



Article from

## **Health Watch**

May 2016

Issue 80

# Examining the Evidence: A Reader Response to “Blood, Guts, ASOPs and Delivery System Reform”

By David Ogden

*For this publication’s installment of Examining the Evidence, Dave Ogden has provided a response to Tia Goss Sawbney and Bruce Pyenson’s article in the December 2015 issue of Health Watch.*

I read the article “Examining the Evidence, Blood, Guts, ASOPs and Delivery System Reform” with interest. The subject is important, in that all actuaries need to understand the context of the situation they are analyzing, the sources of the data and assumptions, and ensure that the data, assumptions and results are appropriate. The authors’ issue appears to be that actuaries do not always put enough effort into understanding the assumptions and issues for an assignment. I suspect they are correct, but I do not think the Actuarial Standards of Practice (ASOPs) are really to blame. I think the authors misread the ASOPs (or did not read enough of them) and, thus, do not realize what actuaries are required to do in these situations.

The authors quote ASOP 41 correctly, but do not mention another section of ASOP 41 that supports their position. Section 3.4.4, “Responsibility for Assumptions and Methods,” lays out an actuary’s options and responsibilities when using assumptions. A paraphrase of this section follows:

1. The party responsible for each material method and assumption must be specified.
2. The actuary is assumed responsible for each assumption or method unless the communication specifies otherwise.
3. If the assumption or method is required by law, then the communication must say so.
4. If another party is responsible for the assumption or method, the actuary’s choices are as follows:
  - a. If the assumption or method does not significantly conflict with the actuary’s judgment, then the communication can be silent on the matter.
  - b. If the assumption or method significantly conflicts with the actuary’s judgment, the actuary must state so, including information cited in section 4.3 of the ASOP.
  - c. If the actuary is not able to judge the reasonableness of the assumption or method, the actuary must state so, including information cited in section 4.3 of the ASOP
  - d. Section 4.3 requires the actuary to:

- i. Indicate the party responsible for the method or assumption
- ii. The reason that party and not the actuary was responsible
- iii. Either
  1. The method or assumption conflicts with the actuary’s judgment, or
  2. The actuary is unable to judge the reasonableness of the method or assumption.

ASOP 41 does not quite literally require an actuary to do what the authors suggest, but it strongly indicates so. An actuary is not “off the hook” by simply saying they took the assumption from someone else. The actuary cannot “disavow responsibility for assessing reasonableness” (authors’ words) without indicating that they are unable to assess an assumption. A follow-up question in that case would be why the actuary is using an assumption that they cannot assess. There may be a good reason but it appears the actuary should provide an explanation.

ASOP 23 includes other guidance that is strongly related to the issue of the article. ASOP 23 covers data, not assumptions. However, ASOP 23 section 2.4 states: “Assumptions are not data, but data are commonly used in the development of actuarial assumptions.”

Further, ASOP 23 section 3.5 discusses the need to review data. To paraphrase Section 3.5:

1. An actuary should review data used for reasonableness and consistency.
2. The actuary need not review the data if the actuary believes that a review is not necessary or practical.
3. The actuary should consider what review, checking and auditing has already been done on the data, as well as the nature of the assignment and any existing constraints.

If the actuary does not perform a review, the actuary should disclose they did not do a review and disclose any resulting limitations on the work product.

So, once again, the ASOP does not literally require what the authors suggest, but it certainly implies such steps.

I think the article would have been stronger if it pointed out the actuary’s responsibility to do what they suggest, rather than to tell actuaries that ASOP 41 does not require them to be responsible for assumptions selected by other parties. ■



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