ACTUARIAL STANDARDS BOARD

● **EXPOSURE DRAFT** ●

Proposed Revision of
Actuarial Standard
of Practice
No. 6

Measuring Retiree Group Benefits Obligations and Determining Retiree Group Benefits Program Periodic Costs or Actuarially Determined Contributions

Comment Deadline:
May 15, 2026

Developed by the
ASOP No. 6 Task Force of the
Pension Committee of the
Actuarial Standards Board

Approved for Exposure by the
Actuarial Standards Board
November 2025

T A B L E O F C O N T E N T S

APPENDIX

November 2025

TO: Members of Actuarial Organizations Governed by the Standards of Practice of the Actuarial Standards Board and Other Persons Interested in Measuring Retiree Group Benefits Obligations and Determining Retiree Group Benefits Program Periodic Costs or Actuarially Determined Contributions

FROM: Actuarial Standards Board (ASB)

SUBJ: Actuarial Standard of Practice (ASOP) No. 6

This document contains the exposure draft of a proposed revision of ASOP No. 6, *Measuring Retiree Group Benefits Obligations and Determining Retiree Group Benefits Program Periodic Costs or Actuarially Determined Contributions*.

Please review this exposure draft and give the ASB the benefit of your comments and suggestions. Each comment letter received by the comment deadline will receive consideration by the drafting committee and the ASB.

The ASB appreciates comments and suggestions on all areas of this proposed standard. The ASB requests comments be provided using the Comments Template that can be found here and submitted electronically to **comments@actuary.org**. Include the phrase "ASOP No. 6 COMMENTS" in the subject line of your message. Also, please indicate in the template whether your comments are being submitted on your own behalf or on behalf of a company or organization.

The ASB posts all signed comments received on 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 on 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.

For more information on the exposure process, please see the ASB Procedures Manual.

Deadline for receipt of comments: **May 15, 2026**

History of the Standard

The ASB provides coordinated guidance for measuring pension and retiree group benefit obligations through the series of ASOPs listed below.

1. ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*;

2. ASOP No. 6, *Measuring Retiree Group Benefits Obligations and Determining Retiree Group Benefits Program Periodic Costs or Actuarially Determined Contributions*;

3. ASOP No. 27, *Selection of Assumptions for Measuring Pension Obligations*; and

4. ASOP No. 44, *Selection and Use of Asset Valuation Methods for Pension Valuations*.

Although the titles of ASOP Nos. 27 and 44 reference pension obligations or valuations, they are also applicable to retiree group benefits obligations or valuations. Additional guidance is also provided in other standards, including ASOP No. 5, *Incurred Health and Disability Claims*, and ASOP No. 25, *Credibility Procedures.*

Notable Changes from the Existing Standard

Notable changes from the existing standard are summarized below. Notable changes do not include changes made to improve readability, clarity, or consistency.

Many of the changes in this standard were made to align guidance for retiree group benefits with guidance for pensions.

1. Section 1.2, Scope, was expanded to acknowledge that the performance of actuarial services for retiree group benefit programs may require actuaries from more than one practice area, in which case, all references to actuary collectively apply to collaborating actuaries, and to clarify the application of the standard when the actuary selects an output smoothing method and when an assumption or method is not selected by the actuary.

2. The definition for "benefit plan member" has been removed. References to "benefit plan member" have been replaced with "participant."

3. The definition for "market consistent present value" and related guidance have been removed.

4. Section 2.11, Contingent Participant, was added as a new defined term.

5. Section 2.19, Funding Valuation, was added in conjunction with added guidance in section 3.

6. Section 3.4.3, Adjustment of Prior Measurements, was added.

7. Section 3.7.1, Aggregate Net Claims Data, now Claims Data, was revised to add a requirement that the actuary should request claims experience data if credible for the purpose of developing a reasonable initial per capita health care cost assumption.

8. Section 3.7.5, Use of Premiums, now Use of Premiums or Other Methods, was revised to describe circumstances of permissible use of adjusted premiums in lieu of credible claims data.

9. Some exceptions to the use of age-specific costs in section 3.7.7(b) were removed.

10. Section 3.13, Assumptions (formerly section 3.12), was expanded to include section 3.13.5, Aging Factors, and section 3.13.11, Investment Return Assumption.

11. Former section 3.14, Measuring the Value of Accrued or Vested Benefits, was deleted.

12. New section 3.17, Amortization Method, was added.

13. New section 3.24, Output Smoothing Method, was added.

14. Section 3.25, Implications of Contribution Allocation Procedure or Funding Policy (formerly section 3.18.2), was expanded.

15. Section 3.26, Contribution Lag, was added.

16. Section 3.27, Reasonable Actuarially Determined Contribution, was added.

17. Sections 3.28, Identification of Risks to be Assessed, and 3.29, Assessment of Risks Identified, were added**.**

18. Section 3.30, Collaborating Actuaries Issuing Joint Opinions, was added to replace former section 3.23, Reliance on a Collaborating Actuary.

19. Section 3.31, Assessment of Assumptions and Methods Not Selected by the Actuary, and section 3.32, Reliance on Another Party, were added to replace and supplement former section 3.22, Evaluation of Assumptions and Methods.

20. Section 3.33, Documentation, was added.

21. Section 4.1, Communication Requirements, was renamed "Required Disclosures in an Actuarial Report," was expanded to provide additional guidance concerning disclosures, and was reordered to follow the order of the guidance in section 3.

22. Section 4.1.1, Additional Disclosures for Funding Reports, was added.

Request for Comments

The ASB appreciates comments and suggestions on all areas of this proposed standard submitted through the Comments Template. Rationale and recommended wording for any suggested changes would be helpful.

In addition, the ASB would like to draw the readers' attention to the following questions:

1. Is the guidance on age-specific costs, specifically related to pooled health plans (section 3.7.7[a]) and exceptions to use of age-specific costs (section 3.7.7[b]), clear and appropriate? If not, please explain.

2. This proposed standard requires the actuary to identify and assess pertinent risks when performing all valuations related to retiree group benefits. In contrast, ASOP No. 51, *Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions*, only applies when performing funding-related valuations for pension plans. Is it appropriate to apply the guidance in sections 3.28 and 3.29 to all valuations related to retiree group benefits, including valuations for accounting measurements, rather than only funding-related valuations?

3. Is section 3.2, General Procedures, helpful?

The ASB thanks former task force chair David Kausch, former task force member John Bartel, and former task force and committee member Sarah Dam for their assistance during the earlier drafting of this standard.

The ASB voted in November 2025 to approve this exposure draft.

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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.

PROPOSED REVISION OF ACTUARIAL STANDARD OF PRACTICE NO. 6

MEASURING RETIREE GROUP BENEFITS OBLIGATIONS AND DETERMINING RETIREE GROUP BENEFITS PROGRAM COSTS OR ACTUARIALLY DETERMINED CONTRIBUTIONS

STANDARD OF PRACTICE

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

1.1 Purpose—This actuarial standard of practice (ASOP or standard) provides guidance to actuaries when performing actuarial services with respect to measuring obligations, determining **periodic costs** or **actuarially determined contributions**, or setting assumptions for **retiree group benefits programs**.

1.2 Scope—This standard applies to actuaries when performing actuarial services with respect to measuring obligations, determining **periodic costs** or **actuarially determined contributions**, or setting assumptions for **retiree group benefits programs**, including the following tasks:

a. development of a **cost allocation procedure** used to determine **periodic costs**;

b. development of a **contribution allocation procedure** used to determine **actuarially determined contributions**;

c. determination as to the types and levels of benefits supportable by specified cost or contribution levels; and

d. projection of obligations, **periodic costs** or **actuarially determined contributions**, and other related measurements such as cash flow projections and **funded status** projections.

Throughout this standard, any reference to selecting assumptions, **actuarial cost methods**, asset valuation methods, **amortization methods**, and **output smoothing methods** also includes giving advice on the selections of such assumptions or methods. In addition, any reference to developing or modifying a **cost allocation procedure** or **contribution allocation procedure** includes giving advice on developing or modifying such procedures.

The performance of actuarial services for **retiree group benefit programs** may require actuaries from more than one practice area, for example, pension and health. Throughout this standard, any reference to the actuary means the responsible actuary or actuaries who collectively meet the *Qualification Standards for Actuaries Issuing Statements of Actuarial*

Opinion in the United States (U.S. Qualification Standards) to perform the services provided.

This standard does not apply to actuaries when performing actuarial services with respect to pension plans as defined in ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*, or social insurance programs as defined in ASOP No. 32, *Social Insurance*.

In the event of a conflict between the guidance provided in this ASOP and the guidance in other ASOPs, this standard governs.

As discussed in ASOP No. 41, *Actuarial Communications*, an assumption or method may be selected by the actuary or selected by another party. Nothing in this standard is intended to require the actuary to select an assumption or method that has otherwise been selected by another party. When performing actuarial services using an assumption or method not selected by the actuary, the guidance in section 3 and section 4 on assessment and disclosure applies.

This standard does not require the actuary to evaluate the ability or willingness of the **plan sponsor** or other contributing entity to make contributions for the **retiree group benefits program** when due.

If a conflict exists between this standard and applicable law (statutes, regulations, and other legally binding authority), the actuary should comply with applicable law. If the actuary departs from the guidance set forth in this standard in order to comply with applicable law, or for any other reason the actuary deems appropriate, the actuary should refer to section 4.

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 follow the guidance in this standard to the extent it is applicable and appropriate.

1.4 Effective Date—This standard is effective for any actuarial report that meets the following criteria: (a) the actuarial report is issued on or after twelve months after adoption of this standard by the Actuarial Standards Board (ASB); and (b) the **measurement date** in the actuarial report is on or after twelve months after adoption of this standard by the ASB.

Section 2. Definitions

The terms below are defined for use in this standard and appear in bold throughout the ASOP. The actuary should also refer to ASOP No. 1, *Introductory Actuarial Standard of Practice*, for definitions and discussions of common terms, which do not appear in bold in this standard.

2.1 Actuarial Accrued Liability—The portion of the **actuarial present value of projected benefits** (and **expenses**, if applicable), as determined under a particular **actuarial cost method**, that is not provided for by future **normal costs**. Under certain **actuarial cost methods**, the **actuarial accrued liability** is dependent upon the actuarial value of assets.

2.2 Actuarial Cost Method—A procedure for allocating the **actuarial present value of projected benefits** (and **expenses**, if applicable) to time periods, usually in the form of a **normal cost** and an **actuarial accrued liability**. For purposes of this standard, a pay-as-you-go method is not considered to be an **actuarial cost method**.

2.3 Actuarial Present Value—The discounted value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of assumptions with regard to future events, observations of market or other valuation data, or a combination of assumptions and observations.

2.4 Actuarial Present Value of Projected Benefits—The **actuarial present value** of benefits that are expected to be paid in the future, taking into account the effect of such items as future service, advancement in age, and expected future per capita health care costs (sometimes referred to as the "present value of future benefits").

2.5 Actuarial Valuation—The measurement of relevant **retiree group benefits program** obligations and, when applicable, the determination of **periodic costs** or **actuarially determined contributions**.

2.6 Actuarially Determined Contribution—A potential payment, other than by a retired **participant**, to prefund the **retiree group benefits program,** as determined by the actuary using a **contribution allocation procedure**. It may or may not be the amount actually paid by the **plan sponsor** or other contributing entity. For the purpose of this standard, **premiums** and budget rates are not **actuarially determined contributions**.

2.7 Adverse Selection—Actions taken by one party using risk characteristics or other information known to or suspected by that party that cause a financial disadvantage to the **retiree group benefits program** (sometimes referred to as antiselection).

2.8 Amortization Method—A method under a **contribution allocation procedure** or **cost allocation procedure** for determining the amount, timing, and pattern of recognition of the unfunded **actuarial accrued liability**.

2.9 Benefit Options—Choices that a **participant** may make under a **benefit plan** including basic coverages (for example, choice of medical plans) and additional coverages (for example, contributory dental coverage).

2.10 Benefit Plan—An arrangement providing medical, prescription drug, dental, vision, legal, death, long-term care, or other benefits (excluding retirement income benefits) to **participants** of the **retiree group benefits program**, whether on a reimbursement, indemnity, or service benefit basis.

2.11 Contingent Participant—An individual who is not a current **participant** but may reasonably be expected to become a **participant** through their future actions (for example, a retiree or other former employee who has opted out of medical coverage at retirement or termination but may later elect to resume or begin coverage).

2.12 Contribution Allocation Procedure—A procedure that determines one or more **actuarially determined contributions** for a **retiree group benefits program**. The procedure uses an **actuarial cost method,** and may use an asset valuation method, an **amortization method**, and an **output smoothing method**. The procedure may produce a single value, such as **normal cost** plus an amortization payment of the unfunded **actuarial accrued liability**, or a range of values. This term does not relate to the process of determining the **participant contribution**.

2.13 Cost Allocation Procedure—A procedure that determines the **periodic cost** for a **retiree group benefits program** (for example, the procedure to determine the net periodic postretirement benefit cost under accounting standards). The procedure uses an **actuarial cost method** and may use an asset valuation method or an **amortization method**.

2.14 Covered Population—Active, terminated, and retired **participants**, participating **dependents**, and **surviving dependents** of **participants** who are eligible for benefit coverage under a **retiree group benefits program**. The **covered population** may also include **contingent participants**.

2.15 Dedicated Assets—Assets designated for the exclusive purpose of satisfying the **retiree group benefits program** obligations. Examples include the following:

a. life insurance policies held by the **plan sponsor** to cover some of the **plan sponsor's** retired **participant** death benefits;

b. welfare benefit trusts (for example, voluntary employees' beneficiary associations);

c. Internal Revenue Code section 401(h) accounts in a qualified pension plan; and

d. Internal Revenue Code section 115 trusts sponsored by governmental entities for **retiree group benefits**.

2.16 Dependents—Individuals who are covered or may become covered under a **retiree group benefits program** by virtue of their relationship to an active, terminated, or retired **participant**.

2.17 Expenses—Administrative or investment fees or other payments borne or expected to be borne by the **benefit plan** or **retiree group benefits program**.

2.18 Funded Status—Any comparison of a particular measure of **retiree group benefits program** assets to a particular measure of program obligations.

2.19 Funding Valuation—A measurement of **retiree group benefits program** obligations or projection of cash flows performed by the actuary intended to be used by the principal to determine program contributions for prefunding or to evaluate the adequacy of specified contribution levels to support benefit provisions.

2.20 Immediate Gain Actuarial Cost Method—An **actuarial cost method** under which actuarial gains and losses are included as part of the unfunded **actuarial accrued liability** of the **retiree group benefits program**, rather than as part of the **normal cost** of the **retiree group benefits program**.

2.21 Measurement Date—The date as of which the values of the **retiree group benefits** obligation and, if applicable, assets are determined.

2.22 Measurement Period—The period subsequent to the **measurement date** during which the chosen assumptions or other model components will apply. The period often ends at the time the last **participant** is expected to receive the final benefit.

2.23 Medicare Integration—For **benefit plans** that integrate with Original Medicare fee-for-service coverage, the approach to determining the portion of a Medicare-eligible claim that is paid by the **benefit plan** after adjustment for Medicare reimbursements for the same claim. Types of **Medicare integration** include the following:

a. Full Coordination of Benefits (Full COB)—The health plan pays the difference between total eligible charges and the Medicare reimbursement amount, or the amount it would have paid in the absence of Medicare, if less.

b. Exclusion—The health plan applies its normal reimbursement formula to the amount remaining after Medicare reimbursements have been deducted from total eligible charges.

c. Carve-Out—The health plan applies its normal reimbursement formula to the total eligible charges, and then subtracts the amount of Medicare reimbursement.

2.24 Normal Cost—The portion of the **actuarial present value of projected benefits** (and **expenses**, if applicable) that is allocated to a period, typically twelve months, under the **actuarial cost method**. Under certain **actuarial cost methods**, the **normal cost** is dependent upon the actuarial value of assets.

2.25 Normative Database—Data compiled from sources that are expected to be typical of the **retiree group benefits program**, rather than from plan-specific experience. Examples of **normative databases** include published mortality and disability tables, proprietary **premium** manuals, and experience on similar **retiree group benefits programs**.

2.26 Output Smoothing Method—A method to reduce volatility of the results of a **contribution allocation procedure**. The **output smoothing method** may be a component of the

contribution allocation procedure or may be applied to the results of a **contribution allocation procedure**. **Output smoothing methods** include techniques such as 1) phasing in the impact of assumption changes on contributions, 2) blending a prior valuation with a subsequent valuation to determine contributions, or 3) placing a corridor around changes in the dollar amount, contribution rate, or percentage change in contributions from year to year. An **output smoothing method** may involve a combination of techniques. For purposes of this standard, an asset valuation method is not an **output smoothing method**.

2.27 Participant—An individual who (a) is currently receiving benefit coverage under a **retiree group benefits program,** (b) is reasonably expected to receive benefit coverage under a **retiree group benefits program** upon satisfying its eligibility and participation requirements, or (c) is a **dependent** of an individual described in (a) or (b).

2.28 Participant Contributions—Payments made by a **participant** to a **retiree group benefits program**.

2.29 Periodic Cost—The amount assigned to a period using a **cost allocation procedure** for purposes other than funding. This may be a function of **retiree group benefits program** obligations, **normal cost**, **expenses**, and assets. In many situations, **periodic cost** is determined for accounting purposes.

2.30 Plan Sponsor—An organization that establishes or maintains a **retiree group benefits program**. Examples of **plan sponsors** include employers and Taft-Hartley Boards of Trustees.

2.31 Pooled Health Plan—A health **benefit plan** covering multiple **plan sponsor** groups (including the group under consideration) in which **premiums** are based at least in part on the claims experience of groups other than the group under consideration. The use of projection assumptions that are not based solely on the claims experience of the group under consideration (for example, the health care cost **trend** rate assumption) would not by itself create a **pooled health plan**.

2.32 Premium—The price to provide coverage as set by a risk-bearing entity, such as an insurance or managed care company, or a self-insured **plan sponsor**.

2.33 Prescribed Assumption or Method Set by Another Party—A specific assumption or method that is selected by another party, to the extent that law, regulation, or accounting standards gives the other party responsibility for selecting such an assumption or method. For this purpose, an assumption or method set by a governmental entity for a **retiree group benefits program**, which such governmental entity or a political subdivision of that entity directly or indirectly sponsors is deemed to be a **prescribed assumption or method set by another party**.

2.34 Prescribed Assumption or Method Set by Law—A specific assumption or method that is mandated or that is selected from a specified range or set of assumptions or methods that is deemed to be acceptable by applicable law. For this purpose, an assumption or method

set by a governmental entity for a **retiree group benefits program**, which such governmental entity or a political subdivision of that entity directly or indirectly sponsors, is not deemed to be a **prescribed assumption or method set by law**.

2.35 Retiree Group Benefits—Medical, prescription drug, dental, vision, legal, death, long-term care, or other benefits (excluding retirement income benefits) that are provided during retirement to a group of individuals, on account of an employment relationship.

2.36 Retiree Group Benefits Program—The program specifying **retiree group benefits**, including eligibility requirements, **participant contributions**, and the design of the benefits being provided.

2.37 Spread Gain Actuarial Cost Method—An **actuarial cost method** under which actuarial gains and losses are included as part of the current and future **normal costs** of the **retiree group benefits program**.

2.38 Stop-Loss Coverage—Insurance protection providing reimbursement of all or a portion of claims in excess of a stated amount. **Stop-loss coverage** may be either individual or aggregate (sometimes referred to as excess loss coverage).

2.39 Surviving Dependent—A **dependent** who qualifies as a **participant** under the **retiree group benefits program** following the death of the associated **participant**.

2.40 Trend—A measure of the rate of change, over time, of the per capita benefit payments. For the purpose of this standard, **trend** does not reflect changes in cost due to aging.

Section 3. Analysis of Issues and Recommended Practices

3.1 Overview—Measuring **retiree group benefits program** obligations and determining **periodic costs** or **actuarially determined contributions** are processes in which the actuary may be required to make judgments or recommendations on the choice of assumptions, **actuarial cost methods**, asset valuation methods, **amortization methods,** and **output smoothing methods**.

The actuary may have the responsibility and authority to select some or all assumptions, **actuarial cost methods**, asset valuation methods, **amortization methods**, and **output smoothing methods**. In other circumstances, the actuary may be asked to advise the individuals who have that responsibility and authority. In yet other circumstances, the actuary may perform actuarial calculations using **prescribed assumptions or methods set by another party** or **prescribed assumptions or methods set by law**.

3.2 General Procedures—When measuring **retiree group benefits program** obligations and determining **retiree group benefits program periodic costs** or **actuarially determined contributions**, the actuary should perform the following general procedures:

a. identify the purpose of the measurement (section 3.3);

b. identify the **measurement date** (section 3.4);

c. develop a model that reasonably represents the following:

   1. provisions of the **retiree group benefits program** known to the actuary as they currently exist and are anticipated to change in the **measurement period**, as appropriate for the purpose of the measurement (section 3.5);

   2. the current and future population covered by the benefits in question, as appropriate for the purpose of the measurement (section 3.6); and

   3. current benefit costs (sections 3.7 and 3.8).

d. evaluate the overall model consistency (section 3.9);

e. evaluate the quality and consistency of data used in construction of the model, and make appropriate adjustments (section 3.10);

f. evaluate any known significant administrative inconsistencies and make appropriate adjustments in the model (section 3.11);

g. obtain from the principal other information necessary for the purpose of the measurement (section 3.12);

h. select assumptions (section 3.13);

i. identify **retiree group benefits program** assets (section 3.14);

j. reflect how **retiree group benefits program** or **plan sponsor** assets as of the **measurement date** are reported, if applicable (section 3.15);

k. select an **actuarial cost method**, if applicable (section 3.16);

l. select an **amortization method**, if applicable (section 3.17);

m. select an asset valuation method, if applicable (section 3.18);

n. select a **cost allocation procedure** or **contribution allocation procedure**, if applicable (sections 3.19 and 3.20);

o. take into account the sources of significant volatility, if applicable (section 3.22);

p. review and test the results of the calculations for reasonableness (section 3.23);

q. select an **output smoothing method**, if applicable (section 3.24);

r. assess the implications of the **contribution allocation procedure** or **plan sponsor's** funding policy, if applicable (section 3.25);

s. take into account the contribution lag, if applicable (section 3.26);

t. calculate a reasonable **actuarially determined contribution**, if applicable (section 3.27);

u. identify and assess risks, if applicable (sections 3.28 and 3.29);

v. when issuing a joint opinion, confirm the overall appropriateness of the analysis, assumptions, and results, including the consistency of assumptions across practice areas (section 3.30);

w. assess the assumptions and methods not selected by the actuary, if applicable (section. 3.31);

x. when relying on another party, assess the information for reasonableness and consistency (section 3.32); and

y. consider preparing and retaining documentation (section 3.33).

The actuary should refer to ASOP No. 56, *Modeling*, for guidance with respect to models when measuring **retiree group benefits program** obligations, determining **periodic costs**, or determining **actuarially determined contributions**.

3.3 Purpose of the Measurement—The actuary should identify the purpose of the measurement. Examples of measurement purposes include the following:

a. determining **periodic costs** or **actuarially determined contributions**;

b. assessing **funded status**;

c. pricing benefit provisions;

d. comparing benefit provisions between **benefit plans**;

e. determining **retiree group benefits program** settlements;

f. measuring **retiree group benefits program** obligations for **plan sponsor** mergers and acquisitions; and

g. determining long-term cash flow projections.

3.4 Measurement Date Considerations—The actuary should identify the measurement date, taking into account the following:

3.4.1 Information as of a Different Date—The actuary may estimate asset and **participant** information at the **measurement date** on the basis of data as of a different date. In these circumstances, the actuary should make appropriate adjustments to the data. Alternatively, the actuary may calculate the **retiree group benefits program** obligations as of a different date and then adjust the obligations to the **measurement date** (see section 3.4.3 for additional guidance). In either case, the actuary should determine that any such adjustments are reasonable in the actuary's professional judgment, given the purpose of the measurement.

3.4.2 Events after the Measurement Date—If the actuary is aware of events that occur subsequent to the **measurement date** and prior to the date of the actuarial communication, the actuary should reflect those events appropriately for the purpose of the measurement. The actuary should determine whether the purpose of the measurement requires, prohibits, or allows the actuary the option of reflecting such events in the measurement.

3.4.3 Adjustment of Prior Measurements (Roll-Forwards)—The actuary may adjust the results from a prior measurement in lieu of performing a new detailed measurement if, in the actuary's professional judgment, such an adjustment would produce a reasonable result for the purpose of the new measurement. The actuary should reflect significant changes in the following items:

a. the number of **participants** or the demographic characteristics of that group;

b. claims costs;

c. economic and demographic expectations;

d. cash flows and investment performance;

e. **retiree group benefits program** design; and

f. other key model components.

When adjusting the results from a prior **measurement date**, the actuary should consider using revised assumptions to measure the **retiree group benefits program** obligations if appropriate for the purpose of the new measurement.

The actuary should not roll-forward prior measurement results if the **measurement date** of those results is three or more years earlier than the current **measurement date**. For example, a January 1, 2026 measurement may be used to develop roll-forward results as of January 1, 2027 and 2028, but should not be used for

measurements or **periodic cost** allocations after December 31, 2028.

3.4.4 Projected and Initial Measurements—The actuary should consider using different assumptions or methods for projections to future **measurement dates** than the assumptions or methods used for the initial **measurement date**.

3.5 Modeling Provisions of Retiree Group Benefits Programs—The actuary should incorporate into the model the significant provisions of the **retiree group benefits program** known to the actuary.

3.5.1 Program Provisions Information Sources—The actuary should make use of relevant written plan documents, historical practices, administrative practices, governmental programs, and communications to **participants** to identify the provisions of the **retiree group benefits program**.

3.5.2 Provisions of the Modeled Retiree Group Benefits Program— Provisions that the actuary should evaluate for significance include the following:

a. Covered Benefits—The actuary should take into account the covered benefits including **premium** subsidies, reimbursements for covered services, fixed-dollar payments for covered events (such as death benefits), and other benefits (such as Medicare **premiums**, defined dollar, or account-based benefits).

b. Eligibility Conditions—The actuary should take into account benefit eligibility conditions including conditions related to age, service, date of hire, employment classification, and participation in other benefit programs (such as Medicare or a pension plan).

c. Benefit Limitations, Exclusions, and Cost-Sharing Provisions—The actuary should take into account benefit limitations, exclusions, and **participant** cost-sharing provisions including annual or lifetime maximum benefits, drugs not on a pharmacy formulary, deductibles, copayments, coinsurance, and out-of-pocket limits.

d. Participant Contributions—The actuary should take into account any **participant contributions**, as discussed below.

1. Actual Participant Postretirement Contribution—The actuary should reflect the actual level of retired **participant contributions**, which may be different from the stated basis for such contributions. See section 3.11, Administrative Inconsistencies, for further guidance.

2. Participant Contributions as Defined by Limits on Plan Sponsor Payments—When a **retiree group benefits program** designates a

maximum average per capita amount (or "cap") to be paid by the **plan sponsor** in a year, the actuary should take into account the following:

i. whether any such limits will have a significant impact on the obligation;

ii. the historical pattern of these limits as implemented;

iii. when these limits are expected to be reached;

iv. the expected future implementation or modification of these limits; and

v. the impact of these limits on retired **participant contributions** and future participation.

3. Preretirement Active Employee Contributions—When a **retiree group benefits program** requires active employees to make preretirement contributions in order to earn eligibility for **retiree group benefits**, the actuary should take into account the effect of such contribution requirements on future benefit eligibility.

e. Payments from Other Sources—The actuary should take into account payments from other sources that may partially or completely fund benefits, including retiree medical savings accounts, terminal leave balances, or non-employer funding sources.

f. Health Care Delivery System Attributes—The actuary should take into account the impact of health care delivery system attributes on costs, including different aging factors for HMO versus PPO, different **trend** assumptions when adding medical cost management, and different projection methods for Medicare Advantage versus **Medicare integration**.

g. Benefit Options—The actuary should take into account the effect of **benefit options**. If **benefit options** are grouped for developing per capita costs, the actuary should confirm that such grouping is not expected to significantly affect the measurement results.

h. Anticipated Future Changes—For most measurement purposes, the actuary should reflect only future benefit changes that have been communicated to **participants**, that result from the continuation of a historical pattern, or that are required by applicable law or contract to be implemented within a specified period. However, depending upon the purpose of the measurement, the actuary may reflect other potential future changes.

3.5.3 Modeling by Category—The actuary should assess whether the model needs to be refined by category (for example, medical vs. dental; HMO vs. PPO; union vs. nonunion; retiree vs. **dependent**; **retiree group benefits program** paid vs. **participant** paid; and payments before Medicare eligibility age vs. payments after Medicare eligibility age). A refinement may be necessary as a result of the nature of the assignment or to assess the reasonableness of the model.

3.5.4 Historical Practices—When appropriate, the actuary should take into account historical practices in developing the model.

a. Claims Payment Practices—If the actuary becomes aware of a significant inconsistency between administrative practice and plan documents, stated **plan sponsor** policies, **participant** communications, or applicable law, the actuary should follow the guidance in section 3.11.

b. Patterns of Plan Changes—The actuary should take into account the **plan sponsor's** historical practices or patterns of regular changes in the **retiree group benefits program** (such as benefits, cost-sharing, and **participant contribution** levels). If, in the actuary's professional judgment, such historical changes (such as increases in a cap) are likely to continue in the future, then the actuary should reflect the continuation of such past practices or patterns in the model, unless inconsistent with the purpose of the measurement.

c. Governmental Programs—The actuary should take into account any patterns in the historically enacted legislative and administrative policy changes in Medicare (for example, payments under Original Medicare and Medicare Advantage plans) and other governmental programs to the extent that the **retiree group benefits program** integrates with them.

3.5.5 Updating the Modeled Provisions—When using a model developed for a previous measurement, the actuary should confirm that the model reflects any updated provisions and practices of the **retiree group benefits program** identified in sections 3.5.1-3.5.4. If the actuary becomes aware that the administration has significantly deviated from the **retiree group benefits program** as modeled, the actuary should assess whether this deviation is temporary or should be treated as a permanent change in the **retiree group benefits program**. If the actuary becomes aware of a significant inconsistency between administrative practice and plan documents, stated **plan sponsor** policies, **participant** communications, or applicable law, the actuary should follow the guidance in section 3.11.

3.6 Modeling the Covered Population—The actuary should model the **covered population**.

3.6.1 Census Data—The actuary should collect sufficient census data to make a reasonable estimate of the **retiree group benefits program** obligation. The actuary should determine whether the collected census data represents **retiree group**

benefits program participation with sufficient detail and, if not, should seek additional data from other sources, such as a related pension plan or the claims payer. If the additional data is used as a substitute for **retiree group benefits program** data, the actuary should make appropriate adjustments to ensure the data represents the **covered population** of the **retiree group benefits program**.

The actuary may use grouped census data in lieu of individual census data, provided that, in the actuary's professional judgment, the grouping is not expected to significantly affect the measurement results. The actuary should consider collecting data for retirees or other former employees who declined or terminated coverage to select participation assumptions, including election of coverage at retirement, lapse, and re-enrollment rates.

3.6.2 Employees Currently Not Accruing Eligibility Service—Depending on the purpose of the measurement, the actuary should assess whether some or all of the employees currently not accruing service toward **retiree group benefits program** eligibility may accrue service in the future, and whether some or all of the employees currently not making required preretirement **participant contributions** may contribute in the future, and make appropriate allowance for them in the modeled population.

3.6.3 Contingent Participants—The actuary should examine the census data and make appropriate adjustments to the data or model to reflect **contingent participants**. For example, the actuary may need to select a re-enrollment assumption for **contingent participants**.

3.6.4 Dependents and Surviving Dependents of Participants—The actuary should include in the modeled population **dependents** and **surviving dependents** who are eligible for coverage and participating. In doing so, the actuary should take into account that the **retiree group benefits program's** eligibility conditions and benefit levels for **dependents** and **surviving dependents** may differ from the plan's eligibility conditions and benefit levels for retired **participants**. Benefit coverage for the **dependent** of a retired **participant** may continue subject to that **dependent** contributing to the plan, may continue for a limited period (for example, until Medicare eligibility, one year after the death of the retired **participant**, or a limiting age), or may cease when the retired **participant** dies.

The actuary should consider modeling **dependents** (other than dependent children) separately from retired **participants** because of differences in the timing of Medicare eligibility and in mortality between the retired **participant** and the **dependent**. For dependent children (including adult dependent children with disabilities), the actuary should assess whether the obligation related to dependent children is significant and model them appropriately. For example, for **retiree group benefits programs** that have liberal early retirement eligibility conditions, dependent children coverage can significantly increase the overall number of **participants** and, therefore, have a significant effect on the size of the **covered population**.

3.6.5 Incomplete Data—When the **covered population** data is incomplete, the actuary may use assumed demographic characteristics of current or future **participants** to complete the model.

3.7 Modeling Initial Per Capita Health Care Costs—When health benefits are provided, the actuary should develop an initial per capita health care cost assumption based on credible claims experience.

The actuary should consider developing different initial per capita health care costs when there are different health plan and **participant contribution** provisions (section 3.5) or other factors influencing claims experience (for example, differences by gender, healthy vs. disabled, or retiree vs. **dependent**).

The actuary should document the methods and procedures followed in developing the initial per capita health care costs, such that another actuary qualified in this practice area could assess the reasonableness of the initial per capita health care costs. The actuary should also document any significant actuarial judgments applied during the modeling process.

3.7.1 Claims Data—The actuary should request claims data, if credible, regardless of whether the underlying plan is insured or not.

a. Gross vs. Net Claims—Gross claims data includes cost-sharing components (such as deductibles and copayments), reimbursements, Medicare payments under Original Medicare or Medicare Advantage plans, costs not covered, or other elements.

When using claims data, the actuary should use gross or net claims consistent with the model and the purpose of the measurement.

b. Incurred vs. Paid Claims—Incurred claims data is grouped by dates the service was provided, while paid claims data is grouped by dates of payment. When using paid claims data, the actuary should make adjustments to the paid claims to estimate incurred claims, as appropriate.

The actuary should refer to ASOP No. 5, *Incurred Health and Disability Claims*, for guidance regarding use or estimation of incurred claims.

3.7.2 Exposure Data—In developing an initial per capita health care cost, the actuary should obtain exposure data for the same time periods and populations as the claims experience data that will be used. Since exposure data is historical in nature, the exposure data typically will be different from the census data used in modeling the future **covered population**. The actuary should review the data sets for consistency and make appropriate adjustments to address any inconsistencies (see section 3.9 and 3.10).

3.7.3 Use of Multiple Claims Experience Periods—The actuary should consider using multiple historical claims experience periods in order to reduce the volatility of the results or to increase credibility. When using multiple claims experience periods, the actuary should do the following:

a. adjust the experience of the various periods to comparable bases as described in sections 3.7.8, 3.7.9, 3.7.10, and 3.7.11; and

b. consider adjusting the results to account for historical irregularities. When recognizing such irregularities, the actuary may weight the experience periods as appropriate.

3.7.4 Credibility—When retiree plan experience data are not available or the actuary has not assigned full credibility to the data, the actuary should make use of relevant **normative databases** or active plan experience on the same group, as adjusted for age and expected differences in such items as utilization and plan design. The actuary may use these supplementary data and professional judgment to validate, adjust, or replace the retiree plan experience data.

The actuary should refer to ASOP No. 25, *Credibility Procedures*, for guidance when assigning credibility to sets of experience data.

3.7.5 Use of Premiums or Other Methods—When claims and exposure experience are requested but not available for an insured plan or the claims experience is not credible, the actuary may use other methods (such as those that use loss ratio-adjusted **premiums** or **normative databases**) as the basis for initial per capita costs, with appropriate analysis and adjustment for the **premium** basis.

The actuary who uses **premiums** for this purpose should adjust them for changes in benefit levels, **covered population**, or **retiree group benefits program** administration. The actuary should also make the appropriate adjustments to determine the age-specific costs (see section 3.7.7).

If **premiums**, adjusted or unadjusted, are used as the basis for initial per capita costs in the measurement, the actuary should consider making the adjustments described in other paragraphs of section 3.7.

3.7.6 Impact of Medicare and Other Offsets—When Medicare is the primary payer and therefore has a significant impact on the per capita health care costs, the actuary should develop separate costs for Medicare-eligible **participants**. Such costs should reflect the **Medicare integration** approach for the **benefit plan** or how the **benefit plan** supplements Medicare. The actuary should consider using separate per capita health care costs for **participants** who are not or will not become eligible for Medicare due to exemptions, such as for certain governmental entities. The actuary should take into account the proportions of retired **participants** and their

dependents that may not be covered for Part A or Part B or enrolled in Medicare Advantage plans.

The actuary should take into account reimbursements or other payments from the Medicare system (for example, the retiree drug subsidies for **plan sponsors** and direct subsidies for Part D plans) as appropriate for the purpose of the measurement.

The actuary should evaluate if changes to Medicare or other governmental programs have significantly affected historical data used in the development of the initial per capita health care costs and, if so, the actuary should make appropriate adjustments.

The actuary should also take into account the impact of other offsets, such as prescription drug rebates, workers' compensation, and auto insurance, if in the actuary's professional judgment, their impact is significant.

3.7.7 Age-Specific Costs—The actuary should use age-specific initial and projected per capita health care costs for both self-funded and insured **benefit plans**, except as noted in (b) below. If age ranges are used, the actuary should refer to section 3.21.

Unless otherwise specified in (a) below, the actuary should develop age-specific costs based on the demographic distribution of the group under consideration and the group's total expected claims or **premiums**.

If the claims experience of the active and retiree groups is combined in the development of the **premium** applicable to the non-Medicare retiree group, the actuary should reflect the excess of the retirees' age-specific costs over **premiums** as an implicit subsidy for the non-Medicare retirees.

a. Pooled Health Plans—If a **pooled health plan's premiums** are based solely on the claims experience of the total population of the **pooled health plan**, and not adjusted for the claims or demographics of the group under consideration, the actuary should develop age-specific costs based upon the total **pooled health plan's** demographics and expected claims costs or **premiums** rather than based on the group's own demographics and expected claims costs or **premiums**. If the **premiums** are instead adjusted for the claims or demographics of the group under consideration, the actuary should develop age-specific costs based, in part, on the demographics and expected claims costs of the group under consideration.

The actuary should base the age-specific costs for the group under consideration on the demographic distribution of all covered health plan members by age as provided by the **pooled health plan**, if available. If the information is not available from the **pooled health plan**, then the actuary may make a reasonable assumption regarding the demographic distribution for the **pooled health plan** to determine the age-specific cost. Alternatively, the actuary may base the age-specific cost on manual rates or other sources

relevant to the plan of benefits covering the members of the group under consideration.

b. Exceptions—The initial and projected per capita costs may be developed without regard to adjustments for age only if:

1. the **measurement period** is sufficiently short that aging is not expected to significantly affect the measurement (for example, a three-year cash flow projection for a **plan sponsor's** budget forecasting, or a projection of a closed retiree group in a **pooled health plan** where all coverage ends in five years); or

2. costs do not vary significantly by age for the type of **benefit plan** being valued (for example, Medicare Advantage plans, or medical plans with a sufficiently low annual benefit limit).

3.7.8 Adjustment for Plan Design Changes—The actuary should adjust the claims costs to reflect any significant differences between the **benefit plan** designs in effect for each experience period and those in effect during the initial year of the **measurement period**. The actuary should also reflect the impact of any significant changes in other provisions of the **retiree group benefits program** (for example, **participant contributions**).

3.7.9 Adjustment for Administrative Practice Changes—The actuary should adjust the claims costs to reflect any significant differences between the administrative practices in place during each experience period and those in place during the initial year of the **measurement period**. Examples include changes in provider networks, claim adjudication procedures, and enrollment practices.

3.7.10 Adjustment for Large Individual Claims—When data are relevant and available, the actuary should review the frequency and size of large claims and adjust initial per capita health care costs if, in the actuary's professional judgment, the prevalence of large claims is expected to be significantly different in the future. The actuary should also adjust historical large claims used in the development of per capita health care costs for any significant changes to the annual maximum, lifetime maximum, or stop-loss parameters. When **stop-loss coverage** is in force, the actuary should assess whether the claims data is gross or net of stop-loss recoveries and should reflect stop-loss **premiums** in the development of initial per capita health care costs.

3.7.11 Adjustment for Trend—When adjusting the claims experience during earlier periods to the initial year of the **measurement period**, the actuary should reflect the effect of **trend** that has occurred between those earlier experience periods and the initial year of the **measurement period**. The actuary may reflect experience from the broader health care market when making these **trend** adjustments.

The actuary should consider using separate **trend** rates for major cost components (for example, medical, drugs, and health plan administration).

3.7.12 Adjustment When Plan Sponsor is Also a Provider—When the **plan sponsor** is also a health care provider under the **benefit plan**, the actuary should analyze the charges incurred and reimbursements received by such **plan sponsor** and may make adjustments in the measurement model to reflect the underlying transactions.

3.7.13 Use of Other Modeling Techniques—The actuary may use modeling techniques which supplement or refine those described above. Examples of such techniques include models that project a distribution of expected claims with an associated probability distribution and models that assign different claims costs for the last year of life.

3.7.14 Benefit Plan Administrative Expenses—Consistent with the purpose of the measurement, the actuary should include applicable **benefit plan** administrative **expenses** when performing the measurement. The actuary may include **expenses** in claims costs; express them on a per capita basis, as a percentage of claims, or as fixed amounts; or use any other reasonable method.

3.8 Modeling the Cost of Death Benefits—When death benefits are provided through a **benefit plan**, the actuary should select assumptions and measurement methods that take into account face amounts and their age-specific costs, any applicable **participant contributions**, implicit subsidies, and any applicable life insurance company administrative **expenses** and risk charges.

3.9 Model Consistency—The actuary should review the modeled provisions of the **retiree group benefits program**, **covered population**, per capita health care costs, and death benefit costs as a whole to evaluate their consistency. The actuary should refer to ASOP No. 56 for guidance on model consistency.

3.10 Data Quality and Consistency—The actuary should refer to ASOP No. 23, *Data Quality*, for guidance on selecting and reviewing data and making appropriate disclosures regarding the data.

3.10.1 Data Quality at Each Level of Usage—Data that may be of appropriate quality for determination of certain assumptions within a model may not be of appropriate quality for determination of other assumptions. When combining or separating data, the actuary should review the data for suitability for the purpose of the measurement. For example, data from a **benefit plan** may be sufficient for setting an aggregate per capita health care cost but not be of sufficient size to set per capita health care costs by location.

3.10.2 Data Inconsistency—If the actuary finds data elements that appear to be significantly inconsistent with modeled provisions of the **retiree group benefits program**, Medicare eligibility, other data elements, or data used for prior

measurements, the actuary should take appropriate steps to address such apparent inconsistencies.

3.11 Administrative Inconsistencies—In general, the actuary may rely on the **plan sponsor's** representations. When in the course of performing the measurement, the actuary becomes aware of a significant inconsistency between administrative practice and plan documents, stated **plan sponsor** policies, **participant** communications, or applicable law, the actuary should do the following:

a. discuss the inconsistency with the **plan sponsor**, the administrator, or any other appropriate parties; and

b. adjust the model appropriately, consistent with the purposes of the measurement.

3.12 Other Information from the Principal—The actuary should obtain from the principal other information, such as accounting policies, funding elections, or funding policies necessary for the purpose of the measurement.

3.13 Assumptions—The actuary should refer to ASOP No. 27, *Selection of Assumptions for Measuring Pension Obligations*, for guidance on the selection and assessment of assumptions, including the **retiree group benefits** assumptions discussed in this standard.

The actuary should select assumptions such that the combined effect of the assumptions selected by the actuary is expected to have no significant bias (i.e., it is not significantly optimistic or pessimistic) except when provisions for adverse deviation or plan provisions that are difficult to measure are included or when alternative assumptions are appropriate for the purpose of the measurement.

When a pension plan and a **retiree group benefits program** share a common population, the actuary should take into account the similarities and differences between the characteristics of the plans in selecting assumptions. Different assumptions may be required to measure **retiree group benefits program** obligations than are required to measure pension obligations. For example, the discount rate selected for measuring pension benefit obligations may not be appropriate for measuring **retiree group benefits** obligations because the payment patterns may be different. When considering an assumption selected for a pension valuation, the actuary should determine whether the assumption is appropriate for the **retiree group benefits program** and, if not, modify the assumption accordingly.

3.13.1 Health Care Cost Trend Rates—When selecting health care cost **trend** rates, the actuary should do the following:

a. take into account factors such as general inflation, medical inflation, utilization, technology improvements, definition of covered charges, and leveraging caused by health plan design features not explicitly modeled (for

example, the effect of Centers for Medicare and Medicaid Services funding levels on Medicare Advantage Plans);

b. take into account major cost components such as hospital, prescription drugs, other health care services, stop-loss **premiums**, and administrative **expenses,** and consider using different **trend** rates for such components;

c. consider using different **trend** rates for pre- and post-Medicare claims; and

d. consider developing an initial **trend** assumption, ultimate **trend** assumption, and select period with a transition pattern between the initial and ultimate rates.

When developing an initial **trend** assumption, the actuary should take into account known or expected changes in per capita health care costs in the year(s) following the **measurement date**, the sustainability of current **trends** over an extended period, and the possible need for an ultimate **trend** assumption that is different from the initial **trend** assumption.

When developing the ultimate **trend** assumption and the select period for transitioning from the initial to ultimate **trend** assumption, the actuary should take into account relevant long-term economic factors such as projected growth in per capita gross domestic product (GDP), projected long-term wage inflation, and projected health care expenditures as a percentage of GDP. The actuary should choose a transition pattern and select period that reasonably reflects anticipated experience.

The actuary should not reflect aging of the **covered population** when selecting the **trend** assumption for projecting future costs (see section 3.7.7 for a discussion of age-specific costs).

3.13.2 Other Cost Trend Rates—The actuary should consider selecting different **trend** assumptions for costs other than health care benefits, such as administrative expenses and long-term care insurance.

3.13.3 Participant Contribution Changes—When selecting assumptions related to future **participant contributions**, the actuary should take into account whether and how cost sharing plan design structures affect such assumptions.

3.13.4 Adverse Selection—The actuary should assess whether **adverse selection** will have a significant impact on plan costs. If so, the actuary should reflect **adverse selection** in the initial per capita health care costs, **trend** rates, or other assumptions, either implicitly or explicitly. Examples where **adverse selection** may have a significant impact on plan costs include the following:

a. when a **retiree group benefits program** requires **participant contributions**;

b. when a **retiree group benefits program** offers **benefit options**; and

c. when there are anticipated changes in future cost sharing (or other factors affecting retiree risk characteristics).

3.13.5 Aging Factors— When health benefits are provided, the actuary should select aging factor assumptions that reflect the relative change in health care claims costs for a given age over a previous age, for the purpose of developing initial and projected age-specific health care costs as described in section 3.7.7. The actuary should select the underlying aging factor assumptions based on reliable **normative databases**, credible and relevant health care claims experience, or a blend of both.

3.13.6 Disability—When selecting disability assumptions, the actuary should follow the guidance in ASOP No. 27. The actuary should select assumptions regarding disability incidence, per capita health care costs, recovery, mortality, and eligibility for Social Security disability benefits that are consistent with the coverage provided to **participants** with disabilities under the **retiree group benefits program**. When the actuary considers disabled life coverage significant to the measurement, the actuary should select assumptions that reflect when benefits are payable to **participants** with disabilities, the definition of disability, and how the benefits are coordinated with other programs.

3.13.7 Retirement—When selecting a retirement assumption, the actuary should follow the guidance in ASOP No. 27. The actuary should select rates of retirement and benefit commencement consistent with the provisions of the **retiree group benefits program**, which may differ from provisions of any associated pension plan. The actuary should select explicit age- or service-related retirement rates. A single average retirement age is generally not appropriate due to the higher cost of coverage a retiree incurs prior to becoming eligible for Medicare.

3.13.8 Mortality—When selecting mortality assumptions, the actuary should follow the guidance in ASOP No. 27. The actuary should review the plan provisions and the benefits provided by the **retiree group benefits program** when selecting a base mortality table. The actuary should consider using headcount-weighted mortality tables instead of amount-weighted mortality tables for **retiree group benefits** that are not compensation related.

3.13.9 Participation, Benefit Options, and Dependent Coverage Assumptions—The actuary should select assumptions relating to retirees' participation, election of **benefit options**, and dependent coverage.

a. Retiree Group Benefits Program Participation—When selecting participation assumptions, the actuary should consider reflecting the effects

of initial acceptance, lapsing, and re-enrollment. Furthermore, when selecting participation assumptions, the actuary should take into account the following factors:

i. empirical data and future expectations regarding participation;

ii. how changes in **retiree group benefits program** eligibility rules, **benefit options**, and **participant contribution** rates have influenced experience over time;

iii. **participants**' responses to changes in **participant contribution** levels and **benefit options**; and

iv. eligibility rules governing lapsing coverage and subsequent re-enrollment.

If changes in these factors are anticipated, the actuary should consider selecting participation rates that vary over the **measurement period** for both current and future retired **participants**.

b. Election of Benefit Options—When selecting election rates among different **participant benefit options**, the actuary should take into account the following factors:

i. historical election rate experience among current retirees;

ii. current proportions of such elections among current active members;

iii. current availability of **benefit options** to newly retiring active members; and

iv. expected **participant contributions** affecting such elections or other factors affecting future availability.

If changes in these factors are anticipated, the actuary should consider selecting **benefit option** election rates that vary over the **measurement period** for both current and future retired **participants**.

When developing the per capita costs as a weighted composite among different **benefit options**, the actuary should take into account the factors in this section 3.13.9(b).

c. Dependent Coverage—When selecting **dependent** coverage assumptions, the actuary should take into account the following factors:

i. initial eligibility for **dependent** coverage under the **retiree group benefits program**;

ii. the impact of the **retiree group benefits program's** rules governing changes in **dependent** coverage after retirement, such as remarriage or reaching age limits, if significant;

iii. historical **dependent** coverage rate experience;

iv. **participant contribution** rates for **dependent** coverage; and

v. expected impact of the retired **participant's** gender on **dependent** coverage.

d. Dependent Ages—If the ages of **dependents** are unknown, the actuary should select age assumptions for **dependents** that reflect the expected difference in ages between retirees and **dependents**. Examples include children or other **dependents** of future retirees, or current retirees with incomplete data.

3.13.10 Effect of Retiree Group Benefits Program Design Changes on Assumptions—When selecting assumptions, the actuary should take into account the impact of relevant **retiree group benefits program** design changes during the **measurement period**. Whenever changes in provisions are being modeled, the actuary should assess whether assumptions that in combination are appropriate for measuring overall costs are also appropriate for valuing the provision under study. For example, if a **plan sponsor** adds (or advises the actuary of its intent to add) HMO coverage options that may be selected by a portion of its group of retired **participants**, the actuary should take into account how the additional coverage options affect the cost of current coverage, future cost **trends**, and participation. Both short-term and long-term implications of the change should be considered.

Unless inconsistent with the purpose of the measurement, the actuary should assume that the **retiree group benefits program** will continue indefinitely even though many **plan sponsors** have reserved the right to change unilaterally or terminate their **retiree group benefits programs**. When consistent with the purpose of the measurement, the actuary should measure uncertain future changes in the **retiree group benefits program** provisions assuming explicit probabilities for those changes.

3.13.11 Investment Return Assumption—When selecting an investment return assumption, the actuary should follow the guidance in ASOP No. 27. When selecting an investment return assumption for the purpose of determining a discount rate for a **funding valuation**, the actuary should take into account the anticipated returns of all known sources of assets the **plan sponsor** intends to use to satisfy **retiree group benefits program** obligations, including any known sources other than the

program's **dedicated assets**. For example, if a **plan sponsor** relies on operating funds to satisfy a portion of **retiree group benefits program** obligations, the anticipated returns on the operating funds may be lower than the anticipated returns on the program's **dedicated assets.**

3.14 Retiree Group Benefits Program Assets—When measuring the unfunded obligation, allocating **periodic costs** to time periods, and calculating **actuarially determined contributions**, the actuary should take into account **dedicated assets** of the **retiree group benefits program**, if any. The actuary should take into account any additional requirements imposed by the purpose of the measurement, such as requirements imposed by accounting standards. Depending on the purpose of the measurement, such as for management planning purposes, taking non-**dedicated assets** into account may be appropriate.

The actuary should obtain sufficient details regarding insurance policies held as **dedicated assets** to determine an appropriate value, reflecting the nature of the contractual obligations upon early termination of the policies, as well as the costs of continued maintenance of the policies. If the cash surrender value of the policies is not readily determinable, the actuary should use professional judgment to develop an appropriate value, depending on the purpose of the measurement.

3.15 Relationship Between Asset and Obligation Measurement—The actuary should measure the **retiree group benefits program** obligation in a manner that is consistent with the assets supporting the obligation as reported as of the **measurement date**, with respect to benefits paid versus benefits yet to be paid. For example, if the **retiree group benefits program** or **plan sponsor** assets have been reduced to reflect particular benefit payments, then the value of those benefit payments should be excluded from the obligation.

3.16 Actuarial Cost Method—When selecting an **actuarial cost method** to assign **periodic costs** or **actuarially determined contributions** to time periods in advance of the time benefit payments are due, the actuary should select an **actuarial cost method** that meets the following criteria:

a. The period over which **normal costs** are allocated for an active employee **participant** begins no earlier than the relevant date of employment and does not extend beyond the last assumed retirement age. The period may be applied to each individual employee or to groups of employees on an aggregate basis.

When a plan has no active employee **participants**, a reasonable **actuarial cost method** will not produce a **normal cost** for benefits. For purposes of this standard, an employee **participant** does not cease to be an active employee **participant** merely because the employee is no longer accruing benefits under the plan.

b. The attribution of **normal costs** bears a reasonable relationship to some element of the **retiree group benefit program's** benefit formula or the employee's compensation or service. The attribution basis may be applied on an individual or group basis. For example, the **actuarial present value of projected benefits** for

each employee may be allocated by that employee's own compensation or may be allocated by the aggregated compensation for a group of employees.

c. **Expenses** are considered when assigning **periodic costs** or **actuarially determined contributions** to time periods. **Benefit plan** administrative **expenses** should be included in the per capita costs as discussed in section 3.7.14. Other types of **expenses** for a period may be added to the **normal costs** for benefits, may be reflected as a percentage load on the **retiree group benefits program** obligations, or may be reflected as an adjustment to the investment return assumption or the discount rate.

d. The sum of the **actuarial accrued liability** and the **actuarial present value** of future **normal costs** equals the **actuarial present value of projected benefits** and **expenses**, to the extent **expenses** are included in the **actuarial accrued liability** and **normal cost**. For purposes of this criterion, under a **spread gain actuarial cost method**, the sum of the actuarial value of assets and the unfunded **actuarial accrued liability**, if any, shall be considered to be the **actuarial accrued liability**.

When disclosing a **funded status** measurement using a **spread gain actuarial cost method**, the actuary should also calculate a **funded status** measurement using an **immediate gain actuarial cost method**.

3.17 Amortization Method—When selecting an **amortization method**, the actuary should select an **amortization method** for each amortization base that is expected to produce amortization payments that fully amortize the amortization base within a reasonable time period or reduce the outstanding balance by a reasonable amount each year.

For purposes of determining a reasonable time period or a reasonable amount, the actuary should take into account factors including the following, if applicable:

a. whether the **amortization method** is open or closed;

b. the source of the amortization base;

c. the anticipated pattern of the amortization payments, including the length of time until amortization payments exceed nominal interest on the outstanding balance;

d. whether the amortization base is positive or negative;

e. the duration of the **actuarial accrued liability**;

f. the average remaining service lifetime of active **participants**; and

g. the **funded status** of the program or period to insolvency.

When selecting an **amortization method**, the actuary should select an **amortization**

method that is expected to produce total amortization payments that are expected to fully amortize the unfunded within a reasonable amount or reduce the unfunded **actuarial accrued liability** by a reasonable amount within a sufficiently short period.

The actuary should assess whether the unfunded **actuarial accrued liability** is expected to be fully amortized.

For purposes of this section, the actuary should assume that all assumptions will be realized and **actuarially determined contributions** will be made when due.

3.18 Asset Valuation Method—The actuary should refer to ASOP No. 44, *Selection and Use of Asset Valuation Methods for Pension Valuations*, for guidance on the selection and use of an asset valuation method.

3.19 Allocation Procedure—When selecting a **cost allocation procedure** or **contribution allocation procedure**, the actuary should take into account the following:

a. the balance among benefit security, intergenerational equity, and stability or predictability of **periodic costs** or **actuarially determined contributions**;

b. the timing and duration of expected benefit payments;

c. the nature and frequency of plan amendments; and

d. relevant input from the principal, for example, a desire to achieve a target funding level within a specified time frame.

3.20 Consistency between Contribution Allocation Procedure and the Payment of Benefits—When selecting a **contribution allocation procedure**, the actuary should select a **contribution allocation procedure** that, in the actuary's professional judgment, is consistent with the plan accumulating adequate assets to make benefit payments when due, assuming that all assumptions will be realized and that the **plan sponsor** or other contributing entity will make **actuarially determined contributions** when due. In some circumstances, a **contribution allocation procedure** may not be expected to produce adequate assets to make benefit payments when they are due even if the actuary uses a combination of assumptions selected in accordance with this standard and ASOP No. 27, an **actuarial cost method** selected in accordance with section 3.16 of this standard, and an asset valuation method selected in accordance with ASOP No. 44.

Examples of such circumstances include the following:

a. a plan covering a single **participant** with funding that continues past that **participant's** expected benefit duration;

b. a plan providing only pre-Medicare benefits with backloaded funding as compared to the expected benefit pattern; and

c. a plan amendment with an amortization period so long that overall plan **actuarially determined contributions** would be scheduled to occur too late to make plan benefit payments when due.

3.21 Approximations and Estimates—Where circumstances warrant, the actuary may use approximations or estimates. The following are examples of such circumstances:

a. the actuary reasonably expects the results to be substantially the same as the results of detailed calculations;

b. the actuary's assignment requires informal or rough estimates; and

c. the actuary reasonably expects the amounts being approximated or estimated to represent only a minor part of the overall **retiree group benefits** obligation, **periodic cost**, or **actuarially determined contribution**.

When using approximations or estimates, the actuary should use professional judgment to establish a balance between the degree of refinement of methodology and whether the impact on the results is material.

3.22 Volatility—If the scope of the actuary's assignment includes an analysis of the potential range of future **retiree group benefits program** obligations, **periodic costs**, **actuarially determined contributions**, or **funded status**, the actuary should take into account sources of volatility that, in the actuary's professional judgment, are significant. Examples of potential sources of volatility include the following:

a. **retiree group benefit program** experience differing from that anticipated by the assumptions, as well as the effect of new entrants;

b. changes in assumptions, such as medical **trend**, initial per capita health care costs, acceptance rates, or lapse rates;

c. the effect of discontinuities in applicable law or accounting standards, such as welfare benefit fund limits or the end of amortization periods;

d. the delayed effect of smoothing techniques, such as the pending recognition of prior experience losses; and

e. patterns of rising or falling **periodic cost** expected when using a particular **actuarial cost method** for the **covered population**.

When analyzing potential variations in experience or assumptions, the actuary should exercise professional judgment in selecting a range of variation in these assumptions (while maintaining internal consistency among these assumptions, as appropriate) and in selecting a methodology by which to analyze them, consistent with the scope of the assignment.

3.23 Reasonableness of Results—The actuary should review the measurement results for reasonableness.

3.23.1 Modeled Cash Flows Compared to Recent Experience—The actuary should compare the expected cash flows produced by the model for the first year from the **measurement date** to actual cash flows available over a recent period of years. If the expected and actual cash flows are significantly different, the actuary should determine the material sources of such differences (for example, health care cost **trends**, large claims, a change in the demographics of the group, or the volatility of experience in **benefit plans** with limited credible experience).

3.23.2 Results Compared to Last Measurement—The actuary should compare the overall results to the last measurement's results when available and applicable. If the results are significantly different from results the actuary expected based on the last measurement, the actuary should determine the material sources of such differences. If another actuary performed the prior measurement, some allowance may be made for differences due to different actuarial techniques or modeling. The actuary should, if practical, review the prior actuary's documentation and, if necessary, seek further information.

If the actuary identifies any significant differences from the comparisons above, the actuary should determine if any changes to assumptions or methods are appropriate to address these differences.

3.24 Output Smoothing Method—When selecting an **output smoothing method**, the actuary should select an **output smoothing method** that results in a reasonable relationship between the smoothed contribution and the corresponding **actuarially determined contribution** without output smoothing. A reasonable relationship includes the following:

a. the **output smoothing method** produces a value that does not fall below a reasonable range around the corresponding **actuarially determined contribution** without output smoothing; and

b. any shortfalls of the smoothed contribution to the corresponding **actuarially determined contribution** without output smoothing are recognized within a reasonable period of time.

3.25 Implications of Contribution Allocation Procedure or Funding Policy—When performing a **funding valuation**, the actuary should do the following:

a. qualitatively assess the implications of the **contribution allocation procedure** or the plan's funding policy on the plan's expected future contributions and **funded status**;

b. estimate how long before any contribution as determined by the **contribution**

allocation procedure or the plan's funding policy is expected to exceed the **normal cost** plus interest on the unfunded **actuarial accrued liability**, if applicable;

c. estimate the period over which the unfunded **actuarial accrued liability**, if any, is expected to be fully amortized; and

d. assess whether the **contribution allocation procedure** or funding policy is significantly inconsistent with the plan accumulating assets that will be adequate to make benefit payments when due, and estimate the approximate time until assets are depleted.

For purposes of this section, contributions set by law or by a contract, such as a collective bargaining agreement, constitute a funding policy.

For purposes of this section, the actuary may presume that all assumptions will be realized and the **plan sponsor** (or other contributing entity) will make contributions anticipated by the **contribution allocation procedure** or funding policy.

3.26 Contribution Lag—When calculating an **actuarially determined contribution**, the actuary should consider reflecting the passage of time between the **measurement date** and the expected timing of actual contributions.

3.27 Reasonable Actuarially Determined Contribution—When performing a **funding valuation**, except where the **actuarially determined contribution** is based on a **prescribed assumption or method set by law**, the actuary should also calculate a reasonable **actuarially determined contribution**. For this purpose, an **actuarially determined contribution** is reasonable if it uses a **contribution allocation procedure** that satisfies the following conditions:

a. all significant assumptions selected by the actuary are reasonable, all significant **prescribed assumptions or methods set by another party** do not significantly conflict with what in the actuary's professional judgment is reasonable in accordance with section 3.13 and with ASOP No. 27, and the combined effect of these assumptions is expected to have no significant bias (i.e., it is not significantly optimistic or pessimistic) except when provisions for adverse deviation are included;

b. the **actuarial cost method** used should be consistent with section 3.16. If an **actuarial cost method** with individual attribution is used, each **participant's normal cost** should be based on the provisions of the **retiree group benefits program** applicable to that **participant**;

c. if an **amortization method** is used, it should be consistent with section 3.17;

d. if an asset valuation method is used, it should be consistent with section 3.18;

e. if an **output smoothing method** is used, it should be consistent with section 3.24; and

f. the **contribution allocation procedure** should, in the actuary's professional judgment, be consistent with the program accumulating assets adequate to make benefit payments when due, assuming that all assumptions will be realized and that the **plan sponsor** or other contributing entity will make **actuarially determined contributions** when due.

3.28 Identification of Risks to be Assessed—The actuary should identify risks that, in the actuary's professional judgment, may reasonably be anticipated to significantly affect the plan's future financial condition. Examples of risks include the following:

a. the risk that initial per capita costs will be different from expected;

b. the risk that **trends** will be different from expected;

c. the risk that future benefit improvements or reductions will occur;

d. the risk that the Medicare program will be different in the future from expected;

e. the risk that mortality or other demographic experience will be different from expected;

f. the risk that interest rates will be different from expected; and

g. the risk that investment returns will be different from expected.

For purposes of this section and section 3.29, risk means the potential of actual future measurements deviating from expected future measurements resulting from actual future experience deviating from actuarially assumed experience.

3.29 Assessment of Risks Identified—The actuary should assess risks identified by the actuary in accordance with section 3.28, including the potential effects of the identified risks on the plan's future financial condition. The assessment should take into account circumstances specific to the plan (for example, plan design, contractual nature of benefits, funding policy, investment policy, **funded status**, or plan demographics).

This section does not require the assessment to be based on numerical calculations except as described in sections 3.29.1 and 3.29.2. If, in the actuary's professional judgment, a more detailed assessment would be significantly beneficial for the intended user to understand the risks identified by the actuary, the actuary should recommend to the principal that such an assessment be performed.

The actuary may comply with the requirements of this section by reviewing a previous risk assessment and confirming it is appropriate for the purpose of the measurement.

The actuary should identify relevant historical values of the plan's actuarial measurements that, in the actuary's professional judgment, are significant to understanding the risks identified, if historical values of the plan's actuarial measurements are reasonably available.

If the nature of the actuary's assessment of risk requires the selection of assumptions or methods, the actuary should use professional judgment in making those selections.

3.29.1 Plan Maturity Measures—The actuary should consider calculating plan maturity measures that, in the actuary's professional judgment, are significant to understanding the risks associated with the plan.

3.29.2 Low-Default-Risk Obligation Measure—When performing a **funding valuation**, the actuary should calculate a low-default-risk obligation measure of the benefits earned (or costs accrued if appropriate under the **actuarial cost method** used for this purpose) as of the **measurement date**. The actuary need not calculate this obligation measure more than once per year.

When calculating this measure, the actuary should use an **immediate gain actuarial cost method**.

When calculating this measure, the actuary should select a discount rate or discount rates derived from low-default-risk fixed income securities whose cash flows are reasonably consistent with the pattern of benefits expected to be paid in the future. Examples of discount rates that may meet these requirements include the following:

a. US Treasury yields; and

b. yields on corporate or tax-exempt general obligation municipal bonds that receive one of the two highest ratings given by a recognized ratings agency.

When calculating this measure, the actuary should not reflect benefit payment default risk or the financial health of the **plan sponsor**. Additionally, the actuary should assume that the **retiree group benefits program** will continue indefinitely even though many **plan sponsors** have reserved the right to change unilaterally or terminate their **retiree group benefits programs**.

Other than the discount rate or discount rates, the actuary may use the same assumptions used in the **funding valuation** for this measure. Alternatively, the actuary may select other assumptions that are consistent with the discount rate or discount rates and reasonable for the purpose of the measurement, in accordance with ASOP No. 27.

The actuary should provide commentary to help the intended user understand the significance of the low-default-risk obligation measure with respect to the **funded status** of the **retiree group benefits program**, contributions, and the security of **participant** benefits. The actuary should use professional judgment to determine the appropriate commentary for the intended user.

3.30 Collaborating Actuaries Issuing Joint Opinions—The various elements of a **retiree group benefits** measurement may require expertise in health data analysis and long-term projections. In recognition of the complexities involved, two or more actuaries with complementary qualifications in the health and pension practice areas may collaborate on actuarial services within the scope of this standard and jointly issue an opinion in accordance with the U.S. Qualification Standards. When jointly issuing an opinion, one or more actuaries should take responsibility for the overall appropriateness of the analysis, assumptions, and results of the joint opinion, including the consistency of assumptions across practice areas.

3.31 Assessment of Assumptions and Methods Not Selected by the Actuary—For each **measurement date**, the actuary should assess whether an assumption or method not selected by the actuary is reasonable for the purpose of the measurement, other than 1) **prescribed assumptions or methods set by law** and 2) assumptions or methods that the actuary has not selected and is unable to assess for reasonableness for the purpose of the measurement. When making this assessment, the actuary should use the guidance set forth in this standard for selection of assumptions and methods to the extent practicable. For purposes of this assessment, reasonable assumptions or methods are not necessarily limited to those the actuary would have selected for the measurement. In this assessment, the actuary should determine whether the assumption or method significantly conflicts with what, in the actuary's professional judgment, would be reasonable for the purpose of the measurement.

3.32 Reliance on Another Party—When relying on another party and thereby disclaiming responsibility for

a. data and other information relevant to the use of data, the actuary should refer to ASOP No. 23, *Data Quality*.

b. a model, the actuary should refer to ASOP No. 56, *Modeling*.

c. any other item not addressed above, excluding **prescribed assumptions or methods set by another party** or **prescribed assumptions or methods set by law**, the actuary should review the item for reasonableness and consistency to the extent practicable and appropriate within the scope of the actuary's assignment. In addition, the actuary should be reasonably satisfied that the reliance is appropriate, taking into account the following, as applicable:

1. when the other party is an actuary, whether the actuary knows that the other party is appropriately qualified and has followed applicable ASOPs;

2. whether the actuary knows that the other party has expertise in the applicable field;

3. whether the actuary knows the other party's stated purpose for the item and the extent to which it is consistent with the actuary's intended purpose; and

4. whether the actuary knows of differences of opinion within the other party's field of expertise that are material to the actuary's use of the item.

3.33 Documentation—In addition to the documentation requirements in section 3.7, the actuary should consider preparing and retaining documentation to support compliance with all the requirements of section 3 and the disclosure requirements of section 4. If preparing documentation, the actuary should consider preparing such documentation in a form such that another actuary qualified in the same practice area could assess the reasonableness of the actuary's work. 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 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 Required Disclosures in an Actuarial Report—When issuing an actuarial report to which this standard applies, the actuary should refer to ASOP Nos. 23, 27, 41, 44, and 56. In addition, the actuary should disclose the following. The actuary may comply with some, or all, of the specific requirements of this section by making reference to information contained in other actuarial communications available to the intended users, such as an annual **actuarial valuation** report.

a. a statement of the intended purpose of the measurement and a statement to the effect that the measurement may not be applicable for other purposes (see section 3.3);

b. the **measurement date** (see section 3.4);

c. the date(s) as of which the **participant** and financial information were compiled (see section 3.4.1);

d. a description of any adjustments made for events after the **measurement date** (see section 3.4.2);

e. a brief description of the roll-forward method, if any, used in the calculations, including the length of the roll-forward period (see section 3.4.3);

f. an outline or summary of significant **retiree group benefits program** provisions reflected in the **actuarial valuation**, a description of significant changes in the

retiree group benefits program provisions from those used in the immediately preceding measurement prepared for a similar purpose, a description of any significant **retiree group benefits program** provisions not reflected in the **actuarial valuation** along with the rationale for excluding such significant provisions of the **retiree group benefits program**, and a description of any anticipated future changes (see section 3.5);

g. if combining of health **benefit options** or grouping of population is used, a description of the combining or grouping techniques (see sections 3.5.2[g] and 3.6.1);

h. a summary of the **covered population** used in the **actuarial valuation** (see section 3.6);

i. a description of any assumed demographic characteristics when the **covered population** data is incomplete (see section 3.6.5);

j. if health care benefits are provided, a description of how initial per capita health care costs were developed (see section 3.7);

k. if per capita medical and drug costs are developed for Medicare-eligible **participants**, any alternative medical costs for those **participants** not covered for Part A or Part B, and the amount of any Part D subsidies used to offset drug costs (see 3.7.6);

l. if age-specific per capita health care costs are not used, the rationale for not doing so (see section 3.7.7[b]);

m. if using other modeling techniques as described in section 3.7.13, a description of the techniques used and a discussion of their applicability;

n. a description of significant inconsistencies in data or administration, if any, and a description of any adjustments made (see sections 3.10 and 3.11);

o. a description of any accounting policies or funding policies and elections made by the principal that are pertinent to the measurement (see section 3.12);

p. a description of all assumptions and methods that have a significant effect on the measurement, and a description of significant changes in the methods, if any, from those used in the immediately preceding measurement prepared for a similar purpose (see section 3.13);

q. for each assumption that has a significant effect on the measurement and that the actuary has selected, the information and analysis used to support the actuary's determination that the assumption is reasonable (see section 3.13);

r. for each assumption that has a significant effect on the measurement and that the actuary has not selected (other than **prescribed assumptions or methods set by law**), the information and analysis used to support the actuary's determination that the assumption does not significantly conflict with what, in the actuary's professional judgment, is reasonable for the purpose of the measurement (see section 3.13);

s. a statement indicating whether, in the actuary's professional judgment, the combined effect of the assumptions selected by the actuary, is expected to have no significant bias (i.e., it is not significantly optimistic or pessimistic), except when provisions for adverse deviation are included or when alternative assumptions are used for the assessment of risk (see section 3.13);

t. any changes in the significant assumptions from those previously used for the same type of measurement, the general effects of such changes, individually or in combination, in words or by numerical data, as appropriate. For each assumption that is neither a **prescribed assumption or method set by another party** nor a **prescribed assumption or method set by law**, the actuary should include an explanation of the information and analysis that led to the change. The disclosure may be brief but should be pertinent to the plan's circumstances. The disclosure may reference any actuarial experience or other study performed, including the date of the study.

u. a summary of how the actuary has reflected any **adverse selection** in the measurement (see section 3.13.4);

v. a description of the **actuarial cost method** and the manner in which **normal costs** are allocated, in sufficient detail to permit another actuary qualified in the same practice area to assess the significant characteristics of the method (see section 3.16);

w. if the actuary discloses a **funded status** based on a **spread gain actuarial cost method**, the **funded status** based on an **immediate gain actuarial cost method**, including a description of the **immediate gain actuarial cost method** used for this purpose, unless the sole purpose of the calculation was a contribution determination in accordance with federal law or regulation (see section 3.16);

x. if applicable, a description of the particular measures of **retiree group benefits program's** assets and obligations that are included in the actuary's disclosure of the **funded status** (see section 3.16). For **funded status** measurements that are not prescribed by federal law or regulation, the actuary should accompany this description with each of the following additional disclosures:

    1. whether the **funded status** measure is appropriate for assessing the sufficiency of **retiree group benefits program** assets to cover the estimated cost of settling the program's obligations;

2. whether the **funded status** measure is appropriate for assessing the need for or the amount of future **actuarially determined contributions**; and

3. if applicable, a statement that the **funded status** measure would be different if the measure reflected the market value of assets rather than the actuarial value of assets.

y. if applicable, the remaining balance to be amortized, the remaining amortization period, and the amortization payment included in the **periodic cost** or **actuarially determined contribution** for each amortization base along with, if applicable, a statement that the unfunded **actuarial accrued liability** is not expected to be fully amortized (see section 3.17);

z. if applicable, a description of the **cost allocation procedure** or **contribution allocation procedure** including a description of **amortization methods** and a description of any pay-as-you-go funding (i.e., the intended payment by the **plan sponsor** of some or all benefits when due) (see section 3.19);

aa. if, in the actuary's professional judgment, the actuary's use of approximations or estimates produced results that could differ materially from results based on a detailed calculation, a statement to this effect (see section 3.21);

ab. a statement, appropriate for the intended users, indicating that future measurements may differ significantly from the current measurement (see section 3.23), such as: "Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: **retiree group benefits program** experience differing from that anticipated by the assumptions; changes in assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period); and changes in **retiree group benefits program** provisions or applicable law. **Retiree group benefits** models necessarily rely on the use of approximations and estimates and are sensitive to changes in these approximations and estimates. Small variations in these approximations and estimates may lead to significant changes in actuarial measurements."

ac. one of the following (see section 3.22):

1. if the scope of the actuary's assignment included an analysis of the range of future measurements, disclosure of the results of such analysis together with a description of the factors considered in determining such range; or

2. a statement indicating that, due to the limited scope of the actuary's assignment, the actuary did not perform an analysis of the potential range of future measurements.

ad. if applicable, a description of any significant differences between the expected first year cash flow and actual recent cash flows, as well as a description of the material sources of any such differences (see section 3.23.1);

ae. if applicable, a description of any significant differences between the overall valuation results of the current and prior **measurement dates**, as well as a description of the material sources of any such differences (see section 3.23.2);

af. the following regarding assessment of risk (see sections 3.28 and 3.29):

1. the risks identified and the results of the risk assessment performed, including plan-specific commentary on the potential effects of the identified risks on the plan's future financial condition and the specific circumstances applicable to the plan that were taken into account;

2. if applicable, a description of each significant method or assumption upon which the actuary's risk assessment depends;

3. if applicable, a recommendation to the principal that a more detailed assessment be performed;

4. if applicable, the values of any plan maturity measures selected, including related commentary to help the intended user understand the significance of the plan maturity measures when assessing risk;

5. the historical values of any actuarial measurements and any other historical information relevant to the actuarial measurements selected, including related commentary to help the intended user understand the significance of this information when assessing risk; and

6. any limitations or constraints on the comprehensiveness of the risk assessment; and

ag. if applicable, identification of the actuary (or actuaries) taking responsibility for the overall appropriateness of the analysis, assumptions, and results of a joint opinion, including the consistency of assumptions across practice areas (see section 3.30).

4.1.1 Additional Disclosures for Funding Reports—In addition, when performing **funding valuations**, the actuary should disclose the following, if applicable:

a. a low-default-risk obligation measure (see section 3.29.2), and:

1. the discount rate or discount rates used and rationale for selection;

2. a description of other significant assumptions, if any, that differ

from those used in the **funding valuation** and rationale for their selection;

3. the **immediate gain actuarial cost method** used; and

4. commentary to help the intended user understand the significance of the low-default-risk obligation measure with respect to the **funded status** of the plan, plan contributions, and the security of **participant** benefits;

b. a description of any **output smoothing method** used, including the **actuarially determined contribution** that would have resulted without output smoothing (see section 3.24);

c. a qualitative description of the implications of the **contribution allocation procedure** or **plan sponsor's** funding policy on future expected plan **actuarially determined contributions** and **funded status**, including the significant characteristics of the **contribution allocation procedure or plan sponsor's** funding policy and assumptions used in the assessment (see section 3.25[a]);

d. an estimate of how long before any contribution as determined by the **contribution allocation procedure** or the plan's funding policy is expected to exceed the **normal cost** plus interest on the unfunded **actuarial accrued liability** (see section 3.25[b]);

e. an estimate of the period over which the unfunded **actuarial accrued liability** is expected to be fully amortized (see section 3.25[c]);

f. a statement indicating that the **contribution allocation procedure** or funding policy is significantly inconsistent with the plan accumulating adequate assets to make benefit payments when due, as well as an estimate of the approximate time until assets are depleted (see section 3.25[d]);

g. a description of any adjustments for contribution lag (see section 3.26); and

h. a reasonable **actuarially determined contribution**, the corresponding **funded status**, and any material assumptions or methods that were used in the calculation that are not otherwise disclosed. The actuary should include a description of how pertinent conditions discussed in section 3.19 have been taken into account in determining the reasonable **actuarially determined contribution**. The disclosure may be brief but should be relevant to the plan's circumstances.

4.2 Disclosures in an Actuarial Report about Assumptions or Methods Not Selected by the Actuary—The actuary should include disclosures in an actuarial report stating the source

of any material assumptions or methods that the actuary has not selected.

With respect to any assumption or method that the actuary has not selected, other than **prescribed assumptions or methods set by law**, the actuary's report should identify the following, if applicable:

a. any assumption or method that the actuary has not selected that, individually or in combination with other assumptions or methods, significantly conflicts with what, in the actuary's professional judgment, is reasonable for the purpose of the measurement (see section 3.31); or

b. any assumption or method that the actuary has not selected and is unable to assess for reasonableness for the purpose of the measurement.

4.3 Additional Disclosures in an Actuarial Report—The actuary also should include disclosures in an actuarial report in accordance with ASOP No. 41 for the following circumstances:

a. 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

b. if in the actuary's professional judgment, the actuary has deviated materially from the guidance of this ASOP.

4.4 Confidential Information—Nothing in the standard is intended to require the actuary to disclose confidential information.

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

Appendix

Background and Current Practices

Background

The original ASOP No. 6 was effective October 17, 1988. In addition, actuaries were provided guidance by Actuarial Compliance Guideline (ACG) No. 3, *For Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions (ACG No. 3)*, which was originally effective December 1, 1992. During the time these documents were being developed, the Financial Accounting Standards Board was raising the visibility of financial issues related to retiree group benefits with its development of Statement of Financial Accounting Standard (SFAS) No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. (Note that effective in July 2009, FASB reorganized all U.S. GAAP into one codification. Accounting Standards Codification (ASC) 715-60— Compensation—Retirement Benefits—Defined Benefit Plans—Other Postretirement replaces SFAS No. 106.) Prior to the issuance of the accounting guidance currently included in ASC 715-60, most plan sponsors provided and accounted for retiree group benefits on a pay-as-you-go basis. The move to accrual accounting necessitated greater actuarial involvement. In addition, other accounting bodies have issued comparable accounting guidance including the Governmental Accounting Standards Board under Statement Nos. 74 and 75; the International Accounting Standards Board under Statement No. 19; the National Association of Insurance Commissioners under Principles No 92; and the Federal Accounting Standards Advisory Board under Statement No. 5.

ASOP No. 6 and ACG No. 3 were written with a high level of educational content because the measurement of retiree group benefits program obligations was an emerging practice area that would be new to many actuaries. Note that ACG No. 3 was repealed in 2001 but still contains valuable educational material that was not included in subsequent revisions of ASOP No. 6.

The measurement of retiree group benefits obligations continues to develop as an actuarial field within the profession. The process of measuring retiree group benefits obligations is similar to the process of measuring pension obligations. The ASB has adopted or revised the following standards that provide more detailed guidance regarding specific elements of the process of measuring retiree group benefits obligations:

1. ASOP No. 5, *Incurred Health and Disability Claims;*

2. ASOP No. 23, *Data Quality*;

3. ASOP No. 25, *Credibility Procedures;*

4. ASOP No. 27, *Selection of Assumptions for Measuring Pension Obligations*;

5. ASOP No. 41, *Actuarial Communications*;

6. ASOP No. 44, *Selection and Use of Asset Valuation Methods for Pension Valuations;* and

7. ASOP No. 56, *Modeling*.

In addition, ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*, was revised to create an "umbrella" standard to tie together the applicable standards for pension plans and address overall considerations for the actuary when measuring pension obligations. Also, ASOP No. 51, *Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions*, while not directly applicable to retiree group benefits, is referenced within this standard.

Current Practices

This standard and the related standards listed in the Background section of this appendix cover actuarial practices that are central to the work regularly performed by actuaries measuring retiree group benefits obligations. The actuarial tasks covered by the standards are performed for a number of purposes, examples of which are discussed below:

1. Periodic Cost, Plan Sponsor Actuarially Determined Contribution, and Benefit Recommendations—Calculations may be performed for purposes of determining actuarial periodic cost, plan sponsor actuarially determined contribution, and benefit recommendations and related information. Examples are calculations related to the following:

    a. recommendations for the assignment of periodic costs or actuarially determined contributions to time periods for retiree group benefits programs;

    b. recommendations for the type and levels of benefits for specified periodic cost or plan sponsor actuarially determined contribution levels;

    c. plan sponsor actuarially determined contributions required under standards imposed by statute, regulations, or other third-party requirements;

    d. maximum actuarially determined contributions deductible for tax purposes;

    e. information required to evaluate alternative plan designs, assumptions, cost management programs, and provider networks; and

    f. determination of progress toward a defined financial goal, such as funding of projected benefits or limiting annual plan cash expense.

2. Evaluations of Current Funding Status—Calculations may be performed for purposes of comparing available assets to the actuarial present value of benefits (or a subset of those benefits) specified by the plan. Examples are calculations related to the following:

    a. actuarial present value of current or future benefit accruals (to the extent retiree group benefits are accrued);

    b. actuarial present value of benefits payable to currently retired participants or active participants eligible to retire; and

    c. information required with respect to plan mergers, acquisitions, spin-offs, and business discontinuances.

3. Projection of Cash Flow—Calculations may be done for the sole purpose of projecting the annual cash flow of retiree group benefits obligations. Examples are calculations related to the following:

    a. time horizon to exhaust trust assets; and

    b. projections of participant contributions or changes in participant contributions.

4. Evaluations of the Impact of Government or Third-Party Funding—Calculations may be performed to estimate the effect on funding of government or third-party funding. Some examples of such funding are:

    a. Retiree Drug Subsidy (RDS) program providing partial reimbursements to plan sponsors of drug benefits for Medicare-eligible retired participants;

    b. federal direct subsidy of Part D plans; and

    c. pharmaceutical manufacturer discounts on brand name drugs during the coverage gap.

Additional Resources

The following list of references is a representative sample of available sources of data, analyses, and published tables that may be useful when selecting assumptions. It is not intended to be an exhaustive list.

1. The appendix of ASOP No. 27 includes relevant reference sources for economic assumptions, demographic sources, and relevant pension-related American Academy of Actuaries Practice Notes.

2. General educational material on retiree group benefits as follows:

a. Skwire, Daniel, *Group Insurance*, 8th Edition, 2021

b. Yamamoto, Dale, *Fundamentals of Retiree Group Benefits*, 2nd Edition, 2015

c. Kaiser Family Foundation, Medicare topics: https://www.kff.org/medicare/

3. Health care cost trend data and information as follows:

a. Health Care Cost Institute https://healthcostinstitute.org/hccur/

4.

b. National Health Expenditures https://www.cms.gov/data-research/statistics-trends-and-reports/national-health-expenditure-data

c. Medicare Trustees Reports https://www.cms.gov/data-research/statistics-trends-and-reports/trustees-report-trust-funds

d. Medicare Technical Panel Reports https://www.cms.gov/data-research/statistics-trends-and-reports/trustees-report-trust-funds/technical-panel-reports

e. Getzen Model of Long-Run Medical Cost Trends https://www.soa.org/resources/research-reports/2024/2025-getzen-model-update/

5. Relevant American Academy of Actuaries Practice Notes as follows:

a. *ASOP No. 6 – Development of Age-Specific Retiree Health Cost Assumptions for Pooled Health Plans, including Applications to Non-Pooled Health Plans*

b. *Attestation of Actuarial Equivalence for Plan Sponsors Accepting a Retiree Drug Subsidy Under the Medicare Drug Program*

c. *Medicare Advantage Plan Cost Projections for Retiree Group Health Benefit Valuations*