Comment #4 - 4/22/11 – 2:10 p.m.

This email presents my comments on the proposed revision of ASOP 27 approved for exposure in January 2011. I emphasize that these are my personal comments and do not necessarily represent the views of my employer or of any of the actuarial bodies to which I belong. I am an enrolled actuary, a member of the American Academy of Actuaries, a Fellow of the Society of Actuaries, and a Fellow of the Institute of Actuaries (London).

My response to the issues raised on page x is as follows:

1. I agree that either approach can produce a reasonable assumption.
2. I am comfortable with the approach suggested.
3. The proposed reasonability standard is better than the current standard.
4. I see no merit in arithmetical averages. I think all economic assumptions should be assumed to be geometric, not arithmetic. I think an actuary who uses arithmetic averages should disclose the fact and should also disclose the equivalent geometric average.
5. I think that 3.6.3 d is educational. It seems to assume actuaries are idiots and need to be persuaded to avoid behaving idiotically. I recommend removing 3.6.3d as adding nothing worthwhile to the ASOP that is not already obvious to most actuaries.
6. 3.15.6 is educational. It should be removed.
7. Conservatism is acceptable provided it is disclosed. The disclosure should include some sensitivity analysis to indicate the impact of the conservatism on the results.
8. I think it is appropriate to require the actuary to provide the rationale for the assumptions used, regardless of if they change or stay the same. In justifying not changing assumptions, the actuary can refer back to the justification given for adopting the current assumption at the time it was adopted, if the actuary believes such rationale is still valid. Actuaries should not be exempt from providing a rationale for keeping any economic assumption unchanged from the prior measurement.

Section 1.4 gives an effective date of four months after adoption by the ASB. Employers frequently sponsor more than one retirement plan; such plans often have different plan years. For example, an employer may sponsor four different plans at different subdivisions of the company. They may have plan years that begin January, January, April, and September. It is reasonable for the employer to expect the same underlying rules for selection of assumptions for all four plans for the same plan year. If the January 2011 valuations have been completed before the ASB adopts the revised ASOP, they will have been done using the existing rules. If the April 2011 and September 2011 valuations are not completed until after the ASB adopts the revision, those valuations will have to apply the new rules. In this situation, I believe the employer’s right to consistency is more important than the ASB’s deadline, I urge that this deadline be modified to permit use of the current ASOP in such situations.

Section 3.5 refers back to 3.4. I believe the information contained in 3.5 is educational and should be deleted. The underlying principle of 3.4 applies.

Section 3.6.3 e permits, without comment, the reduction of the investment return assumption to reflect transaction, custodian, and management fees. These fees have no more correlation with the investment return assumption than fees paid to auditors, accountants, actuaries, or administrative staff. Further, some of these fees may be fixed for short or long periods, or may be expected to change as a function of future wage and price inflation independent of the expected return on assets. I believe the correct way to handle such fees is to adopt assumptions as to their size in the current and each future year and to discount them at the expected rate of return as part of the cash flow expected from the plan assets. I accept that when such fees are not disclosed by the investment company or manager, it is impossible to apply such a technique; I accept in such a situation that one must, of necessity, apply a net expected return assumption. In all situations where the actuary has specific information on such fees, that information should be used independently and not applied to reduce the expected return.

I would not wish to prevent any actuary from applying the offset suggested in 3.6.3 e, but believe such an approach should be discouraged, and believe an actuary who applies such an approach should disclose the method and assumptions used to apply such an offset.

Section 3.9 refers back to 3.4. I believe the information contained in 3.9 is educational and should be deleted. The underlying principle of 3.4 applies.

I wish to add here a general comment on all ASOPs. They ossify. The current process is a disservice to the actuarial profession and those publics served by actuaries. Once adopted, ASOPs continue to apply for years even though the underlying rules may be no longer relevant to actuarial practice, or even contrary to any reasonable actuary's definition of best practice. We deserve an approach in which the acceptability, or otherwise, of a rule should be subject to the regular, continuous, ongoing assessment of the profession as a whole, not to an elite, unelected, ASB and its subcommittees.

Here is one approach that deserves to be given a try –for a two year test trial and then have the membership cast a vote:

Set up a web page for each current ASOP along with a few web pages for actuarial issues not covered by an ASOP but that may deserve one.

Invite all members of the profession to post comments, including suggested acceptable or preferred alternatives to the approaches set out in the relevant ASOP.
Where suggested alternatives have been posted, provide a facility for the membership to indicate agreement or opposition to the suggestion by logging in and posting a "yes" or "no" vote on the idea. Logging in would prevent people voting early and often. Provide that any such suggestion is an acceptable alternative to the ASOP – without a need to invoke the deviation clause – if approval of the suggestion comes from a certain minimum majority of comments (both in number and as a percentage – say at least 70%

of the comments are favorable, and the favorable comments come from at least 20 people).

I am confident that there are more than enough members who can be rounded up by email from the ASB or any of its subcommittees to log in and vote against any suggestion that seems dangerous and may be at risk of being adopted by a majority of ill informed actuaries.

Allowing the membership to bring ossified ASOPs up to date in this manner deserves consideration.

Best Wishes
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