ACTUARIAL STANDARDS BOARD

REQUEST FOR COMMENTS

TO: Members of Actuarial Organizations Governed by the Standards of Practice of the Actuarial Standards Board and Other Persons Interested in the Selection of Economic Assumptions for Measuring Pension Obligations

FROM: Actuarial Standards Board (ASB)

RE: Request for Comments – Actuarial Standard of Practice (ASOP) No. 27

DATE: March 27, 2008

This document contains a Request for Comments concerning ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*. Please review this letter and provide the ASB the benefit of your comments and suggestions. Each written response and each response sent by e-mail to the address below will be acknowledged, and all responses will receive appropriate consideration by the ASB.

The ASB accepts comments by either electronic or conventional mail. The preferred form is e-mail, as it eases the task of grouping comments by topic. If you wish to use e-mail, please send a message to comments@actuary.org. You may include your comments either in the body of the message or as an attachment prepared in any commonly used word processing format. Please include the phrase "ASOP No. 27 Request for Comments" in the subject line of your message.

If you wish to use conventional mail, please send comments to the following address:

ASOP No. 27 Request for Comments
Actuarial Standards Board
1100 Seventeenth Street, NW, 7th Floor
Washington, DC 20036-4601

The ASB will post all signed comments received to its website to encourage transparency and dialogue. Unsigned or anonymous comments will not be considered by the ASB nor posted to the website. The comments will not be edited, amended, or truncated in any way. Comments will be posted in the order that they are received, based on the electronic timestamp or postmark. Comments will be removed when a decision is made whether or not to revise ASOP No. 27. The ASB web site is a public web site and all comments will be available to the general public. The ASB disclaims any responsibility for the content of the comments, which are solely the responsibility of those who submit them.

Deadline for receipt of comments in the ASB office: August 1, 2008.

Background

The ASB has provided coordinated guidance through a series of ASOPs for measuring pension obligations and determining pension plan costs or contributions:

1. ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*;

2. ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*;

3. ASOP No. 35, *Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations*; and

4. ASOP No. 44, *Selection and Use of Asset Valuation Methods for Pension Valuations*.

The ASB initially adopted ASOP No. 27 in 1996. Last year a new version of ASOP No. 27, incorporating minor changes, was adopted. In the decade since ASOP No. 27 was first adopted, pension actuarial practice has evolved and the pension actuarial landscape has been affected by such factors as deteriorations in the funded status and increases in the costs of many plans, an altered regulatory environment, changing expectations regarding actuarial assumptions, and the emergence of financial economics as an alternative to the traditional actuarial model.

ASOP No. 27 has also been the subject of critical analysis. For example, the January 2005 *Pension Forum*, published by the Society of Actuaries, included two papers about ASOP No. 27. The *Pension Forum* may be found at http://www.soa.org/library/newsletters/the-pension-forum/2005/january/pfn0501.pdf.

Request for Comments

The ASB intends to undertake a comprehensive review of ASOP No. 27 and, if warranted, to revise it to reflect actuarial practice as it has evolved since 1996. As it begins its review, the ASB would like to solicit the views of actuaries and others who are interested in the selection of economic assumptions for measuring pension obligations.

The ASB welcomes comments on any issues relevant to ASOP No. 27, and would like to draw readers' attention to the following questions in particular:

1. Under ASOP No. 27, an actuary selects an economic assumption by developing a "best-estimate range" and selecting a specific point within the best-estimate range. How do actuaries comply with the ASOP? What methodologies do they use to select a specific point within a "best-estimate range"? Is the "best-estimate range" approach the appropriate standard of practice? Does the ASOP inhibit the use of a more appropriate approach to selecting assumptions? Are there any specific changes that should be made to the ASOP to describe appropriate practice more accurately?

2. Under ASOP No. 35, an actuary selects a noneconomic assumption by considering the relevant "assumption universe" and selecting a specific assumption from the appropriate assumption universe. Should ASOP No. 27 incorporate the concept of an "assumption universe" with respect to economic assumptions?

3. Currently, the selection of an economic assumption that is not within the "best-estimate range" is considered a deviation from the guidance in ASOP No. 27. Should the ASOP permit an actuary to select an economic assumption that lies outside the best-estimate range (for example, to include a margin for conservatism, or to calculate a range of values instead of a single measurement of plan obligations)? If so, what specific guidance should ASOP No. 27 provide with respect to the selection of such economic assumptions?

4. Currently, the guidance in ASOP No. 27 does not include the asset valuation method or the difference between the market value and actuarial value of a plan's assets among the considerations in selecting an investment return assumption. Is it appropriate for an actuary to consider either of those factors when selecting an investment return assumption? Should the ASOP advise actuaries to consider those factors?

5. Have there been any specific changes in actuarial science or practice since the original adoption of ASOP No. 27 that conflict with the guidance in the ASOP? Should the ASOP accommodate any such practices? If so, what specific guidance should ASOP No. 27 provide with respect to such practices?

6. Comments received by the ASB in response to an exposure draft of ASOP No. 4 supported the idea that pension standards should accommodate actuarial practice that incorporates the concepts of financial economics as well as traditional actuarial practice. Does the application of financial economics to the selection of economic assumptions conflict with the guidance in ASOP No. 27, and if so, in what specific ways does it conflict? Should ASOP No. 27 provide specific guidance with respect to financial economics and, if so, what should that guidance be?

7. Is there a need for guidance concerning the selection of economic assumptions for purposes other than measuring pension obligations (for example, for measuring pension risk)? If so, in which specific areas is guidance needed? Should any such guidance be provided in ASOP No. 27 or in a separate ASOP? What specific guidance, if any, should ASOP No. 27 provide with respect to such practices?

8. Are the disclosure requirements of ASOP No. 27 appropriate? Are there any specific disclosures that should be added to or removed from the ASOP? Is there additional information concerning economic assumptions that would be useful to another actuary who takes over or reviews a plan or to other users of an actuarial report?

9. Are there any other areas of concern with respect to ASOP No. 27?

10. How might any of your comments apply to ASOP No. 35? Are there similar issues that apply to both ASOPs? Should the ASB review ASOP No. 35 at the same time it reviews ASOP No. 27?

The ASB reviewed this Request for Comments at the March 2008 meeting and approved its issuance.

Pension Committee of the ASB

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