



## **Comments on the Exposure Draft of the Proposed Actuarial Standard of Practice on Setting Assumptions**

April 29, 2017

### **The Actuarial Standards Board**

The ASPPA College of Pension Actuaries (ACOPA) appreciate this opportunity to comment on the Exposure Draft on Setting Assumptions. This response to the questions posed in the exposure draft is presented by actuaries who work primarily on small to mid-sized pension plans, including plans in which a significant portion of the pension obligation is attributable to principal employees.

#### **Comments on the ASB Pension Committee's Questions**

**Question 1.** In some circumstances, the setting of assumptions is largely inseparable from the selection of methodology. The standard addresses this issue by including such methodology in the discussion of “assumptions” in section 1.2. Is this sufficiently clear?

**Response.** There is room for improvement. Determination of the minimum and maximum contribution required under the Employee Retirement Income Security Act of 1974 (ERISA) and the Internal Revenue Code (IRC) includes statutory methodology as well as mortality and interest assumptions. Because the prescribed methodology and assumptions are used in combination, the specified assumptions and method would appear to meet the “inseparable” definition. In that case, the reference to Assumptions Set by Law in section 2.4 would also include the prescribed method, but it would be helpful to clarify the intent. This could be accomplished by inserting a statement at the end of the first paragraph of the definition of scope section 1.3 to the effect that when both assumptions and method are set by law, the setting of the specified assumptions is inseparable from the statutory methodology.

**Question 2.** Does the proposed standard provide appropriate guidance across all practice areas? If not, how should the guidance be modified?

**Response.** As noted in the introductory background section, practice-specific assumption setting standards already exist for the measurement of pension obligations in ASOPs 27 and 35. It is not clear why the overlay of this additional standard would be helpful for this area of practice.

**Question 3.** Is the proposed standard clear on how to handle conflicts with practice-specific ASOPs? If not, how could it be improved?

**Response.** The definition of scope in section 1.2 makes it clear that existing ASOPs govern if there is a conflict between those standards and this proposed standard. However, inconsistent wording between this proposed standard and existing standards make it difficult to determine with assurance whether or not there is a conflict, or if this proposed standard requires additional information. For example:

- Section 3.3 states that assumptions prescribed by law are not subject to section 3, and refers the reader to section 4.2, which refers to ASOP 41 section 4.2. However, section 4.1.d also references assumptions prescribed by law, stating that the actuary may limit disclosure to “the possibility of inconsistency with other assumptions” – a requirement not found in ASOP 41 section 4.2. If the intention was consistency between this proposed standard and ASOP 41, the proposed section 4.1.d should be modified to state that the actuary’s disclosure may be limited to the ASOP 41 section 4.2 disclosure. If the drafters of this proposed standard find the ASOP 41 section 4.2 requirements to be inadequate, ACOPA recommends that section 3.3 be modified to refer to section 4, instead of 4.2.
- ASOP 27 section 3.6.2 acknowledges a “Range of Reasonable Assumptions”, recognizing that “different actuaries will apply different professional judgment and may choose different reasonable assumptions”. Section 4.1.a of the proposed standard says an actuary should disclose (“if practical and relevant”) “sufficient detail to permit another qualified actuary to assess the reasonableness of the assumptions”. ACOPA recommends that “the reasonableness of the assumptions” be replaced with “that the assumptions fall within the range of reasonable assumptions” to better conform to ASOP 27.

**Question 4.** Would it be helpful to define additional terms in section 2? If so, what terms?

**Response.** Yes. A definition would be helpful for “nature of the assignment” as used in 3.11.a. Does this differ from the scope of an assignment? Does it include the intended audience? Materiality of the results to the principal for whom the work is prepared?

Definitions are not required, but the following clarifications would also be helpful:

- “Other documents” in the first line of section 1.3 should be expanded upon, and include specific reference to the Code of Conduct and other documents, if any, that would clearly be relevant.
- The reference to “methodology used” in section 3.1.3 is also unclear. No definition is needed, but it would be helpful to indicate if the reference is to the method of assumption setting or the method of valuation.

**Question 5.** Is the guidance in section 3.1.3(b) that the actuary should consider the reasonableness of the results from using the assumptions, and not simply the reasonableness of each individual assumption, clear and appropriate?

**Response.** The last statement – that unreasonable results may require adjustment to the assumptions – makes it sound like it is appropriate for actuaries to set assumptions to achieve pre-determined results. It is common sense to look for a problem with assumptions if results are surprising. It is not clear why this should be stated in an ASOP.

**Question 6.** Does the proposed standard appropriately address sensitivity analysis as discussed in section 3.2?

**Response.** Yes.

**Question 7.** Are the disclosures about assumptions and changes in assumptions in section 4.1 of the proposed standard clear and appropriate?

**Response.** As noted in the response to question 3, the references to prescribed assumptions set by law should be modified. No other changes are recommended.

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This letter was prepared by the ACOPA Professionalism Committee, Lynn Young, Chair. If you have any questions, please contact Judy Miller at (703) 516-9300 ext. 152 or [jmiller@usaretirement.org](mailto:jmiller@usaretirement.org).

Thank you for your consideration of these comments.

Sincerely,

/s/

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