

## CHAPTER 6

# Work-Products

## INTRODUCTION

Some of the information in this Chapter for each such work-product is also set forth at AWPSE: (a) description, (b) background reading, (c) sample work-product, (d) fees and (d) requisite data and documentation.

In the Chapter Sections which follow, additional information for each work-product is set forth: (a) brief description of the work-product; (b) typical users of and purposes for each work-product; and (c) how or why the work-product meets the goals and standards established in Chapter 1.

### **Actuarial**

An *actuarial* work-product is defined to be one that (a) conforms to the Academy's standards and (b) is executed by a qualified actuary. Such work-products are created and maintained by AWPSE.

### **Administrative**

An *administrative* work-product is similar to an actuarial work product except (a) it does not have to meet the Academy's standards but (b) is created and maintained by AWPSE.

### **Client Work-Product**

A client-directed work-product is (a) an administrative work-product and is (b) created and maintained by AWPSE for such client.

## ACTUARIAL WORK-PRODUCTS

### **Claim Reserve - Traditional**

#### **Description**

This work-product provides such reserve on a claims-paid basis and (a) shows both the actuarially-determined incurred and not paid claim reserves; (b) may show the estimated claims in course of settlement; (c) shows the confidence limits appropriate to the computations and (d) may show the claims run-out experience for prior posted reserve.

### **Uses and Purposes**

The typical user is (a) a TPA, (b) a practitioner, (c) an HMO, (d) an actuary, (e) an accountant or (f) a plan sponsor. The typical purpose is for: (a) AICPA FAS 5, (b) IRS/DOL Form 5500, (c) IRS Form 990, (d) IRS Form 941, (e) state certifications, or (f) a MEWA.

### **Goals and Standards**

The work-product is an example of stochastic modeling as described in Chapter 12. The work-product reflects the professional standards described in Chapter 1.

## **Claim Reserve Amendment**

### **Description**

The claim reserve Work-Product – Traditional provides the Plan’s claim reserve (a) without any margin of safety, (b) without recognition of claims processing expenses and (c) without any recognition for unusually large claims in process of settlement (COB, lawsuits, subrogation, etc.). Also, the lag data may include claims that are not net of specific stop-loss recovery which means that the claim reserve is overstated. The Claim Reserve Amendment is a special Work-Product that permits the recognition of and the adjustment for these four items.

### **Uses and Purposes**

The users of this Work-Product are the same as those that use the Claim Reserve – Traditional Work-Product. The Purpose is to permit a refinement in the Work-Product to meet a regulatory or accounting request.

### **Goals and Standards**

No special comments are needed with this Work-Product.

## **Monte Carlo I**

### **Description**

Monte Carlo I provides up to four estimates:

1. **Claim Fluctuation Measures With Specific Stop-loss**  
This actuarial work-product provides the statistical variance of the projected plan sponsor-paid claims, including claims above the specific stop-loss limit for the indicated twelve-month plan period.
2. **Economic Value of Stop-Loss – Specific-Only**  
This actuarial work-product provides the economic value of the specific-only stop-loss when applied to the projected claims, including claims above such specific stop-loss for the indicated twelve-month plan period.
3. **Economic Value of Stop-Loss – Specific and Aggregate**  
This actuarial work-product provides the economic value of the specific and aggregate-only stop-loss when applied to the projected claims, including claims above such specific stop-loss for the indicated twelve-month plan period.
4. **Economic Value of Stop-Loss – Aggregate Only (Variable Corridors)**  
This actuarial work-product provides the economic value of the aggregate-only stop-loss with a variable corridor when applied to the projected plan claims, excluding claims above the specific stop-loss (if any) for the indicated twelve-month plan period.

## **Users and Purposes**

The typical user is (a) a TPA, (b) a practitioner, (c) an HMO (d) an actuary, or (e) a plan sponsor. The typical purposes are to show (a) the potential errors in claim projections, (b) whether the quoted stop-loss premiums are reasonable and (c) what the cost impact would be if stop-loss terms were modified.

## **Goals and Standards**

This work-product uses Monte Carlo simulation as described in Chapter 12. The work-product reflects the professional standards described in Chapter 1.

## **Monte Carlo II (Calendar Year Deductibles)**

### **Description**

This work-product provides the monetary value of the benefits, stop-loss terms, and managed care terms trifurcated between the (a) participant, (b) plan sponsor and (c) stop-loss carrier for the subject health care plan that has calendar year deductibles

### **Users and Purposes**

The typical user is (a) a TPA, (b) a practitioner, (c) an HMO, (d) an actuary or (e) a plan sponsor. The typical purpose is (a) to show the relative economic value of different plan designs and (b) to show the economic effects of amending the base plan for HRA or HSA purposes. Such plan designs are for calendar year deductibles only.

### **Goals and Standards**

This work-product uses Monte Carlo simulation as described in Chapter 9. The work-product reflects the professional standards described in Chapter 2.

## **Monte Carlo IIb (Per Occurrence Deductibles)**

### **Description**

This work-product provides the monetary value of the benefits, stop-loss terms and managed care terms trifurcated between the (a) participant, (b) plan sponsor and (c) stop-loss carrier for the subject health care plan that has per occurrence deductibles.

### **Uses and Purposes**

The typical user is (a) TPA, (b) practitioner, (c) an HMO, (d) an actuary or (e) a plan Sponsor. The typical purpose is (a) to show the relative economic value of different plan designs and (b) to show the economic effects of amending the base plan for HRA or HAS purposes. Such plan designs are for per occurrence plan designs only.

### **Goals and Standards**

This work-product uses Monte Carlo simulation as described in Chapter 9. The work-product reflects the professional standards described in Chapter 2.

## **Government Entity Certifications**

### **Description**

This work-product includes three versions

#### **1. Florida**

FS §112.08 requires self-funded health plans of government entities to submit an annual filing demonstrating actuarial soundness. This work-product is under construction.

#### **2. Iowa**

IAC Title 905A requires self-funded health care plans of government entities to submit an annual filing demonstrating actuarial soundness.

3. **Ohio**

ORS §9.8333 requires self-funded health care plans of government entities to submit an annual filing demonstrating actuarial soundness.

## **Users and Purposes**

The typical users include (a) a TPA, (b) a practitioners and (c) a government entity. The purpose would be to comply with the particular state law.

## **Goals and Standards**

The application of advanced technology set forth in Chapter 12 is not appropriate with this work-product. The work-product reflects the professional standards described in Chapter 1.

# **Medicare Part D**

## **Description**

This work-product includes two versions:

1. **Medicare Part D-Subsidy Feasibility Analysis**

The work-product provides (a) an actuarial certification that the Rx benefits provided by the Plan Sponsor to its retirees with Medicare eligibility are at least as favorable (i.e., actuarially equivalent) as those of Medicare Part D and (b) a feasibility analysis which quantifies the amount of economic advantage (or disadvantage) to the plan sponsor in electing either the subsidy or the wraparound.

2. **Medicare Part D-Creditable Coverage Certification**

This work-product provides an actuarial certification that the Rx benefits provided by the plan sponsor to its active participants who either have, or might become eligible for, Medicare Part D are actuarially equivalent thereto. The safe harbor rule may or may not be used.

## **Users and Purposes**

The typical use is (a) a TPA, (b) a practitioner, (c) an HMO (d) an actuary or (e) a plan sponsor. The typical purpose is to (a) provide a feasibility analysis so that the plan sponsor might elect or not elect the subsidy option and (b) provide an opinion of creditable coverage where the *safe harbor* option is not appropriate.

## Goals and Standards

This work-product does not use any advanced technology as set forth in Chapter 12 because such is not appropriate. The work-product reflects the professional standards described in Chapter 1.

## Annual Actuarial Report

### Description

For the projected (upcoming) plan year the Annual Actuarial Report provides three useful health care plan-related estimates:

1. Recommended Funding Factors
2. COBRA Rates
3. Claim Reserves (claims made basis) (where the use of such is limited to COBRA premium computation purposes only).

Those items maybe divided as shown below as may be requested:

1. Tiering (I, P/C, P/S, P+1, F, e.g.)
2. Benefits (M, Rx, D.V., e.g.)
3. Plan Options (Gold, Silver, Bronze, e.g.)
4. Risk Pools (Actives, Retirees, e.g.)

### Users and Purposes

The typical user is(a) a TPA, (b) a practitioner, (c) an HMO (d) an actuary, or (e) a plan sponsor. The typical purposes are (a) to meet legal requirements as respects COBRA, (b) offer recommended funding factors and (c) show an estimate of claim reserves.

## Goals and Standards

The work-product is a mathematical model albeit a relatively simple one. The work-product reflects the professional standards described in Chapter 1.

## Consumer-Driven Health Care

### Description

Two types of plans are so-defined

#### 1. HRA Plan

This work-product quantifies the monetary savings to the plan sponsor if the subject plan is amended by placing a large front-end deductible thereon. Such savings is shared, in part, by the plan sponsor who agrees to contribute some monthly amount into the HRA Account. This work-product may be used to measure such HRA contribution so as to result in a predetermined net cost savings to the plan sponsor.

#### 2. HSA Plan

This work-product quantifies the monetary savings to the plan sponsor of *retirifurcating* the total plan-covered health care, expenses from the present (non-HSA) to the new (HSA) with the new entity called the High Deductible Health Plan (HDHP). The costs borne by the three entities (participant, plan-sponsor and stop-loss carrier) are all measured. The result is the amount which the plan sponsor could deposit into the HSA so as to maintain financial parity.

### Users and Purposes

The typical user is the (a) a TPA, (b) a practitioner, (c) an HMO, (d) an actuary or (e) a plan sponsor. These work-products function essentially as feasibility studies leading up to the possible adoption of such plans by the plan sponsor.

### Goals and Standards

This work-product uses the Monte Carlo II simulation as described in Chapter 12. The work-product reflects the professional standards described in Chapter 1.

## Federal Income Tax

### Descriptions

Two types of work-products are needed:

#### 1. Discrimination

The purpose of this work-product is to provide the User with the amount of the gross economic value of the subject health care plan for the subject fiscal year which value

will serve as the basis for the accountant-prepared IRS Form 1099 with respect to those highly-compensated individuals who receive discriminatory plan terms or benefits.

## 2. **Self-Employed**

The purpose of this work-product is to provide the user with the economic value of the subject health plan benefits as prescribed herein to the plan sponsor to be used in the preparation of the requisite needed IRS Form 1099 for certain self-employed participants.

## **Users and Purposes**

Typically, the accountants or attorneys in either (a) professional firms (lawyer-partners, e.g.), or in Sub-S firms (major shareowner, e.g.) or (a) plans where the prohibited group (officers, e.g.) receive discriminatory benefits. In these instances, the accountant or attorney may request an opinion from an actuary as to the economic value of the plan-provided excess benefit. This increase (i.e., the value of the high benefit less the value of the standard benefit) becomes a taxable amount to such person reported as Form 1099 taxable income.

## **Goals and Standards**

No comment is needed because work-products that are already prepared may be used.

## **Accounting Related**

### **Description**

There are three versions of this work-product:

#### 1. **FASB 112 Calculations (H1)**

The purpose of this work-product is to determine the present value of a stream of future health care benefits for purposes of FASB 112. Some, but not necessarily all of the variables used in the calculation include the following: age, health status, sex, benefits, interest, mortality and morbidity.

#### 2. **Alternatives to Retired Life Reserves – FASB 106 (H2a)**

This work-product eliminates the need for an FASB 106 determination by reclassifying retirees under age 65 to COBRA participants if and only if, the health plan is appropriately amended.

#### 3. **Alternatives to Retired Life Reserves – GASB 43 and 45 (H2b)**

This work-product eliminates the need for a GASB 43 and 45 determinations by subdividing the risk pools and making the retiree risk pool participant-pay-all.



## **User and Purposes**

The typical use is (a) a TPA, (b) a practitioner, (c) an HMO, (d) an actuary, (e) an accountant or (c) a plan sponsor. The primary purposes of Work-Product No. 1 is to capitalize the present value of future payments using actuarial methods. This is an exercise that some accountants will decline to do. The primary purpose of Work-Product No. 2 and Work-Product No. 3 is to offer an actuarial computation that will eliminate the need to meet retired life reserve requirements.

## **Goals and Standards**

These work-products do not use the advanced methods described in Chapter 12. These work-products reflect the professional standards described in Chapter 1.

# **ADMINISTRATIVE WORK- PRODUCTS GENERAL PURPOSE**

## **Introduction**

These work-products (a) do not meet the Academy's professional standards but (b) are designed for general use by a wide range of users.

There are numerous such work-products because of the multiplicity of benefits (LTD, death, dismemberment, dental, vision, hearing, critical illness, long term care, Medicare Supplement, legal benefits, e.g.). For each such benefit there might be multiple work-products (proposal/feasibility, renewal proposal, claims experience, underwriting, financials, etc).

Special needs may arise where the plan design is (a) consumer-directed, (b) requiring stop-loss or having special federal tax requirements.

# **ADMINISTRATIVE WORK- PRODUCTS SPECIAL PURPOSE**

## **Introduction**

This work-product is referred to as Document Preparation and Management. These work-products are similar in nature to the general purpose administrative work-products except (a) they have a special or specific purpose and (b) they required specific programming.

Completed special purpose work-products include the following:

- 501(c)(a) Trust Agreement
- 419A Trust Agreement
- Employer-Related Database
- HRA Plan Document.

### **501(c)(a) Trust Agreement**

This work-product is a generalized trust agreement that make provision for a union being a party thereto.

### **419A Trust Agreement**

This is a generalized trust agreement for a non-qualified employer sponsored trust where a union is not a party thereto.

## **Employer-Related Database**

Any user is able to obtain an employer-related database work-product by entering the requisite data and documentation. Such work-product is classed as (a) an Administrative work-product and sub classed under (b) Document Preparation and Management. Such work-product is in two parts: (a) General Information and (b) ERM Information.

Where the employer uses any of the underwriting and rating proposals for the new self-funding benefits, the General Information Employer database Work-Product is required (i.e., Part a, above).

When the employer uses the Risk Management Work-Product, the Employer Database is set forth in the Appendix B.

### **Confidentiality Issues**

Three comforting thoughts are offered with respect to confidentiality issues: (a) no data or documentation will be entered that is not available as published information in city or school libraries, (b) the user has the option of raising the AWPSE security level (more complex user name/password and /or periodic changes thereof) and (c) the ID data of the employer could be coded.

### **Description of Data**

An outline of the Database follows:

1. Employer-Related
2. Employee/Participant-Related
3. Financial-Related
4. Underwriting-Related
5. Risk-Related.

# RISK MANAGEMENT WORK-PRODUCTS

There are more than few Work-Products that (a) may or may not be actuarial and (b) are of a special purpose (not related to any risk or benefit). These include the following:

1. **Risk Management Related – Plan Benefits Design**

This Actuarial Work-Product provides a checklist of proposed health care plan changes in either benefits or design), which will impact on the expected plan claims experience. Such proposed changes are risk management in nature. Approximate profiling of the effect on plan costs is included.

2. **Risk Management Related - Plan Administration**

This administration changes, Actuarial Work-Product provides a checklist of proposed health care plan which will impact on the expected plan claims experience. Such proposed changes are risk management and in nature. Approximate profiling of the effect on plan costs is included.

3. **Risk Management Related – Age-Graded and Gender – Graded Plan Funding**

This Actuarial Work-Product provides (a) alternate plan funding that is age-graded and/or gender-graded and (b) separate plan funding levels by risk pools (dependent children, actives/COBRA/spouses and retirees). Both (a) and (b) may be stratified by benefit (hospital, Rx, dental, etc.). Such work-products meets ADEA, ERISA and IRC discrimination standards.

4. **Risk Management Related – Geographic – Graded Plan Funding**

Such finding variations are quite proper if (a) supportable by an actuarial certification of parity, (b) the health plan is appropriately amended and (c) there is no *de facto* discrimination (i) against the protected group or (ii) in favor of the prohibited group.

5. **Risk Management Related – Self-Funding Appropriateness Test**

This Work-Product is a self-appraisal exercise by which a user may gain an index measuring the suitability of self-funding to a particular prospective plan sponsor with a given set of facts or documentation.

6. **Employer Risk Management**

This work-product is essentially an ERM analysis for smaller employers. It does not meet the Sarbanes-Oxley standards and is not in anyway to be considered a substitute for an Actuarial Work-Product. Its nature is administrative-only. It uses the Employer Database as a basis for it analysis.

7. **Risk Appraisal**

This work-product purposes to move from a database an index or measurement of the likely high claims that right result therefrom.