

Comment #15 – 2/27/17 – 2:22 p.m.

This email presents my comments on the proposed ASOP “Setting Assumptions.” I emphasize that these are my personal comments and do not necessarily reflect the views of my employer or of any actuarial body of which I am a member. I am a member of the American Academy of Actuaries, a Fellow of the Institute of Actuaries (UK), a Fellow of the Society of Actuaries, and an enrolled actuary.

- 1 The second paragraph of Background states, “While certain practice-specific assumption setting standards exist...there remain gaps in the guidance.” The proposal identifies neither the nature nor location of such gaps, nor is there any suggestion of an urgent need to reduce the risk of unskilled or unprofessional assumption setting by any actuaries. The Background contains no claim that current AAA, ASPPA, CAS, CCA, or SOA members fail to follow reasonable and professional procedures in setting assumptions. I urge the ASB to withdraw this proposed standard. Given the substantial practice-specific ASOPs that already cover assumption setting, I suggest that if there are specific practice areas that lack needed guidance, the solution is to propose revisions to such existing practice-specific ASOPs. It is inappropriate to impose a new ASOP that will duplicate, complicate, or conflict with the rules already contained in existing practice-specific ASOPs. I encourage the ASB to emulate the current Administration’s goal of eliminating unnecessary and costly regulations, by withdrawing this proposed ASOP.
- 2 Section 1.4 sets the effective date by reference to the Information Date defined in Section 2.3. This could encourage an actuary’s employer or principal to require the actuary, when setting assumptions, to refrain from considering data more recent than one year after the ASB adopted the ASOP in order to eliminate the obligations imposed by this ASOP. If the ASB adopts this proposed ASOP, I urge revision of the effective date to any SAO issued more than a year after adoption of the ASOP by the ASB that reflects assumptions set by the actuary, regardless of the most recent information date used in setting or providing guidance on setting an assumption.
- 3 The wording in Section 3 deals with actuaries who set assumptions and who use assumptions set by others. If the ASB adopts this proposed ASOP, I urge including in Section 3 explicit language for an actuary who provides guidance on assumptions to a party who has responsibility for setting them. The same criteria and conduct should apply for such activity as for when the actuary actually sets assumptions.
- 4 Legislators or government departments employ actuaries or have contracts with employers of actuaries. Such actuaries often provide guidance to legislators and regulators on the wording of proposed legislation or regulations that will identify assumptions to be set by law (or regulation). The proposed ASOP contains several references to assumptions set by law, but only in the context of actuaries setting other assumptions for use coincident with such prescribed assumptions. If the ASB adopts this proposed ASOP, please clarify the extent to which its reasonableness requirements apply to actuaries who provide guidance on assumptions to legislators, regulators, or others, or if 3.1.3.b.2, say, exempts them from such requirements. Please also consider specifying in the ASOP the extent to which it applies to any actuary who is a legislator or regulator in drafting or voting for or against legislation or regulations to include assumptions that the legislation or regulation will set by law.
- 5 Section 3.1.4 discusses margins for adverse deviations. I question the appropriateness of including the word “adverse.” Actuaries set assumptions that include margins for favorable deviations. Examples include interest rate corridors that provide more favorable boundaries

than exist in current markets, asset valuation methods and assumptions that produce values higher than market value, and mortality assumptions that are heavier than expected from published studies. If the ASB adopts this proposed ASOP, I recommend revising the wording (a) to reflect both favorable and adverse deviation and (b) to require disclosure of both implicit and explicit adjustments. Similar revision would be appropriate for Section 4.1.a.

Respectfully submitted

Jan Harrington