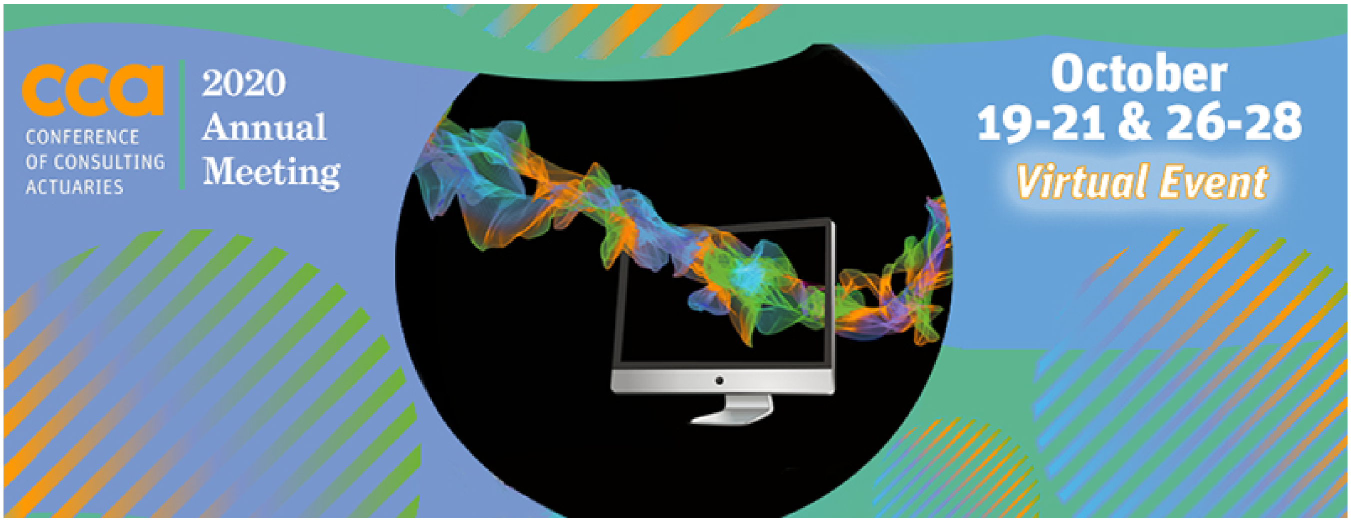


# CCA 2020 Annual Meeting Session Summaries - The Proceedings

# Behavioral Economics - Media Psychology and Big Data

Code VM2020-1-B-3

Speakers:
- Lin, Yi-Ling
- Morrow, Michael R.
- Rapp, Justin

Behavioral economics is the study of psychological, emotional, and social decision making. The systems that actuaries serve are all affected by the choices made by individuals, such as when to retire, what to do with my 401(k) balance, which health care option to choose, and should I really spend 15 minutes to save 15% or more on car insurance. Speakers at this session explored the application of behavioral psychology and data analytics to understand how individuals and institutions make decisions.

In this session, we learned that we make imperfect financial decisions due to several cognitive biases:
- Anchoring Bias: Making choices by comparing to the earliest information presented to us
- Availability Bias: Relying on immediate or short-term information in decision-making
- Representativeness Bias: Judging the probability that object A belongs to class B by resemblance, rather than actual probability
- Optimism and Overconfidence: Subjective evaluation based on our personal view
- Status Quo Bias: Sticking with a decision where the outcomes are better known
- Loss Aversion: Our perception of personal loss is twice as powerful as potential gain
- Framing: Decision-making is strongly affected by how information is presented to us, or "framed"

Further research was highlighted, including analysis by Dan Ariely in his book, Predictably Irrational, Nobel Prize-winning research by Daniel Kahneman and Amos Tversky, detailed in their book, Thinking Fast and Slow, Society of Actuaries research to measure whether the presentation of information can influence the decision to purchase an annuity, and personal research with clients on the choice of a lump vs. an annuity purchase.

The speakers noted that individuals consistently receive less than perfect information. It may be too complex for their willingness and ability to understand, or it may be less-than-complete, causing participants to make economically inefficient choices on their health benefits coverages. Individuals clearly show their preference in choosing (lower premium + plan features) over total potential out-of-pocket costs (premiums plus anticipated cost sharing) by 5 to 1. The premium is clearly important to either viewpoint, but the potential for out-of-pocket risk was largely ignored. Employer wellness programs are showing bias toward the present vs the future: charging higher premiums has little effect in changing current unhealthy behaviors. Employees do not save enough for retirement, rarely increase contributions to retirement, choose inappropriate investments, and don't actively manage investments due a variety of cognitive biases, including overconfidence, loss aversion, anchoring, and status quo biases

The speakers showed that each of these biases affects the financial decisions individuals make personally, as well as in their roles as organization leaders.  Our challenge as consultants is to beware of the cognitive biases that affect our clients decision-making and refine our client communications to avoid these biases.  We must also help individual plan participants avoid cognitive biases through plan designs with well-designed defaults, and ongoing communications that nudge participants toward good financial decisions.

# Say That Again? Virtual Communication Skills For Consulting Actuaries

**Code VM2020-2-A-4**

Speakers:

- Swain, Thomas A.
- Karger, Kelly L.
- Schwabish, Jonathan

Our work is incomplete without effective communication with our clients. We also know that clients judge our quality based on how effectively we communicate. We are now adapting to the new business environment, where our meetings with clients and colleagues are virtual. Attention spans are shorter, and it's more challenging to engage your audience. In other words, we have to "up our game" for effective communication with our clients. The session discussed how to:

- Develop a multilayered approach to communicating your and your client's work;
- Learn best practices around visualizing data;
- Design effective presentations; and
- Employ the principles and techniques with real examples.

Dr. Jonathan Schwabish, a Senior Fellow at the Urban Institute and founder of the data visualization and presentation skills firm, PolicyViz, was our primary speaker. Jon offered his experience in designing and delivering effective communications of technical material to nontechnical audiences. Participants in this session learned of the pyramid principle of communication, where communicating the depth of any research is inversely related to the size and breadth of the audience. Session participants walked through an example, research that would be communicated through a variety of media, from academic journals to the popular press and the different style, depth and detail in communication required by each. Jon referenced the book authored by his colleagues at the Urban Institute, Elevate the Debate, https://www.urban.org/ElevatetheDebateBook, as a resource for those wanting to learn more following the session.

Data visualization techniques and best practices were discussed through specific examples. Session participants learned techniques to de-clutter and frame the data visualization to draw the attention of the receiver to the key messages of the data.

Session participants learned the three key principles in designing effective presentations: visualize, unify, and focus the presentation to deliver the headline message, the opening statement, the closing statement, the key conclusions, and the decisions and action steps for the audience. Jon referenced his book, Better Presentations, and his website, https://policyviz.com/books/better-presentations/, which provides a library of references and resources for developing better presentations.

# Prescription Drug Hot Topics

**Code VM2020-2-B-2**

Speakers:

- Tomczyk, Thomas S.
- Tate, Travis
- Levenson, Gail

This session was led by Gail Levenson of Buck Consultants and Travis Tate of CVS Health. The session touched on a number of topics currently on the minds of our clients related to cost management of their prescription drug benefits.

The presenters began by addressing the impact COVID-19 is having on employer prescription drug plan costs. Data from Buck clients before COVID, (February 2019 through August 2019) compared with data during COVID-19 (February 2020 through August 2020), showed increase in cost and utilization in all drug categories include specialty drugs and maintenance drugs. The presenters then touched on the Pharmacy Benefit Manager (PBM) marketplace, talking about the vendors that are in this space and the value that these vendors bring to the administration of prescription drug plans.

There was robust discussion on the different pricing options available from PBM's and the advantages of each option. Transparency pricing was discussed at length and the conclusion was that it is not clear if Transparency alone saves employers money.

The presenters discussed pharmacy trends showing that for 2019, non-specialty brand drugs increased 6.5% and specialty brand drugs increased 5.0%, more than 2 times the increase in the US Consumer price index.

Specialty drugs was an important topic since these drugs are driving the overall increase in prescription drug costs for employers. From 2020 through 2022 it is expected that over 7,000 medications will be in development with about 600 new drugs expected to gain approval during that time. Sixty-four percent of these drugs will be the high-cost specialty drugs. It was noted that during this time the approval of biosimilar drugs will also increase and play a big role in keeping the cost of specialty medications down. Another very expensive area is the cost of Gene Therapy. The projected impact on drug costs is projected to be between $15 billion and $45 billion from 2020 to 2022.

Finally, the presenters touched on the impact on costs of rebates at Point of Sale. Point of Sale rebates could reduce the cost of drugs to the employee, but increase overall drug program costs to the employer.

# Recent Withdrawal Liability Court Decisions

**Code VM2020-2-B-4**

Speakers:

- Hofing, Mitchell H.
- Eaton, Miguel
- Schriver, Robert S.
- Richman, Ronald E.

The past few years have seen a number of judicial decisions affecting withdrawal liability determinations. With input from two lawyers who practice in this area, we reviewed some of the more significant court cases which influence who pays withdrawal liability and how much. We covered the NY Times, Manhattan Ford, Metz, Sun Capital, ManWeb and other important cases.

The panel included two attorneys, one from the employer side and one from the Fund side, who each represented several of the litigants in the cases reviewed. They elaborated on the legal issues involved in the cases based on their personal experience. Under the current legal landscape, several key legal issues pertaining to multiemployer pension plan withdrawal liability (e.g., interest rate assumptions, successor liability and the definition of a controlled group) are still open issues for future resolution.

# Stay in Your Lane: How Not to (Inadvertently) Become a Fiduciary

**Code VM2020-3-B-1**

Speakers:

- Kleinstuber, Ellen L.
- Kaleda, David C.
- Richman, Michael B.
- DeMatties, Dominic

The panelists reviewed the variety of roles actuaries perform for their clients and when performing certain activities may put actuaries at risk of acting as an ERISA fiduciary. Many large, corporate clients have inside and outside ERISA counsel, investment advisors, and benefits administrators who they can rely on to help interpret plan provisions, decide benefit entitlement in unclear situations, recommend investments, and other activities with fiduciary implications. But smaller companies may be more likely to ask their actuary for help or advice on such matters.

The panelist reviewed the ERISA definition of fiduciary and the implications of being a fiduciary. They presented several thought-provoking scenarios that illustrated how routine activities actuaries engage in could come perilously close to acting as a fiduciary and whether there are situations in which actuaries may want to become plan fiduciaries. It is of paramount importance for actuaries to understand the meaning of fiduciary under ERISA and their specific role in supporting their clients to avoid inadvertently becoming a fiduciary.

# ASOPs for Public Plans

**Code VM2020-3-C-4**

Speakers:

- Kershner, David J.
- Angelo, Paul
- Driscoll, David L.
- Rizzo, James J.

*Session Description:* Actuarial Standards of Practice (ASOPs) have been changing in recent years – with new standards and revisions to existing standards. Our panel of expert speakers will address how these developments impact our day-to-day work, including assumption disclaimers and deviation clauses that may be needed as part of our actuarial communications. Panelists will also discuss non-confidential aspects of recent ABCD cases related to adherence to the ASOPs.

*Session Summary:* Paul Angelo summarized the key changes underlying current Exposure Drafts for ASOP's 4, 27 and 35, including the new Low-Default Risk Obligation Measure under ASOP 4. Jim Rizzo walked through a detailed discussion of the actuary's disclosure requirements under ASOP 27 regarding the reasonableness of assumptions and methods. These disclosure requirements vary depending on whether the assumptions and methods are "set by the actuary", "prescribed by law", or "set by another party". David Driscoll, a member of the Academy's Actuarial Board for Counseling and Discipline ("ABCD"), reviewed genericized examples of recent cases that have come before the ABCD. These examples highlighted potential violations of multiple ASOP's and the Code of Professional Conduct.

# So Your Plan is Being Audited by the Government - What Now?

**VM2020-4-B-1**

Speakers:
- Shlonsky, Patricia A.
- Groden, Edward F.
- Steward, Gail

This session provided an overview of audits that plans can face from the IRS and the DOL (PBGC audits were not addressed). The first part of the session was a discussion of what each agency focuses on when they audit a plan. A discussion of corrections available, as well as potential penalties was included as well, with repeated suggestions that the most effective strategy is to cooperate and be as helpful as possible.

The second part of the session was a detailed case study from the administrator of a plan that was recently audited by the DOL. The process was explained, as well as the steps the administrator took to provide the requested information. The areas of focus from the auditor were detailed, along with a discussion of the materials provided and the responses given to the auditor. The administrator indicated that cooperation and prompt, complete responses to the auditor's questions seemed to make the process relatively smooth, although the entire audit took three years to be completely settled. The outcome was very favorable – only small items were noted in the closing letter – so the administrator agreed that cooperation was effective and helpful in navigating the audit.

# M&A - All the Actuaries in the Room

**Code VM2020-4-B-4**

Speakers:

- Karger, Kelly L.
- Stawicki, Timothy
- Leff, Daniel

If your client isn’t doing a deal right now, they’re thinking about it! Which actuaries get involved in the deal process, and what is our role? A panel representing actuaries from across disciplines (such as retirement, group and health, property and casualty, and enterprise risk) discuss their typical role in the deal life cycle, and which "client" type most often brings them into the deal. We'll also discuss common issues faced in this type of work.

After making sure we were all on the same page with the terminology and deal basics (such as type of transactions, and the deal life cycle), each panel member took the audience on a journey through the deal life cycle as a buyer’s advisor for their discipline. We then turned to critical financial factors from each discipline that can have an impact on the enterprise valuation and resulting deal value.

No session would be complete without addressing the challenges that we face as actuaries from all disciplines during deal situations. Deals are a team effort and there may be more than one actuary in the room!

# How Much Do Pensions Need? Public Plan Funding Policies

**Code VM2020-5-B-3**

Speakers:

- Tauzer, Todd N.
- Herbold, Kenneth J.
- Angelo, Paul

This session addresses public pension funding policies, starting with updates on current model practices. We will then look at recent developments including how some states provide oversight on funding policy and how plans with fixed employer contribution rates assess the adequacy of those rates. Experts on funding policies from different environments will also provide insights on risks associated with contribution deferrals and other funding policy relief in reaction to the current stressful financial environment.

Session Summary:

This session "How Much Do Pensions Need? Public Plan Funding Policies" was put on by Todd Tauzer FCA, FSA, MAAA, CERA as moderator, and Paul Angelo FCA, FSA, MAAA, EA and Kenny Herbold FCA, ASA, EA, CFA as primary speakers. It was a sister session to "How Do We Pay For Pensions? Public Plan Financing Sources," and covered public plan governance for funding policies, model funding policies and current practices, fixed contribution rate plan practices, and an examination of funding policies in light of the current COVID environment. Mr. Tauzer set up the session, outlined the importance of dependable plan governance for plans, and highlighted California as an illustrative example of a strong governance structure. Mr. Herbold followed with case studies across six different states, outlining a wide range of state oversight, incentives, and enforcement. He noted that over the last 10 years there has been a move towards strengthening oversight in regions where it may have once been weaker.

Moving from governance to specific funding policies, Mr. Angelo highlighted the 2014 CCA funding policy white paper (which discusses all aspects of funding policies) but focused here on unfunded liability amortization and in particular layered amortization. He illustrated the many benefits of layered amortization, and went through a case study on managing what the CCA white paper calls "tail volatility". This can occur when credit and charge layers become fully amortized in consecutive years, and can be addressed by strategically synchronizing the remaining periods for those layers. Mr. Herbold then discussed practices for fixed contribution rate plans, including ADC benchmarking and backing into an implicit UAAL amortization period, using Texas as a case study. Finally, led by Mr. Angelo the speakers closed out the session with a discussion of the current COVID environment. Mr. Angelo pointed out that for many plans asset smoothing techniques were already equipped to handle COVID-related asset volatility. He then emphasized that changing the amortization schedule or other methods of deferring contributions would lead to compounding challenges over time by essentially having the employers borrow at the plan's assumed rate of return. He also suggested that if contributions must be delayed, it may be good to build into the funding policy a specific provision for paying back those contribution losses over a shorter period of up to five years, rather than the usual gain/loss amortization period. The final conclusion was that having a robust funding policy is just as (or more) essential now than it ever has been.

# Testing LDI Strategies - How Well do They Work?

**VM2020-5-B-4**

Speakers:

- Kundu, Sumit
- Agres, Serge

Many plan sponsors have migrated to glide path and full LDI strategies. In this session we will explore advantages and disadvantages of these two approaches against traditional investment strategies

We can't do a Pension meeting without addressing LDI and the management of retirement financial risk. In this session, two actuaries active in the investment policy field will showcase LDI strategy results, in terms of how effectively they have been able to mitigate the capital market risks that they are designed to address. Because it's one thing to say that you are reducing risk, and maybe quite another to see it happening in real life. Most risk mitigation strategies come with at least some cost in terms of foregone investment return opportunities, and we'll be comparing those costs against the realized benefits in terms of funded ratio stability.

# Hospital Consolidation and the Impact on Healthcare Costs

**Code VM2020-6-A-3**

Speakers:
- Pudlowski, Edward M.
- Hempstead, Katherine
- Herk, Leonard F.

Hospital consolidation has continued to be big news in many metropolitan markets across the US. Several studies have suggested that insurers and employers have experienced increases in medical costs in the years following significant mergers. This session reviewed these studies and shared the results of these analyses.

Insights offered by the expert speakers included what constitutes a merger, what markets have been affected, and what the outlook is for the future. Additionally, the presenters addressed the drivers behind increases in health care costs as a result of consolidation in the health care marketplace. The COVID-19 pandemic and its affect on health care providers was covered.

# Small Plan Primer

VM2020-6-B-1

Speakers:

- Roteman, Lance P.
- Scott, Derek A.
- Dorsa, Lorraine
- Greindl, Justin F.

Speakers at this session covered the basics of small plan consulting and how they differ from consulting on larger plans. Topics include plan design, top heavy testing, PBGC issues, non-discrimination testing, document drafting, plan administration, and plan terminations.

The session consisted of going into depth on the differences between small and large plans and what the main consulting differences are between the 2 types of plans. We discussed the plan design considerations that allows small plans to rely on a coordinated DC plan to pass nondiscrimination testing. We showed the power of these plans for generating wealth accumulation for the owner of a business through plan design and how this methodology helps pass nondiscrimination testing. We also discussed issues around this plan design such as 401(a)(26), Top Heavy, In-Service Distributions and PBGC coverage issues and rules. We wrapped up the session by reviewing the concerns around small plan design such as plan sponsors that have employees that do not recognize the value of these contributions, internal political issues of differing accumulations for similar employees to pass nondiscrimination, owners wanting to use the assets like a brokerage account, Highly Compensated Employee payout restrictions, potential problems with nondiscrimination testing if company demographics change, PBGC costs and potential problem if the plan is amended or changed to frequently.

# New Health Plan Innovators

**VM2020-6-B-3**

Speakers:

- Tuomala, David M.
- Fast, Trevor
- Osterndorf, David A.

Recently, a number of new, venture-backed organizations have been formed offering innovative health plan concepts. New entrants have been formed in multiple market areas including individual, Medicare Advantage, and employer-sponsored coverage. This session will focus on health plans offering a full health plan solution rather than components or elements of a plan. Panelists will provide insights into their innovative models including the data supporting results to date, if available.

Trevor Fast from Bind covered background on the benefit design features of the Bind plan including the lack of deductibles and the coverage activation feature for specific conditions. He also discussed current membership and expected growth, some of the current customers, and some of the data they have compiled that demonstrates the plan is working as intended. Dave Osterndorf then covered background on Centivo, which is a primary care focused self-funded plan design. He covered elements of how they establish networks, pay providers, and how the plan design is set up to promote lower cost and higher quality care. He also provided some examples of results that demonstrate the plan is working as expected. Both panelists responded to multiple audience questions during the Q&A section.