ASPPA™
WORKING FOR AMERICA'S RETIREMENT

College Of Pension Actuaries
copa

Response to the Actuarial Standards Board Request for Comments on Actuarial Standard of Practice (ASOP) No. 27

August 1, 2008
comments@actuary.org

The American Society of Pension Professionals & Actuaries (ASPPA) and College of Pension Actuaries (COPA) appreciate this opportunity to respond to the Actuarial Standards Board's request for comments on ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*, issued March 27, 2008. ASPPA and COPA believe periodic review of ASOPs is important to the continued health of the actuarial profession. We encourage the ASB to review ASOP 27 with an eye to creating more flexibility for application of actuarial methodology for varied purposes, not with becoming so prescriptive that measuring pension obligations becomes a one-size-fits-all.

Comments

I. Best-estimate range versus "assumption universe"

"Best-estimate range" remains the appropriate standard of practice for choosing economic assumptions (where not prescribed by law or other rule). The conclusion expressed in the current ASOP, that "an actuary's best-estimate assumption is generally represented by a *range* rather than one specific assumption" remains true. Some previous commentators have suggested that a 50% confidence level for best-estimate range is arbitrary and too low. "More likely than not" in fact seems less arbitrary than any other confidence level that could be selected by the ASB.

Suggestions that the best-estimate range be replaced with the "assumption universe" are misleading. An "assumption universe" defined as values anticipated to not produce significant cumulative actuarial gains or losses, would be a range, not a set of specific values, and generally should fall within a properly defined best-estimate range. In circumstances where the actuary believes the appropriate value is outside the best-estimate range, the actuary is not prohibited from using the value, but must explain why the deviation is appropriate.

That said, the board may want to consider a specific exception to or modification of the best-estimate methodology in circumstances where a trust is poorly diversified, and the best estimate range does not include the expected value. (This possibility was discussed in Section 2.1 of Appendix 3 of ASOP 27 as adopted in December, 1996.) Consider a plan invested in a single bond paying 7% interest. There is only a 1% probability of default, so the best-estimate range is 7%. In this scenario, a 7% assumption appears quite reasonable, so one may not be too concerned that the expected value of 5.93% is not within this limited range. However, if the probability of default were 2%, the best-estimate range would remain at 7% even though the expected value is now 4.86%. Although the actuary could simply note this outcome as part of the rationale for departing from the standard, which is the conclusion reached in 1996, the board should consider providing that the best-estimate range extends to the expected value.

II. Ability to use assumptions outside the best-estimate range

ASOP 27 provides the actuary with the ability to choose more conservative assumptions within the best-estimate range where indicated by the purpose of the measurement. Currently, the use of a rate outside the range is considered a deviation from the guidance. Such deviations are not prohibited, but the actuary must justify the departure and disclose the nature, rationale, and effect of the deviation. No changes are necessary. If an actuary believes a margin for conservatism, or presentation of results outside the best-estimate range are appropriate, disclosures required under the current ASOP 27 are appropriate.

These comments were prepared by ASPPA's Actuarial Issues Committee in cooperation with COPA's Governmental Liaison Committee. ASPPA was represented by Michael L. Bain, MSPA; Thomas J. Finnegan, MSPA; David M. Lipkin, MSPA: Kathleen E. Manning, MSPA; and Kurt F. Piper, MSPA. COPA was represented by Larry Deutsch. Please contact us if you have any comments or questions regarding the matters discussed above.

Sincerely,

/s/
Sal L. Tripodi, Esq., APM
President, ASPPA
/s/
Stephen L. Dobrow, QPA, APA, CPC
President-Elect, ASPPA

/s/
Brian H. Graff, Esq., APM
Executive Director/CEO, ASPPA
/s/
Mark K. Dunbar, MSPA, Chair
Actuarial Issues Committee, ASPPA
/s/
Judy A. Miller, MSPA, Co-Chair
Actuarial Issues Committee, ASPPA

/s/
Richard A. Block
President, College of Pension Actuaries
/s/
Steven J. Levine
Chairman, Governmental Liaison Committee
College of Pension Actuaries