

Appendix 2

Comments on the 1997 Third Exposure Draft and Committee Responses

The third exposure draft of the proposed standard was exposed for review in May 1997, with a comment deadline of September 2, 1997, which was subsequently extended to October 1. (The second and third exposure drafts summarize comments received on the first and second exposure drafts, respectively, and the responses of the Committee on Social Insurance to such comments. Copies of these exposure drafts are available from the ASB office.) Four letters of comment were received on the third exposure draft. Summarized below are the significant issues and questions contained in the comment letters, printed in standard type. The committee's responses appear in **boldface**.

General Comments

One commentator raised the issue of "macro" financial adequacy with respect to social insurance. The commentator suggested that, in addition to looking at the program cost relative to program income, the actuary should consider and test the ability of the economy to support the benefit payments. **The committee acknowledges that the commentator has a point in that the economy may not be able to provide the program income and assets as needed by the social insurance program. However, this is an issue that is outside the scope of this actuarial standard of practice.**

The same commentator suggested that if a social insurance program is skewed such that a subset of the covered population receives a disproportionately small amount of net benefit, the actuary should take this into account in determining the viability of the current program. **The committee again acknowledges that the commentator has a point, but feels that any attempt to determine future program changes based on presumed participant attitudes is too speculative and is outside the scope of this actuarial standard of practice.**

Section 1. Purpose, Scope, and Effective Date

Section 1.2, Scope—The third exposure draft specifically requested input with respect to the scope of the standard. Specifically, the committee requested comments on whether the listed exclusions regarding which programs are covered by the standard are appropriate. Three commentators commented on this area. One suggested that the scope be applied broadly to every social insurance program, or to none. The second asked if a program with prescribed benefits, but not prescribed income, wouldn't benefit from actuarial analysis. The third commented that the existence of a trust fund does not provide accountability. **As for the first comment, the committee agrees that the scope should be applied broadly to every social insurance program that meets the definition of such in the standard. The committee believes the definition of *social insurance program* from the third exposure draft, along with the listed**

examples, is satisfactory. As for the second comment, the committee notes that programs that do not meet all aspects of the definition of *social insurance* may benefit from actuarial analysis, but that it is not appropriate to subject such programs to the entire standard of practice. As for the third comment, the committee agrees, but believes that the wording in section 1.2(b), i.e., that *the program provides for explicit accountability*, is clear. No changes were made to the section.

Section 2. Definitions

Section 2.4, Financial Adequacy—The exposure draft specifically requested input on whether a definition for *financial adequacy* was needed and whether the proposed definition was appropriate. The one comment letter received on this section did not address the question as posed in the transmittal memorandum, but asked why a period of time is not specified within the definition. **While the phrase *specified period of time* is used within the definition, section 3.6.6, Tests of Financial Adequacy, provides further guidance: *If a test of financial adequacy is appropriate, the actuary normally should apply such a test to both short- and long-range periods.* The committee feels that the definition used in the third exposure draft is adequate. No change was made.**

Section 2.8, Program Cost—One commentator was concerned about the inclusion of an arbitrary target trust fund level while recognizing the need for a working cash balance. **The committee notes that the inclusion of such targets is discretionary based on the actuary’s judgment.**

Sections 2.12, Short-Range Period, and 2.14, Trust Fund—One commentator provided minor editorial comments on these two definitions. **The committee slightly revised sections 2.12 and 2.14 to reflect these comments.**

Section 3. Analysis of Issues and Recommended Practices

Section 3.3.2(d), Government Guarantee—One commentator was concerned with the amount of government subsidies that are likely to occur, preferring that a range of results be provided. **The committee believes that the presentation of ranges of results is adequately covered by section 3.5, Sensitivity Testing.**

Section 3.4, Actuarial Assumptions—One commentator provided minor editorial comments on this section. **The committee slightly revised the first paragraph of this section to reflect these comments.**

Section 3.6.2, Participants—One commentator wondered why open-group projections are preferred, while another wondered whether they are preferred or mandatory. **The section was revised to better reflect the committee’s intent.**

Section 3.6.5, Summarized Values—One commentator was confused as to why summarized values can't also be appropriate for short-term valuations as well. **The committee agrees and deleted the phrase, *For long-range valuations*, at the beginning of the sentence.**

Appendix 1—Background and Current Practices

Characteristics of Social Insurance—One commentator noted that new entrants are not included in actuarial valuations under other actuarial standards of practice. This commentator also expressed a belief that the principle of pensions *do* apply to social insurance programs. **The committee believes that the statement, *the laws and regulations governing private insurance and pensions do not apply*, is correct. The committee also believes that the text in appendix 1 regarding *new entrants and open groups* is helpful in understanding the need for this actuarial standard of practice. No changes were made to appendix 1.**

The Committee on Social Insurance of the American Academy of Actuaries thanks everyone who took the time and made the effort to submit comments on all three exposure drafts. The input was much appreciated.