets** to **Program costs** over a specified period of time.

2.2 Financial Adequacy—A condition in which **Program costs** are projected not to exceed the sum of **Program income** and **Program assets** over a specified period of time.

2.3 Long-Range Period—A period long enough to discern the general pattern and level of future costs. For some **Programs** this means a period long enough to cover the future lifetime of essentially all **Program** participants as of the valuation date.

2.4 Program—A term used interchangeably with **Social Insurance Program**.

2.5 Program Assets—The investments held by the **trust fund** and any cash balance available to meet **Program costs**.

2.6 Program Cost—The **Program's** expenditures for benefits (sometimes referred to as "claim costs") and administrative or general expenses. The amount required to attain and maintain a target **trust fund** level may also be included in **Program cost**.

2.7 Program Income—The **Program's** earmarked tax income, investment income, premiums, general fund revenue, and any other receipts and income.

2.8 Short-Range Period—A period long enough to encompass a complete economic cycle or planning cycle, whichever is appropriate.

2.9 Social Insurance Program—A program with all of the following characteristics:

a. key features, including benefits and financing method, are prescribed by statute or regulation;

b. 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 directly and fully 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. Explicit accountability of benefit payments and income usually is provided in the form of a **trust fund**;

c. participation is universally (or almost universally) compulsory for a defined population, or the contribution is set at such a subsidized level that the vast majority of the eligible population participates;

d. eligible individuals are not required to demonstrate financial need to participate. However, certain program features could vary with individual circumstances. For example, a dependency status may need to be established, benefit reductions may apply to those who continue to work while receiving a benefit, or premium increases may apply to those who exceed an income threshold;

e. benefits for any individual are not directly related to contributions made by or with respect to that individual;

f. the system is administered or at least supervised by the government; and

g. the system is not established by the government solely for its present or former employees.

2.10 Sustainability—The capacity of a **Social Insurance Program** to continuously support the benefits provided by laws applicable to the **Program**, when considering the applicable financing mechanism and the potential future demographic and economic environment in which it will operate.

2.11 Trust Fund—An account to which income is credited and from which expenditures for benefits and often administrative or general expenses are deducted for a specified **Program**.

Section 3. Analysis of Issues and Recommended Practices

3.1 Clarify the Assignment—When taking on an assignment, the actuary should work with the principal to specify in writing the following:

a. the role of the actuary and the purpose of the assignment;

b. significant financing, accounting, or investment policies applicable to the **Social Insurance Program** related to the assignment;

c. significant transition issues, if any, related to potential proposed changes to the **Social Insurance Program**; and

d. objectives, if any, related to a specific funding target, the security of benefits, a principle of equity among generations, or a pattern of contribution rates.

3.2 Coverage and Program Features—The actuary should take into account relevant **Program** features, some of which may be unique to the **Social Insurance Program** or require special treatment as they relate to social insurance risks. In particular, the actuary should consider the ongoing nature of the **Program**, based on current legislation and regulations. If legislation has consistently been enacted to address a particular issue affecting a **Social Insurance Program**, the actuary may assume that this pattern of legislated changes will continue in the future when determining the **actuarial status** of the **Program**. If it is reasonable to assume that certain **Program** features are not viable over time, the actuary may develop alternative scenarios.

3.3 Mechanisms for Setting the Level of Income or Cost—In developing the assumptions and methods, the actuary should take into account the **Program's** current or proposed mechanisms for setting the level of income or cost. The primary mechanisms are as follows:

a. Statutory—The **Program income** or the **Program costs** are specified by law for all future years and are changed only through legislative action;

b. Administrative—The **Program income** or the **Program costs** may be changed periodically through administrative action;

c. Automatic—The **Program income** is adjusted annually as specified by law to maintain **financial adequacy**; and

d. General Fund Revenues—When applicable under statute, the excess of **Program cost** over other dedicated funding sources, such as beneficiary premiums, is provided for by transfers from the general fund revenues.

3.4 Assumptions—The actuary should use assumptions that are reasonable, both individually and in combination, and take into account anticipated future events affecting the related **Social Insurance Program**. The actuary should consider the actual past experience of the **Social Insurance Program** and take into account relevant factors that may create material differences in future experience. In selecting actuarial assumptions, the actuary should be guided, to the extent appropriate, by ASOP No. 6, *Measuring Retiree Group Benefits*

Obligations and Determining Retiree Group Benefits Program Periodic Costs or Actuarially Determined Contributions, ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations,* and ASOP No. 35, *Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations*.

In performing actuarial calculations regarding the **Program cost** or **Program income** of **Social Insurance Programs,** including the impact of proposed changes, the actuary should take into account the factors described below.

3.4.1 Demographic Assumptions—Demographic assumptions relate to the projections of the numbers and characteristics of individuals who are covered or potentially covered by the **Program**, contribute to the **Program**, or receive benefits from the **Program**. The actuary should take into account the rates of entry into and withdrawal from the covered population and the beneficiary population, evaluating whether assumed future rates are reasonable. When the numbers of covered individuals and beneficiaries are projected using current participant data only, the actuary should consider using data from the broader population in order to check for reasonableness.

3.4.2 Economic Assumptions—Economic assumptions relate to the projections of the level of income to the **Program** and the level of benefit payments by the **Program**. When the difference between two or more economic rates has a greater impact on **actuarial status** than the level of such rates, the actuary should take into account the relationship among the rates. The actuary should use assumptions that are reasonable and consistent, as discussed in ASOP No. 27.

3.4.3 Other Factors—In choosing assumptions, the actuary should consider experience related to the actual operation of the **Program,** including the following:

a. the rates of actual retirement, which may differ from the rates of receipt of the retirement benefit;

b. the effects of behavioral changes induced by the availability and level of benefits;

c. cost growth factors for health care compared to gross domestic product (GDP) per capita growth rates;

d. the administrative or general expenses for **Programs** where **Program income** finances the **Program's** administration; and

e. bankruptcy rates of employers for certain **Programs**, including the relationship of such rates to the general economy and the correlation of such rates with assumptions for asset returns and discount rates.

3.4.4 Newly Established or Substantially Changed Social Insurance Programs—Credible experience data might not exist for a newly established **Program** or a substantially changed **Social Insurance Program**. To establish actuarial assumptions in such cases, the actuary may:

a. investigate the risk characteristics of the potential covered population through surveys or other inquiries until credible data are available;

b. consider relevant external experience, such as the experience of other **Social Insurance Programs** (including the **Program** being replaced, if any) or the experience of similar programs in other countries; or

c. use reasonable proxies or default values.

If fully credible experience does not exist to develop assumptions, the actuary should disclose that the analysis has been based on insufficient experience or data not specific to the **Social Insurance Program** under consideration. The actuary should consider recommending that the analysis be performed again when actual information becomes available.

3.5 Valuation Period—The actuary should select a valuation period appropriate to the purpose of the assignment. The actuary should consider selecting, for most **Programs**, both **shortrange** and **long-range periods**.

When selecting the length of a valuation period, the actuary should consider the time horizon and economic environment in which the **Social Insurance Program** operates. For some **Programs**, the nature of the risk insured by the **Program** and significant changes in the participant base insured by the **Program** make long-range projections unreliable or inappropriate. In such instances, the actuary may use only a **short-range period** and disclose that a long-range projection is unreliable or inappropriate.

Valuation periods that extend into the infinite horizon may provide an additional indication of the financial condition of the **Program** but the results are subject to a higher degree of uncertainty. The actuary should follow the disclosure requirements in sections 4.1(e) if required to perform an infinite horizon analysis.

3.6 Actuarial Projections—The actuary should produce year-by-year projections of **Program** operations. In doing so, the actuary should take into account the following:

3.6.1 Actuarial Method—The actuary should select an actuarial method for computing and summarizing estimates of **Program cost** or **Program income** consistent with the financing mechanism. If alternative financing mechanisms are valued, the actuary should select actuarial methods that are flexible enough to permit these valuations and provide consistent comparison of the alternative financing mechanisms.

The actuary should generally use an open-group method for **Programs** financed using a pay-as-you-go or partially-funded financing mechanism. An open-group method is one that reflects all participants, including those currently participating and those who are assumed to become participants in each future year of the valuation. The actuary should generally use a closed-group method for **Programs** financed using a mechanism that is intended to fully fund **Program** benefits over the current participants' working years. A closed-group method is one where only current participants as of the valuation date are included.

The actuary should be guided, to the extent appropriate, by ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*, if the financing mechanism involves income derived from a defined benefit pension plan.

3.6.2 Inclusion of All Material Financial Operations—The actuary should include all material aspects of expected future **Program income** or **Program costs** under current law and regulation (except as noted in section 3.2), within the valuation period.

3.6.3 Summarized Values—Summarized values of the year-by-year estimates may be useful in communicating the **actuarial status** of the **Program**. When applicable, the actuary should choose a summarization method that is consistent with the **Program's** design and structure and its financing and investment structure. Summarized values in most cases are present values of the year-by-year projections.

3.6.4 Experience Analysis—The actuary should consider conducting an experience analysis, including both a comparison of actual and expected experience for the previous year and a comparison of results between the prior and the current valuation. This analysis could include a reconciliation of the financial impact of changes in actuarial assumptions and methods, changes in legislation or policy, **trust fund** investment gains or losses, changes due to the passage of time, and other components that contributed to the difference in results from one valuation to the next.

When evaluating **actuarial status**, the actuary should highlight when there is a risk that the **Program** will be unable to pay benefits when due at any time during the valuation period.

3.7 Sensitivity Testing—The actuary should consider performing an analysis of the sensitivity of **Program cost** or **Program income** under reasonable, alternative assumptions that are different from the valuation assumptions. In deciding whether to perform sensitivity testing, the actuary should consider the following:

a. the intended use of the actuarial communication;

b. the sensitivity of the **Program cost, Program income**, or **actuarial status** to the choice of the assumptions; and

c. whether data used in setting assumptions has limited credibility or applicability.

3.8 Tests of Financial Adequacy—The actuary should consider creating a test for **financial adequacy** of a **Program** that assesses whether the **Program** financing is sufficient. Tests of **financial adequacy** may be based on criteria such as the following: 1) the estimated year of **trust fund** reserve depletion, 2) required **trust fund** levels, 3) positive **trust fund** levels under pessimistic assumptions, or 4) a low probability of **trust fund** reserve depletion under a stochastic model.

When performing a test of **financial adequacy**, the actuary should consider applying such a test to both the **short-range period** and **long-range period**. For certain **Programs**, given the nature of the risk insured by the **Program** and the occurrence or possibility of significant changes over time in the participant base insured by the **Program**, the actuary may test only for the **short-range period**.

For testing **financial adequacy** over a **short-range period**, the actuary should, in valuing **Program assets**, include only those assets that are readily available for the immediate payment of benefits.

3.9 Assessment of Sustainability—The actuary should consider performing an assessment of **sustainability** of a **Social Insurance Program**. In assessing **sustainability**, the actuary may use stochastic analysis or may examine patterns of projected relevant measures. Examples of relevant measures include the following:

a. the ratios of **Program income** or ratios of **Program cost** for each future year of a **long-range period**, to either a measure of economic output, such as the GDP, or to the revenue base of the **Social Insurance Program**;

b. the ratio of **Program assets** at the beginning of a year to the **Program cost** for that year, for each future year of a **long-range period**;

c. the ratio of a **Program's** general fund revenues to total federal income taxes, for each future year of a **long-range period**; and

d. the ratio of an individual beneficiary's projected out-of-pocket medical expenses for a **Program** (including premiums and cost-sharing) to the projected income the individual beneficiary may receive from Social Security or any other **Social Insurance Program**.

The actuary should consider providing commentary to help the intended user understand the assessment of **sustainability**.

3.10 Individual-Level Examples—The actuary should consider providing examples that describe the level of benefits or level of guarantee provided to individuals to provide additional context. The actuary may provide a schedule of benefits or guarantees for representative individuals or ratios of benefits or guarantees to salaries or other relevant revenue bases.

3.11 Reliance on Data or Other Information Supplied by Others—When relying on data or other information supplied by others, the actuary should refer to ASOP No. 23, *Data Quality*, and ASOP No. 41, *Actuarial Communications*, for guidance.

3.12 Documentation—The actuary should consider preparing and retaining documentation to support compliance with the requirements of section 3 and the disclosure requirements of section 4. When preparing documentation, the actuary should do so in a form such that another actuary qualified in the same practice area could assess the reasonableness of the actuary's work or could assume the assignment if necessary. The degree of such documentation should be based on the professional judgment of the actuary and may vary with the complexity and purpose of the actuarial services. In addition, the actuary should refer to ASOP No. 41, section 3.8, for guidance related to the retention of file material other than that which is to be disclosed under section 4.

Section 4. Communications and Disclosures

4.1 Actuarial Communications—When issuing actuarial communications subject to this standard, the actuary should refer to ASOP Nos. 23 and 41. In addition, such actuarial communications should disclose the following, when practical and relevant:

a. clarification of the assignment, as discussed in section 3.1;

b. a description of the **Program** benefits, the population covered, and disclosure of any assumptions regarding the continuation into the future of a consistent pattern of legislated changes to the **Program**, as discussed in section 3.2;

c. a description of the current or proposed mechanisms for setting the level of income or cost for the **Program**, as discussed in section 3.3;

d. a detailed description of the assumptions and the basis for their determination, as discussed in section 3.4. The description should include the following, if applicable:

   1. any relevant factors or historical experience that led to the choice of assumptions;

   2. any assumptions that differ from recent experience because of trends, changes in the environment, or already-enacted future changes in the **Program** or its operation;

   3. any assumptions that were set using input or expertise from outside sources, the sources of such information, and the reasons for reliance on them; and

   4. a statement indicating whether, in the actuary's professional judgment, the assumptions (other than prescribed assumptions or methods set by law and assumptions identified in section 4.2[b]) are reasonable, individually and in combination.

e. a description of the valuation period, as discussed in section 3.5. The actuary should also disclose the following, if applicable:

   1. the lengths of any selected **short-range period** and **long-range period**;

   2. a statement regarding the uncertainty associated with results that extend into the infinite horizon;

   3. a statement regarding any reservations about the length of the valuation period if it is selected by someone other than the actuary; and

   4. a statement indicating that a long-range projection is unreliable or inappropriate if only a short-range projection is performed.

f. a description of the results of the actuarial projections performed, as discussed in section 3.6, including the following:

   1. a statement highlighting when there is risk that the **Program** will be unable to pay benefits when due at any time during the valuation period, noting any significant differences between **Program income** and **Program cost**

toward the end of the valuation period and the expected impact of such differences on the future **actuarial status**;

2. a description of the actuarial method used, including whether an open group or closed group method was used;

3. a description of the summarization method used, if applicable;

4. the results of any experience analysis performed, if applicable; and

5. a statement indicating that the results of actuarial projections performed in the future may differ materially from the results of current projections.

g. a description of the results of any sensitivity testing performed as discussed in section 3.7;

h. a description of the results of any **financial adequacy** testing performed, as discussed in section 3.8, including the criteria used for the **financial adequacy** testing;

i. a description of the results of any **sustainability** assessment performed, as discussed in section 3.9, including the criteria used for the **sustainability** assessment; and

j. if applicable, examples that describe the level of benefits or level of guarantee provided to individuals, as discussed in section 3.10.

4.2 Additional Disclosures—The actuary should also include the following, as applicable, in an actuarial communication:

a. the disclosure in ASOP No. 41, section 4.2, if any material assumption or method was prescribed by applicable law (statutes, regulations, or other legally binding authority);

b. the disclosure in ASOP No. 41, section 4.3, if the actuary states reliance on other sources and thereby disclaims responsibility for any material assumption or method selected by a party other than the actuary; and

c. the disclosure in ASOP No. 41, section 4.4, if, in the actuary's professional judgment, the actuary has otherwise deviated materially from the guidance of this standard.

4.3 Confidential Information—Nothing in this ASOP is intended to require the actuary to disclose confidential information.

Appendix 1

Background and Current Practices

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

Background

Definition of Social Insurance Program for Purposes of ASOP No. 32

The task force surveyed educational materials that define social insurance and was guided by the definition of "social insurance" in the work done by the Committee on Social Insurance Terminology of the American Risk and Insurance Association (CSITARIA) in 1965 and 1966, which was referenced in the 2012 7th edition of *Social Insurance and Economic Security* by George E. Rejda and the 1985 3rd edition of *Social Insurance* by Robert J. Myers. There are a few differences between the CSITARIA definition and the definition in this revised standard:

- The task force added language regarding a trust fund to the item on financing. The CSITARIA definition did not include a trust fund as a defining characteristic of a social insurance program.

- The task force decided to not include a sentence from the CSITARIA definition that states, "There is a definite plan for financing the benefits that is designed to be adequate in terms of long-range considerations." The task force did not find this statement to be true for several Programs covered by the standard, for which tax rates or premiums that are set by statute are not adequate for long-term Program solvency.

- The task force added language that states that financing is not based directly and fully on the risk profile of individual participants.

The following provides information on the reasons why some programs are not covered by the standard:

- Workers' compensation programs—These programs are subject to certain ASOPs for property/casualty work. Requirements for workers' compensation benefits can be satisfied by a variety of insured and self-funded arrangements.

- Railroad Unemployment and Sickness Insurance Account programs—These programs are railroad industry substitutes for state unemployment and workers' compensation programs and, in part, for Medicare. The funding does not allow for a long-term surplus or deficit to these programs since the benefits are short-term in nature.

- State-mandated disability income programs—While actuaries have been providing professional services for these programs, the guidance in ASOP No. 32 is not relevant to perform these services since the benefits are short-term in nature.

- State-sponsored unemployment insurance programs—While actuaries have been providing professional services for these programs, the guidance in ASOP No. 32 is not relevant to perform these services since the benefits are short-term in nature.

In addition to the programs listed above, actuarial services provided on behalf of private organizations that contract with the Medicare Advantage or Medicare Prescription Drug programs are not covered by this standard.

The following list of publicly financed programs and other government-run insurance programs do not meet the definition of social insurance, and therefore this standard does not apply:

- Medicaid—Eligibility depends on need in the form of low income and/or low assets.

- Children's Health Insurance Program (CHIP)—Eligibility depends on need in the form of low income.

- Health Insurance Exchanges under the Affordable Care Act—Eligibility is not compulsory.

- Supplemental Security Income (SSI)—Eligibility depends on need in the form of low income and assets.

- Civil Service Retirement System (CSRS)—This program was established solely for government employees who were hired before 1987.

- The Federal Employees Retirement System (FERS)—This program was established solely for government employees who were hired in 1987 and later.

- Federal Employees' Group Life Insurance (FEGLI) and Service members' Group Life Insurance (SGLI)—These programs are voluntary and established for government employees.

- Veterans' benefits—These benefits are established for former employees of the government, are financed entirely from general revenues, and for some benefits require income below a certain threshold.

- Federal Deposit Insurance Corporation (FDIC) and National Credit Union Administration (NCUA)—These programs may be property and casualty insurance programs.

- Federal crop insurance—This program is a non-compulsory property and casualty insurance program.

- Federal flood insurance—This program is a non-compulsory property and casualty insurance program.

Consideration of Expansion of Scope

The ASB asked that the task force to consider whether the scope of the standard should be expanded to include Medicaid, in particular, but potentially also certain other public assistance programs. The ASB noted that actuarial work is being performed for such programs, and the guidance in this standard might be adapted to cover such work. The task force also considered whether changing the definition of a Social Insurance Program would allow Medicaid to be covered.

A group was convened that included ASB members, task force members, and other actuaries whose work includes Medicaid projects. The group considered the issue of including Medicaid in the standard from various points of view. It explored specific items from ASOP 32 to determine whether the guidance in those items should apply to actuaries whose work includes the Medicaid program. The group found that this guidance was not relevant to Medicaid work, mainly because the Medicaid program has no dedicated assets and the work that Medicaid actuaries do mainly involves estimating program expenses and liabilities.

The task force also explored whether work done by actuaries on Medicaid projects is covered by other ASOPs, including ASOP No. 5, *Incurred Health and Disability Claims*. The task force identified one topic, the trending of incurred claim costs to future periods, which may not be adequately covered by current ASOPs. This topic is more general in nature and would not normally be considered for inclusion in an ASOP that applies to social insurance programs.

The task force considered whether the broader policy community (beyond just actuaries) considers Medicaid to be a social insurance program. One task force member, who is a leader in the policy community, believed that Medicaid is often studied with social insurance programs because of its relationship to Medicare and long-term care, not because it is considered a social insurance program. Some task force members, who believed that Medicaid is not a social insurance program and that ASOP No. 32 should not be expanded to include Medicaid, suggested consideration of the development of a more specialized standard of practice for public assistance programs, which might include programs such as Medicaid, the Children's Health Insurance Program, the Veterans Health Administration, public health insurance exchanges, and SSI.

The task force ultimately reached consensus on proceeding with a first exposure draft without changing the scope materially from the current standard and agreed to solicit and encourage public comments on this issue. As a result of the comments received following the first exposure draft, the ASB expanded the scope to include any program which meets the Section 2.9 definition of Social Insurance Program in the scope of the standard except for a list of specifically excluded programs. The ASB also expanded the scope to include actuarial services for a Social Insurance Program provided to a non-governmental employer to the extent practicable.

Importance of Projecting the Costs of Social Insurance Programs

The task force discussed the following:

- the current actuarial challenges of Programs covered by the standard;
- stakeholders and users of actuarial services for such Programs;
- Program actuaries' current use of ASOP No. 32 and other ASOPs to resolve issues; and
- the main metrics currently used for communicating the status of Programs covered by the standard.

Most of the covered Programs are experiencing financial challenges and facing long-term deficits. The task force noted that while the specific metrics on current and projected financial status may vary from Program to Program, the calculation and communication of such metrics is valuable for stakeholders. The task force believes that the current standard has been a useful tool in providing guidance on calculation of metrics and that it is important to update it.

Current Practices

Tests of Financial Adequacy

Several well-established formal methods are currently being used to test the financial adequacy of Social Insurance Programs, as well as measures developed to assess the actuarial status and sustainability of these Programs over different time periods.

The frequency with which Programs assess their financial status varies. Some (OASDI, Medicare, and PBGC, for instance) evaluate their financial position each year, while others, such as the Railroad Retirement Board, may perform a valuation every third year.

The projection period used by the different Programs also varies. While OASDI and Medicare use a projection period of 75 years, PBGC considers a projection period of 10 to 20 years to be appropriate.

The major Social Insurance Programs (OASDI, Medicare HI, and PBGC) project the future year in which that Program's asset reserves are expected to become depleted under various scenarios.

Various other metrics are also used by the different Programs to measure and communicate the current and projected financial status. For example, OASDI and Medicare HI determine the current and projected trust fund ratios (beginning of year asset reserves divided by costs payable during the year) while PBGC projects the net financial position (assets less liabilities). The Railroad Retirement Board employs a metric called the Accounts Benefit Ratio (assets at the end of a year divided by benefits and expenses during the year).

In cases where a longer-term projection is not reasonable, an assessment of Program operations over the next one to five years is often performed.

Caveats

This standard does not address every circumstance that could arise because of variations in benefits, financing mechanisms, the number of Program participants, investment media and policies, measures of actuarial status, specialized actuarial assumptions relevant to the Program, dramatic changes in the participant base insured by the Program, or other relevant factors.

For Programs such as OASI and DI, benefit amounts and the incidence of claims are reasonably predictable and variances from expected values usually emerge gradually. Under PBGC's Programs, on the other hand, benefit amounts can vary widely, the incidence of claims can be highly unpredictable, and the experience of a relatively small number of pension plans can dramatically affect future projections. A sustained trend towards a smaller participant base in the PBGC's pension insurance programs may also affect actuarial results in unanticipated ways.

Appendix 2

Comment on the Second Exposure Draft and Response

The second exposure draft of the proposed revision of ASOP No. 32, *Social Insurance*, was issued in December 2019 with a comment deadline of February 14, 2020. One comment letter was received. For purposes of this appendix, the term "commentator" may refer to more than one person associated with a particular comment letter. The ASOP No. 32 Task Force and the ASB carefully considered the comment received.

Summarized below is the significant issue contained in the comment letter and the response. Minor wording or punctuation changes that are suggested but not significant are not reflected in the appendix, although they may have been adopted.

The term "reviewers" in appendix 2 includes the ASOP No. 32 Task Force and the ASB. Unless otherwise noted, the section number and title used in appendix 2 refer to those in the second exposure draft.

SECTION 4. COMMUNICATIONS AND DISCLOSURES	
Section 4.1, Actuarial Communications	
Comment	One commentator suggested that section 4.1(f)(1) should require an additional disclosure which would require a qualitative or quantitative description of the expected future pattern of changes in the current actuarial status resulting solely from the passage of time.
Response	The reviewers note that the guidance in section 4.1(f) provides for a description of the results of the actuarial projections performed during the valuation period. The reviewers also note that section 4.1(f)(1) requires the disclosure of any significant differences between Program income and Program cost toward the end of the valuation period and the expected impact of such differences on the future actuarial status. Therefore, the reviewers made no change to the disclosure requirement in section 4.1(f)(1) in response to this comment.