

## Appendix 2

### Comments on the First Exposure Draft and Responses

The first exposure draft of this revision of ASOP No. 6, *Measuring Retiree Group Benefits Obligations and Determining Retiree Group Benefits Plan Costs or Contributions*, was issued in April 2012 with a comment deadline of July 15, 2012. Eighteen 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 Retiree Group Benefits Subcommittee carefully considered all comments received and the subcommittee, Pension Committee, and ASB reviewed (and modified, where appropriate) the proposed changes.

In addition, comments were received on the first exposure draft of the revision of ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*. In areas where parallel language is included in ASOP Nos. 4 and 6, changes made to ASOP No. 4 in response to those comments were reflected in this second exposure draft.

Summarized below are the significant issues and questions contained in the comment letters and the responses.

The term “reviewers” in appendix 2 includes the subcommittee, the Pension Committee, and the ASB. Also, unless otherwise noted, the section numbers and titles used in appendix 2 refer to those in the first exposure draft.

GENERAL COMMENTS	
Comment	In the transmittal letter of the first exposure draft, commentators were asked whether the distinction among retiree group benefits plan, benefit plan and benefit options was helpful and whether it could be further clarified. Some commentators expressed the opinion that it was helpful while others that it was not. One commentator thought it was helpful but could be further clarified by using the phrase retiree group benefits program instead of the phrase retiree group benefits plan.
Response	The reviewers considered the different viewpoints expressed and concluded that making the distinction was helpful. They also agree with the suggestion to replace the phrase retiree group benefits plan with the phrase retiree group benefits program. The title of the proposed revision to the standard was changed to be consistent.
Comment	A few commentators opined that retiree group benefit actuaries serve clients and not the public at large. In this view: <ul style="list-style-type: none"><li>• Actuaries serve clients and prepare work for the client’s benefit and at the client’s behest;</li><li>• No party other than the client should expect to benefit or draw any inference from the actuary’s work;</li><li>• Other entities in society provide regulations that serve the public interest;</li><li>• As a result of the prior bullets, the standards should not require any work or disclosure that is intended to benefit interested parties in the public at large.</li></ul>

Response	The reviewers considered this viewpoint but concluded the current paradigm for self-governance established by the <i>Code of Professional Conduct</i> requires the ASOPs to reflect the profession's responsibility to the public and made no change.
<b>SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE</b>	
<b>Section 1.1, Purpose</b>	
Comment	One commentator said that the expansion of this section from the current standard was too broad and would be confusing to the user. The commentator noted that the changes appeared to have been made to make the standard parallel to the first exposure draft of ASOP No. 4, <i>Measuring Pension Obligations and Determining Pension Plan Costs or Contributions</i> , but was not appropriate in this situation.
Response	The reviewers believe that the expansion is appropriate given the many different types of professional services performed in connection with retiree group benefit programs and that this is an area where having parallel language to the exposure draft of ASOP No. 4 is appropriate. The reviewers made no change.
Comment	One commentator noted that the last sentences of this section of the exposure drafts of ASOPs No. 4 and 6 were different in that the first exposure draft of ASOP No. 4 referred to "plan" while the exposure draft of ASOP No. 6 referred to "a retiree group benefits plan." The commentator raised the concern that some users might misinterpret ASOP No. 4 as also covering "retiree group benefits plans."
Response	The reviewers note that a change was made in the second exposure draft of ASOP No. 4 to refer to "pension plan." In addition, as noted in the General Comments above, the phrase "retiree group benefits plan" was replaced by the phrase "retiree group benefits program" throughout the standard to add clarity.
<b>Section 1.2, Scope</b>	
Comment	One commentator said that the statement "health and death benefits...are the most common forms..." was inaccurate as dental and vision benefits are much more prevalent than death benefits.
Response	The reviewers note that health benefits would include dental and vision benefits and made no change.
Comment	One commentator disagreed with the use of language parallel to ASOP No. 4 in this section, stating that it gave "less significant aspects of RGB valuations...more prominence than is warranted."
Response	The reviewers considered this comment but decided to leave this section as is, noting that although in certain practice areas some of the identified types of calculations were not as prevalent, in other practice areas they were.
Comment	One commentator noted that section 1.2(d) included additional language that was not included in ASOP No. 4 and that this language created some confusion as to whether determining one-year retiree contributions are within the scope of the ASOP.
Response	The reviewers agree that the additional language might create confusion, and deleted the additional language.
<b>Section 1.4, Effective Date</b>	
Comment	One commentator expressed the opinion that using roll-forward techniques would not be appropriate for measurements performed in actuarial work covered by this standard.
Response	The reviewers considered this comment, noted that using roll-forward techniques was a common and appropriate practice in this area, and did not change the language.

<b>SECTION 2. DEFINITIONS</b>	
Comment	Several commentators expressed concerns about the number of defined terms. They also suggested that when defined terms are used in the rest of the standard, the defined terms be identified in some way.
Response	The reviewers considered these comments and made some changes in the defined terms but concluded that defining these terms would be helpful to the user. They agreed with the suggestion that defined terms be identified in the rest of the standard and used bolding to do so.
Comment	One commentator suggested that defined terms be presented in an order that reflects how the terms are related rather than in alphabetical order.
Response	The reviewers considered this suggestion but concluded that for later references to the defined terms alphabetical order would be more helpful and did not change the order.
<b>Section 2.12, Contribution</b>	
Comment	One commentator suggested that the defined term “contribution” be replaced by “funding contribution” or “sponsor funding contribution” to avoid confusion with contributions made by participants.
Response	The reviewers considered this suggestion and agree that there might be confusion. The defined term “contribution” was replaced by “prefunded contribution” to reduce the possibility of confusion.
<b>Section 2.13, Contribution Allocation Procedure</b>	
Comment	One commentator suggested a change to the definition of “contribution allocation procedure” to use the defined term “participant contribution” instead of “participant’s share of the annual claims cost.”
Response	The reviewers agree with this suggestion and made the change.
<b>Section 2.17, Covered Population</b>	
Comment	One commentator suggested changes to the definition.
Response	The reviewers believe that the definition as written is clear and appropriate, and made no change.
<b>Section 2.18, Dedicated Assets</b>	
Comment	One commentator suggested changes to the definition.
Response	The reviewers believe that the definition as written is clear and appropriate, and made no change.
<b>Section 2.20, Fully Funded and Section 2.21, Funded Status</b>	
Comment	One commentator indicated that these definitions were not needed and were not relevant to retiree group benefits valuations.
Response	The reviewers agree that “fully funded” is not needed and deleted it. The reviewers disagree that “funded status” would not be applicable to retiree group benefits valuations in all circumstances but simplified the definition.
<b>Section 2.23, Measurement Date</b>	
Comment	One commentator suggested removing the parenthetical reference to “valuation date.”
Response	The reviewers feel that the parenthetical reference adds clarity and did not delete the parenthetical reference.

<b>Section 2.24, Measurement Period</b>	
Comment	One commentator suggested modifications to the definition to add the word “expected.”
Response	The reviewers agree and made the change.
<b>Section 2.25, Medicare Integration</b>	
Comment	One commentator suggested that “Medicare supplement plans” could be discussed in this definition.
Response	The reviewers disagree, noting that although these plans supplement Medicare, they are not relevant for how the term “Medicare integration” is used in the standard, and did not make any change.
<b>Section 2.31, Premium</b>	
Comment	One commentator suggested that the inclusion of risk-bearing in the definition was contradicted by language in the appendix and suggested that some clarification be added throughout the standard on the usage of “cost,” “premium,” and “rate.”
Response	The reviewers believe that the definition is appropriate and that the language in the appendix is clear for the user of the standard. The reviewers did make changes throughout the standard on the usage of the words “cost,” “premium,” and “rate” to improve clarity.
<b>Section 2.39, Trend</b>	
Comment	One commentator felt that the definition of “trend” was not fully consistent with sections 3.7.1(b) and 3.12.1(a).
Response	The reviewers disagree and made no change.
<b>SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES</b>	
Comment	One commentator felt that the section should be reordered and that the length of the section should be shortened, noting that it was longer than the corresponding section of the exposure draft for ASOP No. 4.
Response	The reviewers made some edits to the ordering of the section and note that one of the reasons why ASOP No. 6 is longer than ASOP No. 4 is that ASOP No. 6 also provides guidance on needed assumptions that is not provided in ASOP Nos. 27 and 35.
<b>Section 3.1, Overview</b>	
Comment	One commentator thought that it was unclear whether ASOP No. 4 applied to retiree group benefits valuations.
Response	The reviewers note that the title of ASOP No. 4 refers only to “pension plans” not “retiree group benefits programs,” and made no change.
Comment	One commentator suggested adding additional text to clarify the level of the involvement of the actuary in the method/assumption selection process.
Response	The reviewers believe that the current guidance is sufficiently clear and made no change.
<b>Section 3.2, General Procedures</b>	
Comment	One commentator expressed the opinion that the inclusion of this section might confuse the user of the standard.
Response	The reviewers feel that section 3.2 provides the user of the standard with a roadmap to the guidance provided in section 3. Changes in the sequence of the procedures were made to assist the user.

<b>Section 3.3, Purpose of Measurement</b>	
Comment	One commentator felt that the list of examples places too much emphasis on types of calculations that are not common. The commentator also suggested that it might be appropriate to state the standard does not provide guidance for one-year calculations of participant costs and contributions.
Response	The reviewers considered the first comment and concluded that the list was appropriate and made no change. They also noted that changes had been made in section 1.2(d) to eliminate perceptions that this standard provides guidance on determining one-year retiree contributions.
<b>Section 3.3.3, Risk or Uncertainty</b>	
Comment	One commentator expressed the opinion that this section might need more clarification.
Response	The reviewers note that this language is in ASOP No. 41, <i>Actuarial Communications</i> , and do not believe it needs more clarification. They made no change.
<b>Section 3.4.2, Events after the Measurement Date</b>	
Comment	One commentator opined that the phrase "...need not be reflected..." ought to read "...should not be reflected...."
Response	The reviewers believe that the current language is appropriate and made no change.
<b>Section 3.5.1(b), Components of the Modeled Retiree Group Benefits Plan (Eligibility Conditions)</b>	
Comment	One commentator suggested adding the words "date of hire or" before the word "service."
Response	The reviewers agree with adding the concept and changed the section to include "date of hire."
<b>Section 3.5.1(d)(4), Components of the Modeled Retiree Group Benefits Plan (Participant Contributions)</b>	
Comment	One commentator suggested expanding the guidance on considerations when the plan sponsor has incorporated caps on employer costs.
Response	The reviewers believe that the guidance provided is sufficient and made no change.
<b>Section 3.5.3, Reviewing the Modeled Retiree Group Benefits Plan</b>	
Comment	One commentator felt that the guidance in this section and in section 3.7.6 overlapped with the guidance provided in section 3.10 and that the two sections should be combined with section 3.10.
Response	The reviewers believe that it is appropriate to keep this guidance in the separate sections and made no change.
<b>Section 3.6, Modeling the Covered Population</b>	
Comment	One commentator suggested adding language to explicitly include non-retired former employees who may be eligible for benefits in the future.
Response	The reviewers agree and added the proposed language.
<b>Section 3.6.4, Dependents and Surviving Dependents of Participants</b>	
Comment	One commentator suggested adding language to explicitly reference disabled adult dependent children as their costs may differ significantly.
Response	The reviewers agree and added the proposed language.

<b>Section 3.6.7, Hypothetical Data</b>	
Comment	One commentator noted that this language differed from that in the ASOP No. 4 exposure draft and recommended deleting it.
Response	The reviewers believe that the section is appropriate but replaced the language with the corresponding language from the second exposure draft of ASOP No. 4.
<b>Section 3.7, Modeling Initial Per Capita Health Care Costs</b>	
Comment	One commentator noted that “health care costs” had replaced “health care rates” and thought this usage might be confusing.
Response	The reviewers note that the defined word “cost” had been replaced by “periodic cost” in order to reduce the risk of confusion and made no change.
<b>Section 3.7.1(a), Net Aggregate Claims Data (Paid Claims)</b>	
Comment	One commentator asked whether the language required the actuary to review a claims triangle before setting the starting claim cost assumption, noting that such a requirement would increase the time and cost required with at most a minimal improvement in the quality of the estimate.
Response	The reviewers believe that the language does not dictate a specific approach and that the approach taken is a matter of the actuary’s professional judgment, and made no change.
<b>Section 3.7.6, Impact of Medicare and Other Offsets</b>	
Comment	One commentator asked if it would be more appropriate to use “medical” instead of “health” in this section because only medical plans are integrated with Medicare.
Response	The reviewers note that it is possible for a prescription drug program to integrate with Medicare Part D and made no change.
<b>Section 3.7.8, Pooled Health Plans (including Community Rated Plans)</b>	
Comment	One commentator suggested renaming this section along the lines of “Identification and Measurement of Hidden Subsidies” and suggested that the guidance make a distinction between self-insured plans and fully insured plans.
Response	The reviewers note that the guidance provided in this section is not intended to cover all of the other areas of possible subsidies and made no change.
Comment	One commentator suggested defining “pooled health plan” and “community-rated plan.”
Response	The reviewers agree with the suggestion to define “pooled health plan” and added it to section 2. They note that the phrase “community-rated plan” in the heading was intended to be helpful but is not used in the guidance and did not add a definition.
Comment	Several commentators responded to the transmittal letter question regarding whether the guidance in this area was appropriate and whether there would be any challenges that an actuary could encounter in deriving age-specific claims costs for these types of plans. Some said that the language should be strengthened, some indicated that the guidance was appropriate, and others responded that the guidance was not appropriate and that age-specific claims costs should not be used for these types of plans (or in a subset of these types of plans). Some commentators said that they were not sure what this section required them to do. One commentator suggested that it would be appropriate to allow for a transition between non-age-specific claims to age-specific claims.
	A few commentators identified practical difficulties that an actuary might find in applying the guidance. Finally, several commentators suggested changes in the text to make it clearer.

Response	The reviewers considered the comments and concluded that in regard to these types of plans it is appropriate practice for an actuary to apply age-specific claims costs. The reviewers revised the language to make it clearer that this approach should be used. The reviewers also added guidance to the actuary on how to handle some of the challenges identified by the commentators. The reviewers agree with some of the text edit suggestions and made them or slightly revised versions of them. In other situations, they disagree with the suggestions and made no change.
Comment	One commentator expressed the opinion that, if age-related claims costs are not used, the actuary should be required to disclose this fact.
Response	The reviewers believe that the disclosure requirements regarding the development of the per capita claims costs are sufficient and made no change.
<b>Section 3.7.9, Adjustment for Plan Design Changes</b>	
Comment	One commentator suggested adding the word “benefit” to the title of this section.
Response	The reviewers agree and made the change.
Comment	One commentator made several suggestions for changes in the text in this section.
Response	The reviewers agree with some of the suggestions and made those changes.
<b>Section 3.7.12, Adjustment for Trend</b>	
Comment	One commentator recommended that the language regarding the basis for the adjustments for trend should require the actuary to take into account experience from outside the health plan.
Response	The reviewers note that in some situations it may be appropriate to consider only the experience of the health plan. The reviewers did modify the text slightly.
Comment	One commentator recommended that the guidance be revised to say that the actuary “may consider using separate trend rates” instead of “should consider using separate trend rates.” The commentator noted that there may be cases where this is outside the scope of the assignment and/or the purpose of the measurement.
Response	The reviewers considered the suggestions but made no change. They note that the scope of the assignment or purpose would determine what is needed and the actuary would take those considerations into account.
<b>Section 3.7.13, Adjustment When Plan Sponsor is Also a Provider</b>	
Comment	One commentator recommended that the standard advise the actuary to check internal controls and to analyze charges and reimbursements.
Response	The reviewers believe that the current level of guidance is appropriate and made no change.
<b>Section 3.10, Administrative Inconsistencies</b>	
Comment	One commentator recommended that additional guidance be provided on the steps the actuary should take if administrative inconsistency is discovered.
Response	The reviewers believe that the current level of guidance is appropriate and made no change.

<b>Sections 3.11, Types of Actuarial Present Value</b>	
Comment	One commentator felt that this section was in the wrong location in the standard and recommended that it be deleted.
Response	After careful consideration of the comments received and the objectives of the guidance, the reviewers removed nearly all of the present value type language from the proposed standard. The concept of a market-consistent present value remains in the proposed standard and is now a defined term, with some guidance in section 3.15. The market-consistent present value language now references broad economic and demographic assumptions inherent in observable market pricing of relevant cash flows.
<b>Section 3.12.1(a), Economic Assumptions (Health Care Cost Trend Rate)</b>	
Comment	One commentator thought the guidance should be expanded to discuss the mix of services pre and post age 65, the length of a select period, and distinctions between the trend rates for total claims and the trend rates for net claims. Another commentator suggested providing more general guidance on reflecting lifetime maximums.
Response	The reviewers believe that the level of guidance provided is appropriate and made no change.
<b>Section 3.12.1(d), Economic Assumptions (Adverse Selection)</b>	
Comment	One commentator suggested expanding the guidance provided in this section.
Response	The reviewers believe that the level of guidance provided is appropriate and made no change.
<b>Section 3.12.2, Demographic Assumptions</b>	
Comment	One commentator thought the guidance should be expanded regarding the need for consistency among assumptions. Several commentators suggested some text edits.
Response	The reviewers believe that the level of guidance provided is appropriate and that the guidance is clear, and made no change.
<b>Section 3.12.3, Participant and Dependent Coverage Assumptions</b>	
Comment	Several commentators made suggestions on text changes in this section.
Response	The reviewers believe that the language is clear and the level of guidance is appropriate and made no change.
<b>Section 3.12.4, Effect of Retiree Group Benefit Plan Changes on Assumptions</b>	
Comment	One commentator made suggestions on text changes in this section.
Response	The reviewers modified the language to make the intent clearer.
<b>Sections 3.14, Measuring the Value of Accrued or Vested Benefits</b>	
Comment	One commentator recommended that this section be deleted as possibly giving users the mistaken impression that a retiree group benefit program must have accrued or vested benefits.
Response	The reviewers revised the guidance provided to make it clearer that it is possible that the retiree group benefits are not accrued or vested.

<b>Sections 3.15, Relationship Between Procedures Used for Measuring Assets and Obligations</b>	
Comment	One commentator recommended that this section be deleted as not being relevant to retiree group benefits valuations. Another commentator suggested clarifications regarding its intent.
Response	The reviewers revised the title of this section and clarified the language to make it clearer that this section was not intended to require market-consistent measurements but rather to require that actuaries not double-count or leave out obligations. For example, it would not be appropriate to reflect claims incurred but not reported both as a separate liability on the balance sheet of a plan sponsor and as a part of an obligation of the retiree group benefits program on the same balance sheet.
<b>Section 3.16, Actuarial Cost Method</b>	
Comment	One commentator noted that the language regarding administrative expenses does not make it clear that they may be included in the per capita costs as discussed in section 3.7.15 and which is a common industry practice.
Response	The reviewers agree and added language explicitly permitting expenses to be included in the per capita costs.
<b>Sections 3.17, Allocation Procedure</b>	
Comment	One commentator felt that this section should be combined with section 3.16. Another commentator suggested some text changes.
Response	The reviewers believe that separating this guidance from the guidance on cost methods provides clarity and made no change.
<b>Section 3.18, Approximations and Estimates</b>	
Comment	One commentator suggested adding another example to this section. The commentator also suggested adding a cross-reference to a disclosure requirement.
Response	The reviewers note that the list of examples is not intended to be exhaustive and made no change. The reviewers also note that the use of approximations and estimates is common in actuarial practice and that no specific cross-reference is needed.
<b>Section 3.19, Volatility</b>	
Comment	One commentator recommended that this section be deleted.
Response	The reviewers believe that this section provides appropriate guidance and made no change.
<b>Section 3.20.1, Modeled Cash Flows Compared to Recent Experience</b>	
Comment	One commentator suggested changes in the text to clarify that it is the credibility of a plan's experience rather than its size that is relevant for purposes of this section.
Response	The reviewers agree and made the suggested change.
<b>Section 3.22, Reliance on a Collaborating Actuary</b>	
Comment	One commentator expressed concern about the notion that all signing actuaries are responsible for the overall valuation results. The commentator requested clarification that each actuary is only responsible for aspects of the valuation that he or she can certify based on the actuary's area of expertise.
Response	The reviewers considered the issues raised and concluded that the language in the existing standard is more appropriate and reverted to that language.

<b>SECTION 4. COMMUNICATIONS AND DISCLOSURES</b>	
Comment	One commentator suggested additional disclosure requirements regarding the assumption that the retiree group benefits program will continue indefinitely.
Response	The reviewers believe the current disclosures are sufficient and made no change.
Comment	Several commentators expressed concern about the added disclosure requirements regarding “fully funded” and “funded status.”
Response	The reviewers agree with concerns regarding “fully funded” and removed the proposed disclosures regarding such statements. However, the reviewers retained and modified the language of this section applicable to measurements of funded status. The modified language makes it clearer that the standard does not require the disclosure of “funded status,” only what is required if an actuary does disclose a plan’s “funded status.”
<b>APPENDIX 1</b>	
Comment	Several commentators suggested changes in the text. One commentator suggested deleting several sections in the Current Practices section of the appendix.
Response	The reviewers agree that some of the proposed edits add clarity and made those edits. The reviewers disagree with the suggestion to delete those sections but made some text edits to make the language clearer.