

Comment #31 – 3/31/10 – 4:07 p.m.

31 March 2010

ASB Comments
American Academy of Actuaries
1100 17th St., N.W.
7th Floor
Washington, DC 20036

Dear Actuarial Standards Board:

The Actuarial Standards Board (ASB) has issued an Exposure Draft of ASOP 41, *Actuarial Communications*, with a request for comments. I thank the ASB for the opportunity to provide comments, as follows:

1.2 Scope – the term “actuarial opinion” is not defined in this document and is not well-defined in other documents (such as the Qualification Standards). There are many communications which can be made by actuaries and non-actuaries alike. It is not clear if such communications are “actuarial opinions” simply because they are made by an actuary. For example, benefit calculations could be provided by an actuary or a non-actuary. Or, estimates for changes in assumptions or plan provisions – I work with a number of audit teams who are more than comfortable commenting along the lines “a change of 25 basis points in the discount rate won’t double the benefit obligation”. If an actuary were to make a similar comment, would it be an actuarial opinion?

Without a clear and unambiguous definition of “actuarial opinion”, there is a risk of an actuary inadvertently failing to comply with this ASOP. At a minimum, I would suggest replacing “actuarial opinion” with “Statement of Actuarial Opinion” to align better with established guidance such as the Qualification Standards.

2.1 Actuarial Communication – the current ASOP 41, section 2.1, frames an actuarial communication with reference to a principal; this reference has been omitted from this exposure draft. It is rare that an actuarial communication would be made without regard to a principal (who would be responsible for providing the scope of the requested work as well as for accepting the work product). Section 3.1 acknowledges the role of a principal.

As written, section 2.1 would apply to all communications including those outside of a principal–actuary relationship, such as Letters to the Editor and postings to blogs or other forums. While some such communications may be Statements of Actuarial Opinion, others may not be. Without greater clarity regarding the scope of this ASOP, an actuary might fail to comply with its provisions.

3.1 Requirements for Actuarial Communications – the “scope of the requested work” is mentioned in passing. Further guidance to actuaries would be helpful. For example, in some

situations, an actuary may be asked to provide a very high level or gross estimate. In such a situation, it may be awkward or cumbersome to provide all the level of detail suggested by this Standard. An actuary should be allowed, similar to the provisions of the current ASOP 41, section 3.3.2, to tailor the form of communication to the needs of the principal. It would be helpful for an actuary to be able to provide rough estimates without a recitation of caveats or disclaimers if the actuary has taken reasonable steps to ensure that the intended audience of the communication understands the limitations of the estimate.

3.1.2 Clarity – There is mention of “language appropriate to the particular circumstances, taking into account the intended audience”. In some situations, the actuary may not be aware of the fluency or sophistication of the entire intended audience – or the intended audience may encompass a wide range of fluency and sophistication. It would be helpful to provide additional guidance to actuaries to address these situations.

3.1.3 Timing of Communication – It is unclear how this provision coordinates with the provisions of the Qualification Standards dealing with draft materials (cf. Appendix 1 of the Qualification Standards). Since the guidance in the Qualification Standards is quite clear and deals with this subject very well, an attempt to provide different guidance here may result in confusion and failure to comply with this guidance or that in the Qualification Standards. Accordingly, an explicit reference to the Qualification Standards would be sufficient.

3.2 Actuarial report – In the second line and elsewhere, there is reference to “the intended user”. Since “intended user” is defined as “any person ...” this reference should be either to “an intended user” or “the intended audience”.

Some actuaries work with audit teams in reviewing actuarial measurements. In reaching their findings, such actuaries consider a wide range of materials – from actuarial reports, to email or verbal communications, to the tone of a responding actuary’s voice or response. It may be difficult for such a reviewing actuary to remember or articulate all of the pieces of information considered in reaching his or her conclusion – or the auditor (the reviewing actuary’s principal in this case) may decide that it is sufficient to retain only certain of the materials considered.

As mentioned above, it would be helpful for an actuary to be able to agree with the principal regarding the level of detail and specificity to be included in the actuarial report without triggering the deviation provisions.

Finally, an actuarial report should contain an acknowledgement that the responsible actuary (or actuaries) satisfies the Qualification Standards to provide the actuarial report.

3.3.4.b Responsibility for Assumptions and Methods -- This provision provides helpful guidance to an actuary to ensure that the work product is not mis-understood and that the intended audience appreciates the level of scrutiny the actuary has afforded the assumptions. This provision is a helpful elaboration of established guidance. However, the first choice could lead to confusion. Since an actuary is not required to provide an affirmative assessment of the reasonableness of the assumption (but rather can remain silent), a member of the intended audience would not necessarily know if the actuary had assessed the assumption and found it to

“not conflict significantly with what, in the actuary’s professional judgment, would be reasonable for the purpose of the assignment” or if the actuary had failed to assess the assumptions.

Accordingly, the intended audience would be better served if the actuary is required to provide an affirmative statement that assumptions “do not conflict significantly with what, in the actuary’s professional judgment, would be reasonable for the purpose of the assignment” rather than allowing the actuary to remain silent in this situation.

4.1.2 Identification of Actuarial Documents – This provision seems overly broad and cumbersome. For example, the provision seems to suggest that I would need to create a new “actuarial document” with each iteration of a draft report – or even if I saved a draft while I was working on it. There seems to be little value to such a multiplication of drafts, and in fact, may result in loss of “version control”. In some situations, particularly providing assistance in legal matters, the actuary may be instructed to have but a single working draft.

Further, the provision seems to suggest that there would be multiple versions of a single actuarial report. While an actuary may need to issue an updated or revised report, such a report might well be a simple replacement to the original (perhaps correcting some minor typographical or grammatical errors) and identification as a “new” document would create confusion.

This provision overly broad and should be amended. In particular, the actuary should be allowed to agree with the principal regarding the level of identification appropriate for an actuarial document.

I would be pleased to discuss any of these comments in person, if you feel it would be helpful.

I am providing these comments as an individual experienced consulting actuary and not on behalf of my employer or any other organization.

Sincerely,

John T. Stokesbury, FSA, MAAA, FCA, EA