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SOA RELEASES NEW LONG-TERM HEALTH CARE COST TRENDS RESOURCE MODEL

Steve Siegel, ASA

What will the world look like 30 years from now? How about regular commuters to the moon celebrating the launch of the first lunar Starbucks with Venti Mocha Frappuccinos at the special grand opening price of \$52.95 (just \$1 more than the regular price of \$51.95 on Earth)? Or, how about the ultimate in Bluetooth technology, where cell phones are actually implanted permanently in eardrums? Talk about hearing ringing in your ears! And what new, wondrous technology for critically ill patients will impact health care costs?

Although my first two predictions for 2038 are clearly tongue-in-cheek, the last question is part of a real exercise in projection that actuaries who produce FAS 106 and GASB 45 valuations go through regularly. To help these actuaries, the SOA's Pension and Health Sections recently released a new resource model for projecting health care trends through the year 2099. The model and accompanying documentation can be found on the SOA Web site at: <http://www.soa.org/research/health/research-hlthcare-trends.aspx>

The original idea for the project came from Kevin Binder, who also served as chair of the group that oversaw development of the model. Binder, an actuary with Bolton Partners, had read a 2004 article in Business Week on possible increased scrutiny by the U.S. Securities and Exchange Commission (SEC) into assumptions made in connection with accounting for post-retirement benefits. The SEC was concerned that some assumptions might have been manipulated to meet companies' profit and balance sheet targets. Included among the assumptions that the SEC flagged was the level of health care cost inflation in relation to retirees' medical benefits.

The SEC's concern underscored the lack of actuarial research concerning long-term health care trends. Binder suggested that having a resource model that was both transparent in methodology and that clearly documented its data sources and economic assumptions would be a valuable tool for selecting long-term health care trend assumptions. Furthermore, the model could be used to help explain, document, and justify the assumptions to interested parties. With this objective in mind, the Pension Section's Research Team set out to hire a researcher to develop such a model – one that could easily be used by knowledgeable practitioners.

Subsequently, a Request for Proposals was issued and proposals from several leading experts were received. From those proposals, Professor Thomas Getzen of Temple University was selected to create the model. Prof. Getzen, a well-known health care economist, is also Executive

Countdown to Share Comments on CPD Requirement Begins!

Hurry! Don't miss your chance to share your comments with the SOA Board on the CPD Requirement Exposure Draft. The comment period, launched in November 2007, will close on February 22, 2008.

[Click here for more information.](#)

Save the Date:
June 4-6, 2008

The Joint CCA/SOA Employee Benefits Spring Meeting will take place in Tampa, FL. Stay tuned to www.soa.org, Meetings & Events for more information.

Director of the International Health Economics Association (iHEA). His textbook, *Health Economics and Financing* (Wiley; 3rd ed.), is on the SOA exam syllabus as part of the Health Systems Overview FSA module.

To oversee the research, prominent actuarial practitioners from both the Pension and Health Sections were recruited (with Binder chairing): John Cookson, Marilyn Oliver, Adam Reese, Russell Weatherholtz, and Keith Williams. The group was excited to forge a partnership with a researcher from outside the profession and felt that the multidisciplinary perspective Getzen provided would result in enhanced interest in the work by a wide range of health care professionals.

The results of the research include an Excel model that projects per-person expenditures and growth rates through 2099 using a set of equations and assumptions developed by Getzen with assistance from the project oversight group. The model includes baseline assumptions as well as flexibility for user-inputted alternative assumptions. The data sources underlying the model assumptions are specified in the accompanying technical documentation. This provides transparency and support for the ultimate results.

To further illuminate the model, the project oversight group authored a document that describes practical issues that might be encountered by actuaries using the model. Issues discussed include the relationship of short-term trend rates inputted by users to long-term projected rates, characteristics of the prescribed substantive plan to be valued and special cases that may require model adjustment. As well, examples of sample report language are provided.

To keep current with the latest health care data, the model will be updated annually. The timing of the updates will be dependent upon availability of the latest health care cost estimates from the Centers for Medicare and Medicaid Services (CMS) and other sources.

Interested readers may want to consider signing up for an SOA Web cast on the model that is planned for late February or early March. Details will be posted on the SOA Web site in the events section as soon as a date is finalized.

The Pension and Health Section Councils would like to express their thanks to the project oversight group for its dedication and valuable assistance in completing this effort. All of us involved in the project would also welcome any feedback you may have on the model, and thoughts for future related projects. Please e-mail me at the address below. Your comments are greatly appreciated!

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