

**ASOP No. 3—Doc. No. 202**

**Appendix 2**

**Comments on the Exposure Draft and Responses**

The exposure draft of the proposed revision of ASOP No. 3, *Continuing Care Retirement Communities and At Home Programs*, was issued in November 2020 with a comment deadline of February 1, 2021. Five comment letters were received, some of which were submitted on behalf of multiple commentators, such as by firms or committees. For purposes of this appendix, the term “commentator” may refer to more than one person associated with a particular comment letter. The ASOP No. 3 Task Force carefully considered all comments received, and the ASB reviewed (and modified, where appropriate) the changes proposed by the ASOP No. 3 Task Force and the ASB Health Committee.

Summarized below are the significant issues and questions contained in the comment letters and the responses. Minor wording or punctuation changes that were 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. 3 Task Force, the ASB Health Committee, and the ASB. Also, the section numbers and titles used in appendix 2 refer to those in the exposure draft, which are then cross referenced with those in the final ASOP.

<b>GENERAL COMMENT</b>	
Comment	One commentator felt itemized paragraph 1 on page vi, announcing the applicability of the ASOP to “At Home Programs that are not regulated as an insurance entity” raises numerous questions among them including: 1) why aren’t [At Home Programs] regulated as long term care insurance? and 2) Is it wise for the Academy to participate in encouraging long term care insurance programs by unlicensed entities?
Response	The reviewers believe ASOP No. 3 is intended to provide guidance to actuaries within the context of the existing regulatory environment.
Comment	One commentator felt that Continuing Care Retirement Communities (CCRCs) residents should have been represented on the ASOP No. 3 task force. The commentator also felt actuarial studies should be prepared for an audience that includes state regulators and residents. Lastly, the commentator also felt that actuarial studies should meet the needs of residents.
Response	The reviewers note the purpose of ASOPs is to provide guidance to actuaries practicing in this area and not to advocate for the interest of a particular stakeholder. The ASOP No. 3 task force is composed of actuaries with experience in the field. Any interested party, including non-actuaries, has an opportunity to offer comments through the exposure process prior to finalization of a standard.

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Comment	One commentator felt the drafters missed the strategic opportunity to educate stakeholders on the difference between GAAP requirements and ASOPs.
Response	The reviewers disagree and believe the guidance regarding CCRCs is appropriate. The reviewers note the education of stakeholders is beyond the scope of this ASOP. The reviewers also note that ASOP No. 1, <i>Introductory Actuarial Standard of Practice</i> , provides guidance for situations where regulatory guidance conflicts with ASOPs. Therefore, the reviewers made no change in response to this comment.
Comment	One commentator felt the exposure draft fell short of providing additional definitions and guidance for the differences between At Home Programs and Continuing Care Retirement Communities.
Response	The reviewers believe CCRCs and At Home Programs are currently regulated in a similar manner state-by-state and, therefore, believe both are appropriately addressed in the revision of ASOP No. 3. Therefore, the reviewers made no change in response to this comment.
<b>SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE</b>	
<b>Section 1.1, Purpose</b>	
Comment	One commentator felt that the limitation to “At Home Programs that are not regulated as insurance entities” is repeated in sections 1.1 and 1.2, and felt one would infer that [At Home Programs] offered by licensed insurers are subject to different standards though it’s hard to understand why the actuarial characteristics would be differentiated.
Response	The reviewers believe that this language is necessary to distinguish At Home Programs from long-term care insurance, which would be covered under ASOP No. 18, <i>Long-Term Care Insurance</i> , and made no change.
<b>Section 1.2, Scope</b>	
Comment	One commentator stated examples of services covered in the existing ASOP were removed but should have been retained.
Response	The reviewers agree and modified the language.
<b>SECTION 2. DEFINITIONS</b>	
<b>Section 2.4, Advance Fee</b>	
Comment	One commentator felt the definition in section 2.4 departs from the terms that are commonly used for single-premium-life-annuity-type prepayments of fees that would otherwise be paid on a recurrent basis over the insured’s (“resident” or “member” in the terminology of the ASOP) lifetime.
Response	The reviewers disagree and made no change in response to this comment.
<b>Section 2.11, Health Center (now section 2.12)</b>	
Comment	One commentator felt that the definition of “non-resident” (a term used in section 2.11) was confusing. Furthermore, the commentator felt clarity was needed regarding the difference between “residents” and “non-residents.”
Response	The reviewers agree and modified the terms “resident” to “contractual resident” and “non-resident” to “non-contractual resident.”
<b>Section 2.24, Residency Agreement (now section 2.26)</b>	
Comment	One commentator felt the sentence in section 2.24 reading, “The contract is usually of long duration and may be for the life of each resident,” is at odds with the AICPA Guidance that CCRC contracts are month-to-month because the resident may cease paying.
Response	The reviewers disagree and do not believe AICPA Guidance is relevant to this definition, and made no change in response to this comment.

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<b>SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES</b>	
Comment	One commentator felt specific guidance should be included in section 3 to assist actuaries in understanding the interaction between ASOP No. 3 and ASOP No. 56, <i>Modeling</i> .
Response	The reviewers note that the <i>Code of Professional Conduct</i> (Code) directs the actuary to consider all applicable ASOPs.
<b>Section 3.2, Determination of Satisfactory Actuarial Balance</b>	
Comment	One commentator felt the second to the last paragraph in section 3.2 that reads, “In the event the CCRC or At Home Program fails to meet any of three conditions as specified above, the actuary should consult with the organization to address possible corrective actions to achieve satisfactory actuarial balance,” raises the question of what the responsibility of the actuary is if the “organization” refuses to follow the advice.
Response	The reviewers believe this question is outside the scope of ASOP No. 3. Therefore, the reviewers made no change.
<b>Section 3.3.2, Assets</b>	
Comment	One commentator stated that additional disclosures are needed in section 3.3.2 regarding actuarial present value.
Response	The reviewers disagree and believe this topic is adequately addressed in section 3.6 and 4.1(e). Therefore, the reviewers made no change.
<b>Section 3.4, Cohort Pricing Analysis</b>	
Comment	One commentator suggested that the ASOP should provide an example of the methodology regarding temporary transfers among levels of care.
Response	The reviewers noted that the concept of temporary transfers is discussed in sections 2.27 and 3.7.1. The reviewers also note ASOPs are principles based and are not educational in nature, and made no change in response to this comment.
<b>Section 3.5, Cash Flow Projections</b>	
Comment	Two commentators suggested the cross reference to ASOP No. 7, <i>Analysis of Life, Health, or Property/Casualty Insurer Cash Flows</i> , is not appropriate.
Response	The reviewers agree and removed the cross reference.
<b>Section 3.6.4, Future Use of Physical Property</b>	
Comment	One commentator noted that in developing the present value of physical property and operating expenses both involve allocation of expenses to level of care.
Response	The committee agreed and modified section 3.6.4 to reflect the allocation of physical property expenses to level of care.
<b>Section 3.6.6, Future Refunds Due to Refund Guarantees</b>	
Comment	One commentator suggested changing “refund guarantee” terminology due to the uncertain nature of the contractual provision.
Response	The reviewers disagree and made no change in response to this comment.

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<b>Section 3.7, Selection of Actuarial Assumptions</b>	
Comment	One commentator felt there should be a requirement that the combined effect of the assumptions is expected to have no significant bias except for margins for uncertainty.
Response	The reviewers agree and modified the language in section 3.7.6.
<b>Section 3.7.1, Mortality, Morbidity, and Withdrawal Assumptions (now Actuarial Assumptions)</b>	
Comment	One commentator suggested that documentation should be provided regarding the development of reasonable assumptions as discussed in section 3.7.1 and 3.7.6.
Response	The reviewers disagree and made no change in response to this comment.
Comment	One commentator felt that that it should be explicitly stated that the actuary should consider future mortality improvement.
Response	The reviewers agree and modified the language in response to this comment.
<b>Section 3.7.2, Trend Assumptions for Fees and Expenses</b>	
Comment	One commentator expressed the need to document and communicate the development of revenue and expense assumptions, as identified in section 3.7.2.
Response	The reviewers note that the standard addresses this issue in sections 3.7.2 and 4.1(h), and made no change.
<b>Section 3.7.5, Going-Concern Assumption</b>	
Comment	One commentator suggested the ASOP require an actuary to perform a capital adequacy analysis and develop actuarial reserves.
Response	The reviewers disagree and made no change.
<b>Section 3.7.6, Reasonableness of Assumptions</b>	
Comment	One commentator suggested that section 3.7.6 should indicate that there should be consistency among the assumptions.
Response	The reviewers agree and modified the language in response to this comment.
<b>Section 3.8, Benevolence Funds and Financial Assistance Subsidies</b>	
Comment	One commentator suggested addressing the situation where the benevolence funds are being used for something other than residential financial assistance.
Response	The reviewers believe that section 3.8 appropriately addresses this situation and note that it states “the actuary should determine the benevolence funds or financial assistance subsidies available as well as the potential future liabilities for contractual residents or members who do not pay the contractual fees.” Therefore, the reviewers made no change in response to this comment.
<b>Section 3.10, Equity or Cooperative CCRCs or At Home Programs</b>	
Comment	One commentator believes the ownership structure of the organization is not material to the actuarial valuation.
Response	The reviewers disagree and made no change in response to this comment.
<b>Section 3.11, Additional Considerations Affecting CCRC or At Home Program Finances</b>	
Comment	One commentator suggested adding more objective guidance to the actuary when analyzing residency contracts and membership agreements.
Response	The reviewers disagree and made no change in response to this comment. The reviewers note that section 3.11 provides an objective list of contractual items for the actuary to consider.
<b>Section 3.14, Documentation</b>	
Comment	One commentator suggested more specific guidance regarding documentation of assumptions and methodology, as well as retention of documentation.
Response	The reviewers disagree and note the language is consistent with standard language found in current ASOPs. Therefore, the reviewers made no change.

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<b>SECTION 4. COMMUNICATIONS AND DISCLOSURES</b>	
<b>Section 4.1, Required Disclosures in an Actuarial Report</b>	
Comment	One commentator suggested more specific guidance regarding disclosure of demographic assumptions.
Response	The reviewers agree and modified section 4.1(g) to reflect this comment.
Comment	One commentator suggested that there should be a requirement to show sufficient detail to permit another qualified actuary to assess the level and pattern of each assumption.
Response	The reviewers note that ASOP No. 41, <i>Actuarial Communications</i> , contains these requirements and applies to all actuarial reports issued. Therefore, the reviewers made no change in response to this comment.
<b>Section 4.2, Assignments Involving an Opinion on Satisfactory Actuarial Balance</b>	
Comment	One commentator suggested that the actuary may not know management's plan to address deficiencies for each unmet condition. Therefore, the actuary would be unable to disclose such information.
Response	The reviewers agree and modified section 4.2.