

Comment #14 – 2/23/17 – 12:14 p.m.

Dear ASB and General Committee Members,

I applaud your efforts in developing a proposed standard on assumption setting. This is one of the most, if not the most, critical activities in which actuaries partake, and in light of the significantly judgment involved I believe it is important that we have a standard that specifically addresses the assumption setting process. Below are my thoughts on the questions asked in the transmittal letter.

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? YES
2. Does the proposed standard provide appropriate guidance across all practice areas? If not, how should the guidance be modified? YES, with some suggestions below
3. Is the proposed standard clear on how to handle conflicts with practice-specific ASOPs? If not, how could it be improved? YES
4. Would it be helpful to define additional terms in section 2? If so, what terms? NO
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? YES
6. Does the proposed standard appropriately address sensitivity analysis as discussed in section 3.2? YES
7. Are the disclosures about assumptions and changes in assumptions in section 4.1 of the proposed standard clear and appropriate? YES, with a suggestion below

I have a few specific comments as follows:

- Section 3.1.3 c., I believe “ensure” is too strong. If an actuary is reviewing assumptions set by management, the actuary may not be able to “ensure” that they are not set to counteract prescribed assumptions. Perhaps “make reasonable efforts to ensure” would be better
- Section 3.1.4 I would suggest adding a statement that the actuary should consider the level of uncertainty in determining the appropriate level of margin (in other words, the greater the uncertainty, the greater the margin may need to be)

- Section 4, I would suggest distinguishing the disclosures between the actuary setting the assumptions and the actuary reviewing the assumptions. For example, if an actuary is doing an independent review of assumptions set by another actuary (as part of an examination, audit, or otherwise), it may not be necessary for the reviewing actuary to include all the assumption disclosures in his or her own report if they are already contained in the report or documentation under review, and that documentation is available to the intended user of the reviewing actuary's work. In other words, there seems to be little value in having a second actuary simply repeat all the information that was already disclosed by the preparing actuary.

Thank you.

Patricia Matson, FSA, MAAA

Partner

Risk & Regulatory Consulting, LLC