

Title of Exposure Draft: ASOP 28, Statements of Actuarial Opinion Regarding Health Insurance Assets and Liabilities

Comment Deadline: November 13, 2020

Instructions: Please review the exposure draft, and give the ASB the benefit or your recommendations by completing this comment template. Please fill out the tables within the section below, adding rows as necessary. Sample for completing the template provided at the following link: <http://www.actuarialstandardsboard.org/email/2020/ASB-Comment-Template-Sample.docx>

Each completed comment template received by the comment deadline will receive consideration by the drafting committee and the ASB. The ASB accepts comments by email. Please send to comments@actuary.org and include the phrase ‘ASB COMMENTS’ in the subject line. Please note: Any email not containing this exact phrase in the subject line will be deleted by our system’s spam filter.

The ASB posts all signed comments received to its website to encourage transparency and dialogue. Comments received after the deadline may not be considered. Anonymous comments will not be considered by the ASB nor posted to the website. Comments will be posted in the order that they are received. The ASB disclaims any responsibility for the content of the comments, which are solely the responsibility of those who submit them.

I. Identification:

Name of Commentator / Company
James R. Braue, ASA, MAAA / on my own behalf

II. ASB Questions (If Any). Responses to any transmittal memorandum questions should be entered below.

Question No.	Commentator Response

III. Specific Recommendations:

Section # (e.g. 3.2.a)	Commentator Recommendation (Please provide recommended wording for any suggested changes)	Commentator Rationale (Support for the recommendation)
3.3.d	The second sentence should not use the term “best estimate.” Instead, it should read something like: For example, if they are determined without conservatism or if there is an implicit level of conservatism included in the estimate; and ...	The NAIC’s <i>Accounting Practices and Procedures Manual</i> , Statement of Statutory Accounting Principles No. 55, “Unpaid Claims, Losses and Loss Adjustment Expenses,” requires that “management shall record its <u>best estimate</u> of its liabilities for unpaid claims, losses and loss/claim adjustment expenses.” [Emphasis added.] However, that “best estimate” has to comply with the statutory principle of conservatism, and in fact has to meet the “good and sufficient” standard of the Statement of Actuarial Opinion. Therefore, it is confusing, particularly in this context, to use the term “best estimate” to mean “estimate containing no conservatism.”
3.3.e	This item should begin, “whether there is a provision ...”	The disclosure is actually of <u>whether</u> there is such a provision. Cf. Section 3.3.c.
3.5	This section should also address materiality in terms of the conservatism in the assets and liabilities, whether implicit or explicit (the “provision for adverse deviation”). Language similar to what is stated in the rationale at right could be used.	In order to meet the “good and sufficient” standard of the NAIC’s prescribed Statement of Actuarial Opinion (and similar standards in other contexts), the assets and liabilities must incorporate a certain degree of conservatism or “margin,” whether

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		implicit, explicit, or both. Therefore, the importance of a particular balance sheet item, and especially the potential misstatement of such an item, must be considered in terms of whether it is large enough to impair the required conservatism. For example, accountants may have decided not to include a late change in estimate in the published financials, because it was not material according to accounting standards; but the failure to record that change might significantly reduce the margin, and therefore result in an adverse opinion.
3.6	The last sentence of the sixth paragraph of this section refers to a "best estimate basis." Instead, the sentence should end, "... are developed without conservatism."	See the rationale provided for my comment on Section 3.3.d.
4.1	The paragraph immediately following items a. through q. requires that the statement of actuarial opinion, if separate from the actuarial memorandum, must include disclosures a., b., e., and o. It seems that the last of those references should be to disclosure p., not disclosure o.	Disclosure o. regards the results of follow-up studies, which represent supporting data more appropriate to the actuarial memorandum than to the statement of actuarial opinion. Disclosure p. regards the rationale for the opinion, including any limitations, reservations, qualifications, or the justification for an adverse opinion. This disclosure is clearly important to the statement of opinion itself, and should not be relegated solely to a separate memorandum (although the topic should be addressed there as well).

IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)

V. Signature:

Commentator Signature	Date
	November 11, 2020