



EXPOSURE DRAFT

CONSOLIDATED STANDARDS OF PRACTICE – PRACTICE-SPECIFIC STANDARDS FOR PUBLIC PERSONAL INJURY COMPENSATION PLANS

COMMITTEE ON CONSOLIDATED STANDARDS OF PRACTICE

MAY 2001

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Document 20146

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MEMORANDUM

TO: All Members and Students of the CIA
FROM: Geoff Guy, Chairperson, Practice Standards Council
DATE: May 31, 2001
SUBJECT: Exposure Draft – Consolidated Standards of Practice: Practice-specific Standards for Public Personal Injury Compensation Plans

COMMENT DEADLINE: September 15, 2001

Attached is the exposure draft of the practice-specific standards for public personal injury compensation plans (PPICP).

The PPICP standards will apply to the actuary's advice on the financial position or financial condition or the pricing of benefits of specified public personal injury compensation plans. This draft of the PPICP standards succeeds the discussion draft published in June 2000. The title was changed from Public Insurance Plans at the suggestion of the Workers' Compensation Committee (WCC) to more accurately describe the plans affected. This exposure draft has been approved by the Practice Standards Council as meeting the criteria established for publication of an exposure draft.

The draft should be read in conjunction with the May 2001 exposure draft of the CSOP General Standards since the general standards and the practice-specific standards taken together form the standards applicable to work in each practice area. When formally adopted, the standards will replace the following documents:

- *The Standard of Practice in the Workers' Compensation Area*

The comment deadline for this draft is September 15, 2001. Earlier comment is encouraged. The exposure draft will be discussed at the Annual Meeting in June.

Following the exposure period, and consequent adjustment, final standards will be prepared for approval by the Practice Standards Council.

Please take the time to read the exposure draft and make your comments, both positive and negative, within the discussion period. Comments should be sent by mail, fax or (preferably) e-mail to David Howe, the member of the Committee on Consolidated Standards of Practice co-ordinating responses to this draft, at his *Yearbook* address. If you do comment by mail or fax, an electronic copy of your comments, on diskette or by e-mail, would be appreciated.

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INTRODUCTION TO STANDARDS OF PRACTICE FOR PUBLIC PERSONAL INJURY COMPENSATION PLANS

These draft standards will eventually become part of the Consolidated Standards of Practice (CSOP).

This draft, however, is a free-standing document, so that automatic cross-referencing to the general standards does not work, so the cross-references to them are manual.

Our source for drafting is the present practice standards, namely:

Standards of Practice in the Workers' Compensation Area.

We recast their content to the style of the CSOP, omitting guidance that is in the general standards (but often providing cross-references thereto). We have recorded in footnotes the issues that arose in the course of drafting. The footnotes will be eliminated in the standards eventually adopted.

Committee on Consolidated Standards of Practice

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5000—PUBLIC PERSONAL INJURY COMPENSATION PLANS¹

¹ The standards in this part are practice-specific standards for the consolidated standards of practice which correspond to the July 1994 *Standards of Practice in the Workers' Compensation Area* (referred to in this footnote as “the present standards”). The Committee on Workers' Compensation and the Committee on Consolidated Standards of Practice have recommended their distribution as an exposure draft. The Committees draw the attention of the membership to the two following points.

First, we have generalized the present standards by renaming them standards for “public personal injury compensation plans” and defining that term as follows in the general standards:

Public personal injury compensation plan is a public plan whose primary purpose is to provide benefits and compensation for personal injuries. The compulsory coverage, monopoly powers, and assured continuity of these plans may require the selection of methods and assumptions which differ from those which are appropriate for a comparable benefits plan provided by the private sector or by an insurer. The Canada Pension Plan, the Québec Pension Plan, and the pension provided by the Federal Old Age Security Act are excluded as their primary purpose is the provision of retirement income.

As a corollary, the definition of insurer is modified by deleting “but does not include a workers' compensation plan or government monopoly” and substituting “but does not include a public personal injury compensation plan”.

The extension is modest, however, as the scope of these standards adds only the SAAQ to the workers' compensation systems covered by the present standards, but the structure permits extension to other public personal injury compensation plans, and we encourage discussion of what they should eventually be.

Second, in the CSOP, as in the present standards, there are separate practice-specific standards for public and private sector benefits plans. We recommend that separation only for the time being. We believe that we should work towards unified standards. That does not mean that methods and assumptions should be the same for public and private sector plans. The above definition lists characteristics which call for differing methods and assumptions. The line between public and private is increasingly fuzzy, and it would be better to have standards which provide guidance according to the characteristics of the plan and which leave the assessment of each plan's characteristics to the actuary's judgement.

5100 SCOPE

- .01 The standards in this part apply to an actuary's advice on the financial position or financial condition or the pricing of benefits of the following public personal injury compensation plans:

A public workers' compensation system (including its self-insured elements and self insured employers) and

The *Société d'assurance-automobile du Québec* (SAAQ).

- .02 The standards in this part apply to pricing to the extent that work on pricing depends upon the valuation of benefits.² They do not apply to those components of pricing of benefits that are not determined on the basis of an actuary's advice.
- .03 The standards in this part do not apply if the purpose of the valuation for self-insured employers is to account for the plan in the financial statements of the employer.³

² There are no explicit standards on pricing in this part; perhaps they will emerge in due course.

³ The Task Force on Actuarial Valuation of Employee Benefit Plans is developing a new Standard of Practice for both self-insured and non-self-insured plans.

5200 EXTENSION OF SCOPE

- .01 The standards in this part may also provide useful guidance in the case of a public personal injury compensation plan outside their scope
- whose benefits are compulsory for all or virtually all of its users,
 - which enjoys either a monopoly or a call on government support if its own resources are insufficient, and
 - whose benefits are statutory, as opposed to contractual.
- .02 The standards in this part do not, however, provide useful guidance in the case of a mere monopoly, such as a monopoly of benefits which are optional or a government monopoly which is expected to operate like a private sector entity.

5300 VALUATION OF BENEFITS LIABILITIES

- .01 The value of benefit liabilities is the value, by the actuarial present value method, of cash flow after the calculation date on account of claims incurred before that date. [effective date to be determined]

Assumptions

- .02 *The assumptions for valuation of benefit liabilities should take account of the plan's policy for*

pricing stability,

smoothing of short-term deviations from the secular trend, and

equity among generations of users,

and may differ from the corresponding assumptions for valuation of an insurer's policy liabilities due to the plan's compulsory coverage and monopoly powers.

- .03 *Those assumptions should also take account of*

expected ad hoc indexing of benefits,

the intermittence of income replacement and rehabilitation benefits as a result of remission and relapse which make those benefits continual throughout life, and

variation in settlement patterns which result from virtually definitive revisions to the plan's benefits or claim practices or changes in economic conditions.

- .04 *The actuary should consider any incomplete funding of the benefit liabilities in selecting the economic assumptions.*

Current and prior assumptions

- .05 *The actuary should report an inconsistency if the current assumption differs nominally from the corresponding prior assumption. Provided, however, that a current assumption which differs nominally from the corresponding prior assumption is consistent with that prior assumption if both are calculated by the same method; for example, a four-year moving average method would not constitute an inconsistency. [effective date to be determined]*

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5400 REPORTING: EXTERNAL USER REPORT

- .01 The standards in this section apply to an actuary's report other than a report in a public personal injury compensation's published financial statements which are in accordance with generally accepted accounting principles.
- .02 *In the case of an external user report on work which includes a valuation of benefits liabilities, the actuary should summarize the result of the valuation and describe*
- the Act or other authority under which the valuation is made,*
- the methods and assumptions selected for the valuation of liabilities,*
- if the work includes a valuation of assets, then the method and assumptions used to value them,*
- the funding of the benefits and its effect on the selection of assumptions,*
- the gains and losses, including their quantification, between the prior calculation date and the calculation date, and*
- the matters which require particular monitoring until the next valuation.*
- .03 *If the benefit liabilities make no provision for administration expenses or for future claims arising from latent occupational disease, then the report should so disclose.*
- .04 *The report should disclose the treatment of liabilities for self- insured employers.*
- .05 *If the benefit liabilities make provision for adverse deviation, then the report should so disclose.*
- .06 *The report should be detailed enough to enable another actuary to examine the reasonableness of the valuation. [effective date to be determined]*