

## SOA Long Term Medical Trend – Practical Issues for Health Actuaries

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In the POG's opinion the long term medical trend model baseline assumption inputs are reasonable long term economic assumptions. The baseline inputs are updated annually based on emerging economic trends to be as current as possible. However, the user of the model should understand each economic input assumption used by the model and consider modifying the baseline assumptions if they are not consistent with other economic assumptions used for the retiree medical valuation.

The long term medical trend model is typically used to select medical trend assumptions for retiree medical valuations to present liabilities disclosed under the appropriate accounting standards, or to determine contributions under a funding policy. In addition to the long term medical trend, retiree medical plan actuaries must select other economic assumptions. In particular the discount rate assumption, but there may also be assumptions for expected rates of returns, salary increases and/or overall payroll increases.

The POG recommends that the actuary consider the selection process for the other economic assumptions and use inputs to the SOA long term trend model that are consistent with the other economic assumptions. For example, the other economic assumptions will generally include either implicitly or explicitly an inflation component. The inflation input to the model should be consistent with the inflation component of the other economic assumptions. Similarly, the combination of inflation and real growth used for the model should be consistent with the long term assumption for wage growth unless the assumption is not material.

In some cases, economic assumptions are selected on the basis of an experience study on a periodic basis (e.g. every 5 years) and the economic assumptions are not typically modified until the subsequent experience study. In such cases, the actuary should consider a similar schedule in setting the economic assumption inputs to the long term medical trend model.

The POG believes that this recommendation is consistent with paragraph 3.12 of ASOP27 which states that "each economic assumption selected by the actuary should be consistent with every other economic assumption selected by the actuary for the measurement period..." And paragraph 3.12.5 of ASOP6 which states that "... The actuary should consider the reasonableness of each actuarial assumption independently on the basis of its own merits and its consistency with the other assumptions selected by the actuary..."