

Actuarial Standards Board
American Academy of Actuaries

ASOP No. 35 Revision
Actuarial Standards Board
1850 M Street, NW, Suite 300
Washington, DC 20036

January 28, 2014

Subject: Exposure Draft of ASOP No. 35

To members of the Actuarial Standards Board:

Mercer is pleased to provide our response to the proposed revisions to ASOP 35. These comments were prepared with the assistance of Mercer's Actuarial Resource Network, a group of senior actuaries in the Retirement Practice representing all of the U.S. geographic areas in which Mercer operates

We agree with the exposure draft preamble that many of the proposed changes reasonably improve consistency with other ASOPs, including several that have recently been modified. Those items have already been settled, and this letter does not attempt to reopen past issues. Our comments below relate to the relevance of historical data and the significance of demographic assumptions. We propose minor edits that we believe would improve ASOP 35, both as a standard for actuaries to follow, and as an indication to those outside the profession of the level of integrity and precision they should expect from demographic assumptions. Suggested additions to the standard are underlined, while suggested deletions are ~~struck through~~.

Section 3.3.5

Section 3.3.5 requires that each demographic assumption selected by the actuary be reasonable. "Reasonability" for this purpose is defined according to a specific and strict set of criteria. We believe that the assessment of reasonability should be limited to assumptions that are significant, as proving an assumption satisfies the reasonability criteria is nontrivial and not appropriate to assumptions that have little or no impact. Although Section 3.10.2 ("Materiality") arguably could be construed to imply this result, we believe it is important to include clear language to this effect in Section 3.3.5. For example, an actuary might assume that all employees covered by a pension plan take life annuity benefits at retirement because under the plan's provisions all other forms of payment are actuarially equivalent to the life annuity benefit, and the plan's actuarial conversion basis is similar to the valuation's actuarial rates. If future benefit cash flows (which would be affected by the choice of assumption) are not included in the reported results, and results are provided only at a single rate or a range of rates where valuation and plan conversion assumptions are reasonably close, form of payment may not be a significant assumption. The fact that some participants have elected, or that some future retirees probably will elect, other forms of

payment could be taken to imply the actuary's assumption is not reasonable (under 3.3.5.c or 3.3.5.d) and should not be selected.

Although we do not believe insignificant assumptions should be subject to strict reasonability testing, we do feel the ASOP could consider some less stringent framework for insignificant assumptions.

We also propose that the consideration of historical and current data be limited to that which the actuary believes is relevant. There is no extrinsic benchmark regarding what data is relevant; therefore relevance can only be determined in the actuary's professional judgment.

3.3.5 Select a Reasonable Assumption—Each significant demographic assumption selected by the actuary should be reasonable. For this purpose, an assumption is reasonable if it has the following characteristics:

- a. It is appropriate for the purpose of the measurement;
- b. It reflects the actuary's professional judgment;
- c. It takes into account historical and current demographic data that the actuary believes is relevant as of the **measurement date**;
- d. It reflects the actuary's estimate of future experience, the actuary's observation of the estimates inherent in market data (if any), or a combination thereof; and
- e. It has no significant bias (i.e., it is not significantly optimistic or pessimistic), except when provisions for adverse deviation or plan provisions that are difficult to measure are included and disclosed under section 3.10.1 or when alternative assumptions are used for the assessment of risk.

Section 4.1.3

In the prior version of ASOP 35, Section 4.1.3 required the disclosure of "any material changes", but the exposure draft has removed "material" from the sentence. While we understand that the word "material" has audit implications that we may be trying to avoid, we suggest that the disclosure requirement be limited to significant changes. Requiring discussion of all changes in assumptions, even those that are insignificant, runs counter to the balance of ASOP 35, which generally requires disclosure only of significant assumptions. For example, reference 4.1.1, "The actuary should describe each significant **demographic assumption** used in the measurement ...", and 4.1.2, "The actuary should disclose the information and analysis used in selecting each **demographic assumption** that has a significant effect on the measurement."

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4.1.3 Changes in Assumptions – The actuary should disclose any significant changes in the demographic assumptions from those previously used for the same type of measurement. The general effects of the changes should be disclosed in words or by numerical data, as appropriate. For assumptions that were not prescribed, the actuary should include an explanation of the information and analysis that led to those changes.

Thank you again for the opportunity to comment on this exposure draft. We are available to provide more information or detail as may be appropriate.

Sincerely,



Bruce Cadenhead, FSA, EA, FCA, MAAA
Partner & Chief Actuary, US Retirement