



CASUALTY ACTUARIAL SOCIETY

GARY R. JOSEPHSON
PRESIDENT

February 26, 2013

To: Dave Pelletier, Chair, IAA Actuarial Standards Committee
Rob Brown, Chair, IAA Social Security Task Force
Godfrey Perrot, IAA Social Security Task Force Liaison to Actuarial Standards Committee
Nicole Seguin, Executive Director, IAA
List-serve - SS.ISAP.comments@actuaries.org

From: Gary Josephson, President 

Re: Comments on exposure draft of *ISAP nn – Valuation of Social Security Programs*

Dear Nicole, Dave, Rob, and Godfrey:

The Casualty Actuarial Society appreciates the opportunity to comment on the draft ISAP for actuarial work on Social Security programs. We believe that well-formulated Standards contribute to the quality, consistency, and usefulness of the actuarial work that affects the profession's various stakeholders.

I am attaching a note with several comments from the Casualty Actuarial Society. These comments primarily relate to the potential application of the Social Security standard to workers compensation and similar systems.

We will be pleased to discuss these comments with you, if you wish. We hope our comments will be helpful to the continued drafting of the Standard.

Thank you for your good work on behalf of the profession, and thank you for this opportunity for CAS to participate in the standards development process.

Attachment – Comments on exposure draft of *ISAP nn – Valuation of Social Security Programs*

/dtt

Comments from the Casualty Actuarial Society (CAS), February 26, 2013

Re: proposed *ISAP nn - Valuation of Social Security Programs*

We appreciate the proposed ISAP on Valuation of Social Security Programs as we believe that it will be useful providing guidance to actuaries that work on SSPs around the world. The purpose of this letter is to communicate certain concerns, suggestions and comments that we have regarding this proposed ISAP.

Our comments relate primarily to how this ISAP applies to actuarial services performed for SSPs which provide workers compensation coverage and/or benefits to workers for their work related injuries or disease, such as medical costs, lost wages, rehabilitation costs, vocational re-training and return-to-work services.

The ISAP addresses Social Security Programs in a manner that is fairly general. There are many types of social insurance that provide different types of benefits to eligible participants. These social insurance programs can have a wide variety of social goals, and each program can differ widely from other similar programs in terms of the types of benefits, who is eligible to receive benefits, whether participation is voluntary or automatic, whether the participants, or their employers, are required to make payments in the form of contributions, premiums or taxes in order to be eligible for benefits, etc.

Firstly, we believe this ISAP, as currently written, would be difficult to apply to actuarial services for any social security programs (as defined in the proposed ISAP) which specifically provide benefits solely related to work related injuries or disease. The scope of the ISAP should be modified accordingly, rather than the current explanation in the Introduction section regarding the “primary focus” of the ISAP and the possible use of the ISAP for work related injuries as they appear.

Secondly, we believe that the definition of Social Security Programs (SSP) in the proposed ISAP is too broad and can be interpreted to apply to actuarial services to SSPs for work related injuries or disease. We understand that some SSPs do provide benefits to people who are disabled, regardless of the cause of the disability. Our view is that such benefits would not be specific, or exclusive, to work-related accident or exposures and such benefits would not exclude an SSP that provides disability benefits (not exclusive to work related disabilities) from the scope of the IASP.

We do recognize that there are SSPs around that do provide benefits related to work-related injuries and disease. However, these programs are generally structured to provide benefits regardless of years of service, contributions or other accrual of benefits. Also, the financing to pay for benefits is typically related to when the injuries occurred, rather than the period of employment. Consequently, several of the provisions in the proposed ISAP would not be applicable to SSPs that provide work-related injury benefits, or would be very difficult to apply as currently written. We believe that the potential application of an ISAP to SSPs that provide workers compensation benefits needs to be clear, with more specific terminology and examples appropriate to benefits for work related injury or disease, in areas

such as data, assumptions, methodology and communications.

We have provided the suggested edits, shown below, to the proposed ISAP in order to avoid application of the ISAP to situations, such as workers compensation and some other types of social insurance, where the provisions of the ISAP may not be appropriate to apply, or would be difficult to apply. We do believe that there could be a need for one or more future IASPs for other types of social insurance programs, such as the ones we are suggesting for exclusion from this ISAP. However, these other types of social insurance programs, including government run workers compensation programs, have much different structures, actuarial complexities and financing methods than perhaps were contemplated in the provisions of the proposed ISAP.

The first section with our suggested edits below is the last 2 paragraphs of the Introduction section of the proposed ISAP.

This ISAP applies to actuaries but may be helpful for other professionals who conduct analysis of SSPs. This ISAP is not written to be applicable to ~~with~~ benefits provided in connection with unemployment and work-related incidents (e.g., work-place injury) ~~as the primary focus~~. However, where appropriate, some provisions of this ISAP may be useful for the future development of an ISAP or other actuarial standard or other guidance to be used by actuaries providing professional services for these types of programs.

This ISAP only applies to actuarial services performed for an SSP. When the SSP is administered or where guarantees are provided by a non-governmental entity, e.g., by an insurance company ~~or a workers' compensation (work injury) board~~, this ISAP does not apply to actuarial services related to the financial reporting or calculation of liabilities of that entity, to the calculation of its premiums or rates, or to similar work.

The next section with our suggested edits is under Section 1.2 where we believe the edited last sentence of the Introduction should be added to the scope section of the ISAP.

1.2. Scope – This ISAP applies to actuaries who are performing, reviewing, advising on, or opining on actuarial valuations of SSPs. When the SSP is administered or where guarantees are provided by a non-governmental entity, e.g., by an insurance company, this ISAP does not apply to actuarial services related to the financial reporting or calculation of liabilities of that entity, to the calculation of its premiums or rates, or to similar work.

We are recommending a small, but potentially important edit to Section 2.12.3 to clarify that the SSP is “the responsibility of the government”, rather than “being responsible to the government”. The current wording might include any regulated industry, where the government can have certain oversight responsibilities over an industry, such as insurance. The industry can be thought of as being responsible to the government, as might be required by law, but the industry is not ultimately the responsibility of the government, since the government’s responsibilities are usually limited.

The remaining section where we believe edits are required is the addition of Section 2.12.5 where we believe the definition of social security programs for this ISAP should be narrowed to exclude a list of

social insurance programs, including unemployment insurance and benefits for work-related incidents, which exist in various forms, at least in the U.S. We have not included comments on health insurance in our recommendations for this ISAP. While government health insurance programs would seem to be included in the scope of the proposed ISAP, the mention of health insurance might be useful to add somewhere to indicate whether or not this ISAP is intended to be applied to an SSP that provides health insurance benefits. If the ISAP was not intended to apply to government provided or government mandated health insurance, then it should be added to the suggested new Section 2.12.5 as another listed exclusion.

2.12. Social Security Programs (SSPs) – programs with all the following attributes regardless of how they are financed and administered:

- 2.12.1. Coverage is of a broad segment, if not all, of the population, often on a compulsory or automatic basis;
- 2.12.2. The program, including benefits and financing method, is prescribed by statute;
- 2.12.3. The program is ultimately **the responsibility of** ~~responsible to~~ the government, or a unit of government; ~~and~~
- 2.12.4. Program benefits are:
 - a. Generally payable or delivered upon one or more contingent events or circumstances, including old age, retirement, death, disability, and survivorship;
 - b. Poverty-related conditional cash transfers; or
 - c. Universal social benefits; **and**

2.12.5. The program does not provide any of the following benefits:

- a. **unemployment benefits;**
- b. **benefits for wage replacement, medical services, physical and occupational rehabilitation, funeral expenses, survivorship and other benefits provided exclusively due to work-related injuries, work-related death or occupational diseases;**
- c. **benefits provided exclusively for disaster relief (e.g. insurance, or recovery funding, for flood, drought, hurricane/typhoon, earthquake/tsunami);**
- d. **financial insurance or financial guarantees (e.g., for loans, bank deposits, pension payments, financial securities, insurance payments from insolvent insurers); or**
- e. **other types of social insurance applicable to business enterprises.**

The remainder of this response to the exposure draft contains further explanations of the difficulties in applying the exposure draft of the proposed ISAP to workers compensation.

Application to Workers Compensation (Work Related Injuries and Occupational Diseases)

We believe that actuarial services for SSPs related to work related injuries are not adequately addressed in the provisions of the proposed ISAP, as it is currently written. Workers Compensation is a very important coverage area which many actuaries have worked in for many years.

The draft ISAP includes references in section 3.2 to “National statistics on variables such as fertility, mortality (life expectancy), morbidity, and migration”, “Demographic status and experience”, “past service credits”, and “Family statistics (including household surveys)” are not appropriate for most workers compensation systems. Section 3.4 Balance Sheet Methodology, includes references in 3.4.1 and 3.4.2 to “accrued liabilities ... to be funded over participants’ working years”, “using a closed membership group approach”, “with or without their assumed future benefit accruals”, “For pay-as-you-go or partially funded SSPs ... using an open group approach” and “contributions and benefits of both current and future participants”. Most workers compensation systems do not align well with any of these concepts because of the major structural differences between old age or retirement benefits systems versus wage replacement and medical benefits related to work injuries. Demographics, service credits, family statistics, benefit accruals, and closed/open groups are not normally meaningful for actuarial services involving workers compensation benefits.

If an ISAP for actuarial services related to workers compensation benefits provided by SSPs is desired, then we believe it should be a separate ISAP. A separate ISAP would allow more appropriate guidance to actuaries who provide services in this area. This proposed ISAP does not address many of the typical actuarial issues, data or concerns related to workers compensation. In order for this proposed ISAP to be useful to actuaries in the area of benefits for work related injuries and occupational diseases, then we believe that more guidance and clarity is required.

Intent Related to Application to Work Related Injuries is Unclear

We find the potential application of this standard to work related injuries is confusing. The introduction cites the following:

“This ISAP is not written with benefits provided in connection with unemployment and work-related incidents (e.g., work-place injury) as the primary focus. However, where appropriate, this ISAP may be used by actuaries providing professional services for these types of programs.”

The above quoted language leaves the impression that the standard could be applied to work-related injury benefits. Since this proposed ISAP is a model standard, it could be applied if an actuary chooses, or the employer of an actuary requires, that this standard would (or should) be applied. Consequently, we are concerned that the proposed ISAP as written is inadequate in several respects as it might be applied to actuarial work performed with respect to programs for work-related injuries. The reference to “primary focus” and that “this IASP may be used by actuaries ... for these types of programs”, referring to unemployment and work-related incidents, suggests that the proposed IASP could be appropriate for such areas. We do not believe that many of the provisions are adequately written to address the possible application to workers compensation.

In the following language in the proposed ISAP, reference is made to a “workers’ compensation (work injury) board” in the context of a non-governmental entity. However, in many jurisdictions, such boards or similar entities are governmental entities (or quasi-governmental), so application of the IASP to work related injury benefits is confusing.

“This ISAP only applies to [actuarial services](#) performed for an [SSP](#). When the [SSP](#) is administered or where guarantees are provided by a non-governmental entity, e.g., by an insurance company or a workers’ compensation (work injury) board, this ISAP does not apply to [actuarial services](#) related to the financial reporting or calculation of liabilities of that entity, to the calculation of its premiums or rates, or to similar work.”

In the United States, most workers compensation insurance is sold by commercial insurers and benefits are defined by statute and paid to injured workers by the insurance industry. Additionally, where workers compensation benefits are self-insured, the responsibility for payments lies with the employer which may be a commercial entity or could be a governmental entity. Claims for workers compensation benefits (either insured or self-insured) are often subject to adjudication by workers compensation boards, industrial commissions, or similar government entities that are established by law or regulation and are government supported, with some level of oversight or governance by appointment of board members (at least a majority of the board members) by a governmental entity. These boards oversee the administration of workers compensation in a jurisdiction, as would be required by statute, but usually do not make the payments of benefits to claimants. While it seems clear this proposed ISAP does not apply to a commercial insurance company or commercial self-insurer, it also seems that the proposed ISAP would not apply to these administrative boards even though they are a government entity or government sponsored. We believe that this may not be clear. Additionally, it is possible that that self-insurer itself may be a governmental entity (for its employees) and it seems unclear if this proposed ISAP would apply in such cases.

In the U.S., there are a variety of governmental or quasi-governmental entities that are directly involved in the oversight of workers compensation. For example, the State of Ohio has an exclusive governmental agency that administers workers compensation for all insured employers, oversees self-insured employers, and pays benefits, but the state also has an Industrial Commission that adjudicates claims for benefits. We believe that further clarification is required as to whether the ISAP could be applicable to these types of entities, and how it might be applied.

There are several state workers compensation funds in the U.S., which receive premiums and make payments to workers compensation claimants. A few of these are exclusive, monopolistic state funds that are the sole source of workers compensation in those states (other than self-insurance). Other state funds can be licensed insurance companies, government agencies or quasi-governmental entities that compete with the commercial insurance industry directly, so called Competitive State Funds. Also, in the event of the insolvency of an authorized insurer that provides workers compensation coverage, there are government controlled state guaranty funds that will take over the claims and make payments directly to claimants. These funds are created by statutes but are generally funded by the insurance industry as a tax or assessment on the premiums paid by the employers.

Furthermore, in countries such as Canada, we understand that the coverage for benefits available by law for work related injuries is provided exclusively by governmental entities (or self-insured entities) and in other countries such as Mexico, there are some benefits for work related injuries that are provided as part of the Social Security system by the government. We believe that further guidance is needed as to the applicability of this proposed ISAP to these governmental entities which provide coverage for work related injuries.

If the proposed IASP could be applied to actuarial services to SSPs who provide benefits for work related injuries or occupational diseases, then we recommend that the definition of SSP in 2.12.3 should be changed to refer to programs where, "the financing of the program is ultimately the responsibility of government", instead of "the program is ultimately responsible to the government." Workers compensation statutes usually specify the benefits available to all eligible injured workers. Many of these statutes are mandatory for all employers, but there can be exceptions for small employers or for certain industries. However, under the law, the government can be ultimately responsible for workers compensation programs in some fashion, regardless of how the benefits are funded or administered.

We note that Section 2.12.4 does not mention work related injuries at all. We believe this is appropriate if the proposed ISAP is not meant to cover these work injury benefit programs. However, the reference in this section does mention death, disability and survivorship, which could be the result of work related injuries or occupational diseases. The distinction is whether the SSPs provide benefits for death, disability and survivorship due to any cause, or only from work related injuries.

If the proposed ISAP could be applied to workers compensation, then we believe it should clearly reference workers compensation terminology and the specific application of such programs. The proposed ISAP, as currently worded, lacks much of the relevant terminology used by actuaries who practice in the area of workers compensation. For example,

- Section 4.1.3 Methods, Data and Assumptions would need to be expanded to include items such as claim frequency and claim severity, accident year (injury year), classification of workers, injury type, type of benefits, etc. The references in this section to "Key demographic assumptions such as mortality (longevity), morbidity, fertility, migration, and unemployment", "Eligible and beneficiary population by relevant demographic characteristic groupings", "Dependency ratios", "Employment earnings by age groups and gender, and averages", and "Contributory earnings by age groups and gender, and averages" are not typically relevant for actuarial analyses in workers compensation.
- Section 4.1.4 Results and Findings might need to be expanded to include such items as claim severity, loss ratios, claim frequency, ultimate loss costs, pure premiums, settlement rates. The references in this section to "Key projected demographic values at selected future points in time such as eligible and beneficiary population by relevant demographic characteristic groupings", "Dependency ratios", "Employment earnings by age groups and gender, and averages", "Contributory earnings by age groups and gender, and averages", and "Labor force participation rates by age groups and gender" are not typically relevant for actuarial analyses in workers compensation.

- Section 3.2 Data would need to be edited so that all of the items listed under “the actuary should consider” are prefaced by “as applicable” rather than as currently written where only some of the items are “as applicable”. Additional items, as suggested for Section 4.1.4 above, would be relevant to add, such as exposures, claim counts, settlements, paid loss and incurred loss data by year of accident/injury, and loss development history. Also, external comparative data, such as experience data of similar programs, or similar insurance industry data, could be relevant.
- Section 4.1.2 Key Dates fails to include accident date (injury date) which is a critical date for workers compensation claim analyses.
- Section 4.1.5 Section on analysis of [valuation](#) results includes several items which are not typical in actuarial analyses for workers compensation, such as “an indicator of potential stability or instability of the system in the longer term”, “Effect of automatic balancing mechanisms”, “Conclusions on the short-, medium-, and long-term financial sustainability of the [SSP](#)”, “Indications of possible sources of future financial instability”, “Potential recommendations on possible measures to ensure the long-term financial sustainability of the [SSP](#)”, and “Impact of any options or guarantees embedded in the benefits of the [SSP](#) on the cashflows”.
- Section 4.2 Actuarial Opinion requires that “The [actuary](#) should provide an [opinion](#) with respect to ... d) The SSP is financially sustainable over the period covered by the projections used for the valuation.” This type of actuarial opinion would not typically be included in an actuarial opinion for a workers compensation system.

We understand the hard work that the IAA has done in developing the proposed ISAP and we appreciate the opportunity to offer our comments. We hope you find them helpful.