Comment #13 – 10/1/14: 10:43 a.m.

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To the ASB,

I applaud the ASB's recent Request for Comments regarding ASOPs for public pension plans. I also applaud the ASB's revisions of all of the pension ASOPs over the last few years. These revisions have improved the quality and transparency of pension plan valuations. However, the private pension plan regulatory environment is significantly different than the public pension plan regulatory environment. The interest and mortality assumptions for private pension plans are prescribed by law, while the corresponding assumptions for public pension plans are often set by the plan sponsor. I note that Section 2.6 of ASOP #35 makes a distinction for public pension plans between assumptions set by the public pension plan sponsor and assumptions set by another party, effective for measurement dates on or after September 30, 2014. However, even this step in the right direction leaves room for the actuary to use an assumption that could be inappropriate.

The ABCD has received a number of complaints concerning Subject Actuaries who are using allegedly outdated mortality assumptions in their public pension plan valuations. In contrast, the mortality assumption is prescribed for private pension plans, and the prescribed mortality table for private pension plans is quite up-to-date. Nonetheless, private pension plan actuaries might use an allegedly outdated mortality assumption for a retiree medical plan valuation or a non-qualified pension plan valuation. Thus, my recommendation would be applicable to all pension and retiree medical valuations, both in the private sector and the public sector. Specifically, I am urging the ASB to proscribe the use of the following mortality tables unless there is compelling evidence that their use is appropriate for a specific Principal:

- 1951 Group Annuity Mortality Table without projection to the valuation year
- 1971 Group Annuity Mortality Table without projection to the valuation year
- 1983 Group Annuity Mortality Table without projection to the valuation year
- 1984 Unisex Pensioner Mortality Table without projection to the valuation year

The attached table shows highlights of these four mortality assumptions, compared to the 1994 Uninsured Pensioner Table, the RP-2000 Mortality Table and the recently released draft of the RP-2014 Mortality Table. The life expectancy and annuity information in the chart uses Scale AA to project mortality improvements of the first two tables in the preceding sentence to 2014.

The report that accompanied the release of each of these three mortality tables explicitly stated that the actuary should anticipate improvements in mortality from the baseline year of the table to the measurement year.

Section 3.5.3 of ASOP #35 states, "… the actuary should ... adjust mortality rates to reflect mortality improvement prior to the measurement date. … Such an adjustment is not necessary if, in the actuary's professional judgment, the published mortality table reflects expected mortality rates as of the measurement date." I note that Subject Actuaries using any of the four proposed proscribed mortality tables typically do not project mortality improvements beyond the year in the title of the table. These Subject Actuaries usually defend their selection of these mortality tables and the lack of projected improvements in mortality, as a difference of professional opinion. A revision to ASOP #35 would make these actuaries aware that these tables are inappropriate for use except in very specific and limited circumstances and that they should reflect projected improvements in mortality.

The table shows that the four proposed proscribed mortality tables:

- Are based on about 10% to 25% of the exposure contained in each of the last three mortality assumptions in the table.
- Are based on mortality experience that ranges from 25 years ago to 60 years ago.
- Have life expectancies at age 65 that are about 25% to 30% shorter than the life expectancies of the most current table. Alternatively, life expectancy has increased about 40% to 50% since the four proposed prescribed tables were developed.
- Have annuity values at age 65, using a 6.00% discount rate, that are about 10% to 20% lower than annuity values of the most current table. Alternatively, annuity values at 6.00% have increased 15% to 20% since the four proposed proscribed tables were developed.

The ABCD receives only a handful of complaints each year. Thus I suspect that other actuaries, besides the actuaries who have been reported to the ABCD, may also be using one or more of the four proposed proscribed mortality tables. If so, then some pension plans are being systematically underfunded by about 15% to 20% each year, based on limited data that is anywhere from 25 to 60 years old. I noted previously that private single employer pension plans must use a modern table to calculate contributions, so the underfunding primarily affects public pension plans. These plans can be underfunded for several reasons, such as plan sponsors who contribute less than the recommended contribution, contribution collars, contribution ramp-ups, actuarially inappropriate legislation, etc. However, outdated mortality assumptions can be a contributing factor to underfunded public pension plans.

Even if these mortality tables are proscribed, actuaries would still be able to use them in limited circumstances:

- If there is compelling evidence that the table is appropriate to use for a specific Principal, and if the actuary projects improvements in mortality to the valuation year.

- If the mortality table is a prescribed assumption. However, the actuary would need to disclose if, in his professional opinion, the table is an unreasonable assumption. The actuary would also be required to state that the table's use is a deviation from ASOP #35.

I realize that the ASB has never proscribed an assumption or an actuarial method, and that this would be a significant change in the ASB's approach to ASOPs. However, pension plan mortality is a different assumption than other pension plan assumptions, and proscribing these mortality tables would not set a precedent for other pension assumptions. Interest, retirement decrements, turnover decrements, marital assumption, optional forms of benefit, etc., all are developed by the actuary using characteristics that are specific for each pension plan. Mortality is different than these other assumptions, because the actuary can select a table from existing literature. Some public pension plans are so large that their mortality experience is statistically credible, and an actuary can match the experience to an appropriate mortality table, or develop a plan specific mortality table. But for smaller public pension plans whose experience is not credible, the plan sponsor or legislation might prescribe an outdated and inappropriate mortality table.

Proscription of these tables might fit most appropriately in the current ASOP #35 as an expansion of Section 3.5.3. The ASB could consider adding the following Section 3.5.3.d: "Notwithstanding the guidance in a., b., and c., the following mortality tables are proscribed for use in pension plan measurements:

- 1951 Group Annuity Mortality Table without projection to the valuation year
- 1971 Group Annuity Mortality Table without projection to the valuation year
- 1983 Group Annuity Mortality Table without projection to the valuation year
- 1984 Unisex Pensioner Mortality Table without projection to the valuation year

However, an actuary may use one of these tables for a pension plan measurement if either of the following conditions is satisfied:

i. The plan sponsor has recent credible mortality experience to support the use of one of the otherwise proscribed mortality tables, or

ii. The mortality table is an assumption prescribed by another party. In this case, the actuary should make the disclosures in Section 4.2.a that the use of this mortality table conflicts with the actuary's professional judgment as being reasonable for the purpose of the measurement."

The ASB has much deeper experience in drafting standards, and I offer this language as only a starting point.

I would be happy to discuss this comment at your convenience.

Sincerely,

/s/ Robert J. Rietz

	GA-1951	GA-1971	UP-1984	GAM-1983	UP-1994 AA2014	RP-2000 AA2014	RP-2014
# lives exposed		1.7M	2.8M	1.3M		11M	10.5M
# plans submitting data		5	11	8 insurance companies		Over 100	Over 100
PY of experience	1946-1950	1964-1968	1964-1970	1981-1982		1990-1994	2004-2008
Improvement projection	1951	1971	1984	10% margin	1994	2000	2014
Projection recommendation		None	None			Scale AA to valn year	Scale MB to valn year
Male Age 65 Life Exp	14.2081	15.1121	14.6867	16.6928	19.8369	19.6025	21.6354
Male RP2014 LE/table LE	152%	143%	147%	130%	109%	110%	100%
Female Age 65 Life Exp	17.7246*	18.7592*	18.14	21.3	22.1717	21.3985	23.8069
Fem RP2014 LE/table LE	134%	127%	131%	112%	107%	111%	100%
Male Age 65 6% Life Ann	8.9178	9.4932	9.0888	9.9166	11.0033	10.9891	11.4735
Male 6% LA/RP2014 LA	129%	121%	126%	116%	104%	104%	100%
Fem Age 65 6% Life Ann	10.2461*	10.8120*	10.3522*	11.5224*	11.7294	11.4644	12.0932
Fem 6% LA/RP2014 LA	118%	112%	117%	105%	103%	105%	100%

* F = M - 5