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

To Whom It May Concern:

I am writing on behalf of The Segal Company to respond to your Request for Comments concerning ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*. We thank you for the opportunity to provide comments as you undertake your review of ASOP No. 27.

The Segal Company firmly believes that the proper basis for setting actuarial standards is the *minimum* acceptable practice, and that "best practices" should be conveyed to actuaries by use of practice notes. The potential consequences to an actuary of failure to follow actuarial standards are potentially quite serious – discipline by the professional organizations, loss of Enrolled Actuary status, and a substantially weakened ability to defend oneself in malpractice litigation. The potential consequences to actuarial employers include considerably increased litigation risk and difficulty in obtaining affordable professional liability insurance. These are not simply theoretical risks – all the major actuarial consulting firms have been confronted with substantially increased costs and risks that are arguably the result of aggressive actuarial standards. Smaller firms have had to go out of the actuarial business altogether due to inability to obtain liability insurance. These are serious consequences, and the ASB should not lightly take action that might bring them about.

As the ASB considers potential changes to ASOP No. 27, please make sure to consider the following questions:

- Are there existing actuarial practices that should not be permitted for which an actuary should be disciplined, but that currently comply with ASOP No. 27 and so discipline is not possible?

- Are there existing or desirable actuarial practices that are outside ASOP No. 27 that, therefore, inappropriately subject the actuary to litigation and discipline risk?

- Does ASOP No. 27 present barriers to the creative development of future practices?

- Are proposed revisions intended to force actuaries to do better work because the Board believes it is possible for them to do so, or because the Board believes that the current work is clearly professionally unacceptable?

A recent example from the Canadian Actuarial Standards Board will illustrate our concern. A new Canadian standard requires an affirmative statement in an actuarial report by a pension actuary that there have been no significant subsequent events between the valuation date and the signature date if that is in fact the case. Compliance with this standard is obviously simple. But we do not believe that an actuary should be subject to professional discipline for failure to note the absence of subsequent events when there were none, because no user of that report will be misled by the absence of that disclosure. Further, under both the Academy and Canadian Institute codes of professional conduct, every actuary who learned that a required material disclosure was missing would be affirmatively obligated to report the offending member, or else be subject to discipline himself or herself. We strongly believe that this is an absurd result, and encourage the ASB to evaluate the desirability of all new standards and changes to existing standards using the principles we have outlined above.

In applying these principles in evaluating the standards, it is important to note the wide range of situations to which these standards apply. For example, although the development of a “best-estimate range” for the investment return assumption and/or the discount rate may not be a significant issue for the funding of single employer plans due to the Pension Protection Act of 2006 (PPA’06) rules, it still is important for multiemployer and public sector plans. As a consulting firm with a large number of such clients, we have applied their perspective in our comments below.

As pension plans have become more financially sophisticated, there has been more information and analysis available from their investment consultants. The Standard needs to recognize the availability of this information and to support the actuary’s taking it into account but also to recognize that generally the projections of investment returns by investment consultants are over a shorter time horizon than the typical measurement period of a pension plan. The Standard therefore should permit the actuary to take all of the circumstances of the plan into account in establishing the investment return assumption.

These circumstances could include the plan sponsor’s desire to increase the likelihood that all promised pension benefits will be funded. The actuary may wish to include an explicit allowance for conservatism so that the contributions will more often than not result in the funding of the promised pension benefits. The Standard should therefore permit calculations under this approach. Depending on the purpose of the measurement, it also may be appropriate to value liabilities using a so-called “risk-free” interest rate or at current bond yield curve rates, primarily for “settlement-like” calculations or valuations. Calculations in accordance with the principles of financial economics therefore should be permitted (but not required) by the Standard, if the rationale for a choice outside of the normal best estimate range is disclosed.

Similarly, the investment policy and the current relationship between the market value and actuarial value of a plan's assets are factors that the Standard should permit the actuary to take into account in setting an investment return assumption. The Standard should not, however, require nor advise the actuary to explicitly take them into account.

The Request for Comments discusses the concept of an "assumption universe" in ASOP No. 35. Although it makes sense for the demographic and other assumptions covered by that standard, we do not believe that such a concept makes sense with respect to economic assumptions as there is a continuous range of values that can be considered (and often are) and therefore we recommend that it not be incorporated into ASOP No. 27.

This full range of values is an essential part of asset-liability modeling studies. These studies typically examine the effects on key financial measures of a wide range of investment experience, not just those within the "best-estimate range." The Standard should permit actuaries to provide the results of those projections, with appropriate disclosure, without being subject to its deviation clause. In general, though, any guidance concerning the selection of economic assumptions for purposes other than measuring pension obligations (such as for measuring pension risk) should be provided in a separate ASOP. However, the ASOP should clarify that a "best-estimate range" does *not* mean that any value within the "middle 50%" range of likely investment return outcomes over a short period (for instance, any return between the 25th and 75th percentiles based on historical or anticipated return and standard deviation for each asset class) is an acceptable choice for an actuarial valuation of long-term liabilities.

In considering the disclosure requirements of ASOP No. 27, it should be noted that the recently revised ASOP No. 4 provides an additional degree of disclosure. We believe that the two ASOPs together provide an appropriate level of disclosure requirements with respect to economic assumptions.

Thank you for requesting and considering our comments. We look forward to the results of your review of ASOP No. 27.

Sincerely,

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Senior Vice President, Chief Actuary