



**Comment #24 - April 19, 2017 – 8:29 a.m.**

Setting Assumptions  
Actuarial Standards Board  
1850 M Street, NW  
Suite 300  
Washington, DC 20036

Dear Sir or Madam,

Subject: Comments on Proposed Actuarial Standard of Practice (ASOP) on Setting Assumptions

We would like to thank the Task Force for the effort that went into the preparation of the proposed ASOP on Setting Assumptions. We appreciate the opportunity to provide our comments.

The following comments were developed by members of Aon's Joint Actuarial Practice Compliance Team and are being submitted on behalf of the four actuarial practices at Aon: Aon Benfield Analytics, Aon Hewitt Health & Benefits, Aon Hewitt Retirement & Investment, and Aon Global Risk Consulting Actuarial & Analytics.

We will first address the specific issues where comments were requested:

- 1) Yes, the wording in section 1.2 that includes the selection of methodology in the discussion of assumptions is sufficiently clear.
- 2) Yes, the proposed standard provides appropriate guidance across all practice areas. We do note a few sections that would benefit from further detail or clarification, but as a general rule, we believe the proposed standard provides the appropriate guidance.
- 3) The proposed standard is generally clear on how to handle conflicts with practice-specific ASOPs. However, please see our comments on section 3.1.3(b) below.
- 4) There are certain terms used in this proposed ASOP that have been previously defined in ASOP 1. This proposed ASOP would benefit from either including the definitions of these words or referring the reader to ASOP 1 to find the definitions. These words are **principal** and **reasonable**.

The definition of "data" in section 2.1 does not match the definition of "data" in section 2.3 of ASOP 23. We believe the same definition should be used in both ASOPs.

The description of "effective date" is unclear. Using the "information date" is awkward and could delay the actual effective date unnecessarily, especially when incorporating information after the information date, such as the situation alluded to in section 4.1(c).

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- 5) 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 is generally clear and appropriate, particularly in situations where the assumptions are selected by the actuary rather than being prescribed by law or another party. However, we believe some additional clarification may be needed in situations where prescribed assumptions are used. See additional comments on this section below.
- 6) The proposed standard appropriately addresses sensitivity analysis in that the suggestion to use sensitivity testing is generally understood. However, section 3.2 could benefit from an actual definition of sensitivity analysis, additional detail about what a sensitivity analysis entails, and an example, as appropriate.
- 7) Yes, the disclosures about assumptions and changes in assumptions in section 4.1 are clear and appropriate.

We also believe the following items merit further consideration.

1) Section 1.2 Scope

Consider the following addition for completeness: If the actuary departs from the guidance set forth in this standard in order to **follow a practice area or activity specific ASOP or to** comply with applicable law, or for any other reason the actuary deems appropriate, the actuary should refer to section 4.

2) Section 3.1 Setting or Assessing the Reasonableness of Assumptions

Consider removing “principal” and only stating “another party” as “another party” seems to include a “principal.”

3) Section 3.1.2 Adjustments for Data Deficiencies

This section says the actuary “should document” adjustments made and “should consider making disclosures” of adjustments. Since there appears to be a difference between “document” and “making disclosures,” please provide additional clarification.

It is unclear whether this guidance would impact how an actuary needs to document the use of company and industry factors, such as trends, development patterns, and increased limit factors. One interpretation of this guidance could suggest that the actuary should record a baseline assumption that would use company development patterns, followed by an adjustment to the assumption (due to limited data) that results in using industry development patterns (or credibility weighting). Additional clarification on this point would be helpful.

4) Section 3.1.3(a) Reasonableness of Assumptions

Consider adding the phrase “if at all” in the following sentence: The actuary should consider to what extent it is appropriate, **if at all**, to use assumptions (and methods, where applicable as described in section 1.2) that have a known tendency to significantly underestimate or overestimate the result.

5) Section 3.1.3(b) Reasonableness of Assumptions

The words “prudence” and “optimism” are awkward in this context and would benefit from further definition. Consider using “conservatism” and “aggressiveness.”

Additionally, the situation that “may result in a set of assumptions that is no longer reasonable” seems to suggest the set of assumptions or the results produced would no longer be reasonable. Consider replacing with “may result in a set of assumptions or produce a result that would no longer be reasonable.”

We would also note that it is unclear how the proposed requirement to assess the reasonability of assumptions in the aggregate would interact with the requirements of practice-specific ASOPs to assess the reasonability of individual assumptions. For example, ASOP 4 requires the actuary to assess the reasonability of each assumption used in a pension measurement that has been prescribed by another party, unless such an assessment would require a substantial amount of additional work outside the scope of the assignment. It is unclear whether the assessment of the reasonability of overall results described above would apply to pension measurements in addition to the ASOP 4 requirements, or would not apply given the existence of a practice-specific standard. If it were to apply, it is unclear whether the actuary would be required to make this assessment even in cases where this would require a substantial amount of additional work outside the scope of the assignment. A similar issue exists with regard to ASOP 6 and measurements for other postretirement benefit plans. We would recommend that these issues be clarified in a final standard.

6) Section 3.1.3(b)(2) Reasonableness of Assumptions

We understand the proposed language as requiring the actuary to isolate the prescribed assumptions set by law and not allow them to impact the assessment of whether the overall results are reasonable. However, it may not be practicable to directly assess the reasonability of results in this manner, given the guidance in section 3.1.3(c) to “ensure that assumptions are not set for the purpose of counteracting the effect of prescribed assumptions set by law.”

As a result, we would recommend that the proposed ASOP not require an assessment of whether the overall results are reasonable in situations where there are prescribed assumptions set by law. Alternatively, if an assessment is required in these situations, we would recommend that the assessment determine whether the overall results would be reasonable *if the actuary were to substitute a reasonable assumption in place of the prescribed assumption set by law.*

7) Section 3.1.3(e) Reasonableness of Assumptions

Consider replacing “similar” with “analogous” or “comparable.”

8) Section 3.1.4 Margins for Adverse Deviation

Consider using the term “provisions for adverse deviation” to be consistent with ASOP 18. Additionally, the ASOP states that the actuary should disclose “explicit adjustments made to material assumptions.” A definition of “explicit” would be helpful in this context. It stands to reason that any margins for adverse deviation or adjustments to assumptions, whether they are explicit or implicit, should be disclosed. Including an example could help clarify the intent of this provision.

9) Sections 3.4-3.5 and 4.1-4.2

There is a significant amount of overlap in these sections. Consider consolidating so there is not as much repetition.



Again, we appreciate the Task Force's time and consideration. If you have any questions or would like to discuss further, please contact the undersigned at the telephone number or electronic mail address provided below.

Sincerely,

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