ACTUARIAL STANDARDS BOARD

● **EXPOSURE DRAFT** ●

Proposed Revision of
Actuarial Standard of Practice No. 27

Selection of Economic Assumptions for Measuring Pension Obligations

Comment Deadline
October 31, 2005

Developed by the
Pension Committee of the
Actuarial Standards Board

Approved for Exposure by the
Actuarial Standards Board
March 2005

EXPOSURE DRAFT—March 2005

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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)

SUBJ: Proposed Revision of Actuarial Standard of Practice (ASOP) No. 27

This booklet contains the exposure draft of the proposed revision of ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*. Please review this exposure draft and give 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 drafting committee in preparing the final document for approval 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 section. 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 Revision” in the subject line of your message.

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

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

Deadline for receipt of responses in the ASB office: **October 31, 2005**

Background

The Actuarial Standards Board adopted the existing ASOP No. 27 in 1996 as one of several standards designed to provide guidance on key elements in measuring pension obligations. In March 2005, the ASB approved the second exposure draft of a proposed revision of ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*, which will be the “umbrella” standard that addresses overall considerations in the selection of assumptions and methods for measuring pension obligations.

The existing ASOP No. 27 contains a statement to the effect that, in case of a conflict between the guidance in ASOP No. 27 and ASOP No. 4, ASOP No. 27 will govern. However, the ASB intends that the proposed revision of ASOP No. 4 should govern in any such conflicts, and the proposed revision of ASOP No. 4 does conflict with ASOP No. 27 in one substantive way. The ASB is not releasing for comment a complete version of ASOP No. 27 and is not soliciting comments on other issues at this time. Instead, this exposure draft highlights only the wording changes that will be made to resolve the conflict regarding which standard governs. A more comprehensive review is intended for the future, at which time readers would be encouraged to comment on all aspects of the standard.

The ASB plans to adopt this proposed revision of ASOP No. 27 with the same effective date as the proposed revision of ASOP No. 4.

The following changes are proposed:

1. In the transmittal memorandum, delete the second and third sentences of the first paragraph, which state, "This standard supersedes ASOP No. 4, *Measuring Pension Obligations*, if a conflict exists. It also provides an alternative way to comply with the disclosure of exceptions requirement in ASOP No. 2, *Recommendations for Actuarial Communications Related to Statements of Financial Accounting Standards Nos. 87 and 88*, insofar as it pertains to economic assumptions."

   In addition to that specific change, the ASB might make other nonsubstantive changes in the transmittal memorandum to reflect the current format of ASOPs and the current status of ASOP No. 4, ASOP No. 35, and the proposed ASOP on the selection and use of asset valuation methods in pension valuations.

2. In section 1.2, Scope, revise the first sentence of the second paragraph to state explicitly that ASOP No. 4 will govern in the event of a conflict and delete the second sentence entirely. These proposed changes are shown below:

   > 1.2 Scope—This standard applies to the selection of economic assumptions to measure obligations under any defined benefit pension plan that is not a social insurance program (unless ASOPs on social insurance explicitly call for application of this standard). Measurements of defined benefit pension plan obligations include calculations such as funding valuations or other assignment of plan costs to time periods, liability measurements or other actuarial present value calculations, and cash flow projections or other estimates of the magnitude of future plan obligations. Measurements of pension obligations do not generally include individual benefit calculations or individual benefit statement estimates.
   >
   > To the extent that the guidance in this standard may conflict with ASOP No. 4, ~~this standard~~ASOP No.4 will govern. ~~Furthermore, compliance with section 4.2 of this standard is deemed to fully satisfy the disclosure of exceptions requirement of ASOP No. 2, *Recommendations for Actuarial Communications Related to Statements of Financial Accounting Standards Nos. 87 and 88*, insofar as it pertains to economic assumptions.~~ If a conflict exists

between this standard and applicable laws or regulations, the actuary is obligated to comply with the laws or regulations.

This standard does not apply to the selection of an assumption where the actuary is precluded from exercising independent judgment by an applicable law, regulation, or other binding authority (i.e., when a specific assumption is mandated or when only a specified range of assumptions is deemed to be acceptable). For example, the standard does not apply to the selection of a current liability interest rate range under Internal Revenue Code (IRC) section 412, because the determination of such a range is governed by the IRC. In addition, the standard does not apply to the selection of the current liability interest rate within the specified range if, as is the case at the date this standard was published, the Internal Revenue Service deems any rate within the range to be acceptable.

Throughout this standard, any reference to *selecting* economic assumptions also includes *giving advice on selecting* economic assumptions. For instance, the actuary may *advise* the plan sponsor on selecting economic assumptions for Statement of Financial Accounting Standards (SFAS) Nos. 87 and 88 or Governmental Accounting Standards Board (GASB) Statement Nos. 25 and 27, but the plan sponsor is ultimately responsible for selecting these assumptions. This standard applies to the actuarial advice given in such situations, within the constraints imposed by the relevant accounting standards.

The ASB reviewed the draft at the March 2005 board meeting and approved its exposure.