

Comment #1 – 11/20/13 – 3:36 p.m.

This email presents my comments on the September 2013 Exposure Draft of the proposed revision to ASOP 35 – Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations. I emphasize that my comments are personal and do not necessarily represent the views of my employer or of any actuarial body to which I belong. I am a Fellow of the Institute of Actuaries (London), a Fellow of the Society of Actuaries, an Enrolled Actuary and a Member of the American Academy of Actuaries.

Section 4.1.1 of this exposure draft contains this wording “The actuary should describe ...the actuary’s observation of the estimate’s inherent in market data.” The same wording appears in Section 4.1.1 of ASOP 27. I readily understand the concept of market data in the context of economic assumptions under ASOP 27. It refers to the risk characteristics, available yields, trends, fluctuations, and variations of assets in which a pension plan may invest or which may provide appropriate information for determining the economic assumptions for a pension liability or a conversion factor. I do not understand how the term “market data” differs from the term “data” in the context of demographic assumptions. I urge clarification of the term “market data” in the context of demographic assumptions, perhaps with the addition of examples.

Section 4.1.3 includes these words: “the actuary should disclose any changes in the demographic assumptions... (and t)he general effects of the changes. The disclosure may be brief but should be pertinent to the plan’s circumstances.” Section 4.1.3 of ASOP 27 contains identical wording, except for the use of “economic” instead of “demographic.” Some people may interpret the appearance of separate requirements in ASOP 35 and ASOP 27 as a requirement to disclose separate information for changes in demographic assumptions and changes in economic assumptions. I see no merit in requiring the actuary to provide separate disclosure for changes in demographic and changes in economic assumptions. Please clarify the following concepts in this ASOP:

- 1 For the purpose of this ASOP and ASOP 27, the change of any assumption or assumptions is significant if (a) the net change from all assumption changes causes an actuarial value to move from one side of a threshold to the other or (b) the actuary considers the change significant. For this purpose, a threshold is the size of an actuarial value that marks the point for the imposition or removal of obligations on a plan sponsor, plan participant, or plan administrator. An example of a threshold is an 80% FTAP for year Y, satisfaction of which permits use of funding balances to meet required minimum contributions for year Y+1.
- 2 For the purpose of this ASOP and ASOP 27, the term “actuarial value” includes, but is not limited to ABO, Actuarial Value of Assets, AFTAP, Current Liability, DBC, DBO, FT, FTAP, Funding Balances, Interest Cost, NPC, PBO, Present Value of Accumulated Plan Benefits, Service Cost, Shortfall, Shortfall amortization, TNC, and Withdrawal Liability.

- 3 An actuary may comply with Section 1.4.3 of this ASOP and Section 1.4.3 of ASOP 27 in a single statement that does not separate the effects of changes in demographic assumptions from the effects of changes in economic assumptions and does not give any information on the separate effects of changes in individual demographic or individual economic assumptions.
- 4 If the net effect of all changes in economic and demographic assumptions is not significant (as defined above) the actuary can comply with Section 4.1.3 of this ASOP and of ASOP 27 by indicating the direction of the assumption change(s) on each actuarial value presented in the report and may limit separate analysis to a list of those actuarial values that increase and those that decrease as a consequence of all coincident assumption changes. For this purpose, a change of assumptions is coincident if it occurs on the same date or on two days, one of which begins immediately after midnight on the other day, for example, the change of assumptions for disclosure as of 12/31/Y is coincident with a change of assumptions for net pension cost as of 1/1/Y+1.
- 5 If the net effect of all changes in economic and demographic assumptions is significant, the actuary must specify which, if any, actuarial values moved from one side of a threshold to the other side as a result of the assumption change(s); if a change is significant but causes no actuarial value to move from one side of a threshold to the other, the actuary should provide information on the size and direction of the change of assumptions on those actuarial values that the actuary considers significant.

I urge adding to the ASOP an appendix that provides examples of acceptable formats for the information required by Section 4.1.3.

Best Wishes
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