

**Comment #5 – 7/11/12 – 9:41 a.m.**

Regarding ASOP No. 6 Revision

In general, I find the contents of this standard very welcome, and I thank the committee for its clearly thorough and cogent work. However, there are some elements of the revised standard about which I have concerns.

Community Rating

In the introductory remarks under this heading starting on page vii, the draft reads, in part, “the actuary should use full age-specific costs even if the plan is described as being community-rated.” It appears that the committee believes that age-adjusted claim costs should **always** be used for community rated plans. However, when I look at 3.7.8, it reads, in part, “If the group being valued participates in a pool with other groups, additional analysis relating to age-specific costs **may** be needed.” (My emphasis) I find that to be a bit inconsistent with the first quote, and suggest that the final standard should clarify this issue. In particular, I note that the draft does not define the term “community-rated.”

I am in agreement with most of 3.7.8, but I do not think that age-related claim cost methodology should be imposed on actuaries valuing benefit programs that are funded by paying premiums to a community-rated pool, if it is truly community-rated, and not in name only. Maybe this disagreement is about terminology. To me, “community-rated” means that each participating sponsor pays the same pmpm premium for each of its members, regardless of the ages of its members. If that’s what the committee means also, then we are in disagreement.

The basis of my disagreement is not about the difficulty of obtaining age-adjusted claim costs from the pool, but rather about whether age-adjusted claim costs should be used in every situation. I attended the spring health meeting session dealing with the draft, and understand from the speakers’ comments that the committee’s position is that the community-rated pool has a rate subsidy to deal with, and that subsidy is passed on to all participating sponsors. Therefore, so the argument goes, in order to recognize the rate subsidy, the member sponsors should use age-adjusted premiums. One of the speakers posited that the age-adjusted claim costs used by the member sponsor should be based on the age distribution of the pool, rather than of the sponsor. Well, that’s exactly how the community rate is developed. Therefore, in my opinion, the entire age risk borne by the pool is passed on to the member sponsors through the community rate, so basing the liabilities on the community rate should be a sufficient recognition by the sponsor of the subsidy. As long as the distribution of local members by age does not affect the premiums being paid by the sponsor, I don’t find it either necessary or desirable to project a stream of benefits that is different from what the sponsor is actually paying for its retirees. That’s the result you would get by using age-adjusted premiums.

I hope I’ve stated the speakers’ position correctly. If not, I do apologize.

It does not trouble me that we should be in disagreement about this issue. However, I don’t think the committee’s judgment should be imposed on practicing actuaries. The general tenor of most of the standard is instructive and advisory, as it should be, evidenced for example with the recurring phrase “the actuary should consider.” In this case, though, a more prescriptive tone is taken, which I consider to be inappropriate in this context, as this is not an opinion article, but a

standard of practice. I therefore recommend that the final standard include the “should consider” wording.

Retirement Assumption, Section 3.12.2(c).

I have the same concern expressed above about this section. I recommend the following wording instead: “The actuary should consider using explicit age- or service-related retirement rates. A single average retirement age may not be appropriate.”

Again, thanks to the ASB and the committee for it’s hard work on this standard, and thanks for the opportunity to express my opinions. I would be happy to correspond or discuss these issues further with the board or the committee.

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