

April 30, 2017

Setting Assumptions  
Actuarial Standards Board  
1850 M Street, Suite 300  
Washington DC 20036-4601

Subject: Proposed ASOP--Setting Assumptions

Mercer is pleased to provide our response to the second exposure draft of the proposed ASOP on Assessment and Disclosure of Risk for pension plans. These comments were prepared by Mercer's Actuarial Resource Network, a group of ancient actuaries in the retirement practice area representing all of the U.S. geographic areas in which Mercer operates.

We would like to thank the Actuarial Standards Board (ASB) for their efforts in this important area. We believe that this draft is an excellent first start; however, we appreciate the opportunity to offer the following comments:

### **Section 1.1 – Purpose**

This section seems to us to be more about scope than purpose. We believe that the purpose should specifically state that recommending is part of giving advice (rather than waiting until the next section to do so.) We suggest rewriting the purpose to read something like, "This standard provides guidance to actuaries assessing or selecting (including giving advice on selecting) actuarial assumptions. " This construction would parallel ASOPs 27 and 35.

### **Section 1.2 – Scope**

We appreciate and agree with the intention to have practice-specific standards on assumptions supersede this one. However we are concerned that the current language will not fully accomplish that goal. Our biggest concern is that in the practice-specific ASOPs (e.g., ASOP 27), considerable thought was given to areas in which guidance was felt to be appropriate and areas in which it was preferable not to provide specific guidance. To the extent the general ASOP has language in an area where the specific ASOP is silent, we are concerned that some individuals may assume that the specific ASOP controls, while others may read the general ASOP as imposing a new requirement, leading to conflicting interpretations.

In addition, requiring actuaries practicing under a specific standard to cross-reference whether any additional guidance in the general standard applies seems inappropriate, as the specific ASOP should be presumed to be comprehensive with respect to its topic. As such, we suggest that the scope of this ASOP specifically exclude work performed that is subject to the practice-specific ASOPs. For example, this could be accomplished by changing the first sentence of the third paragraph to, “To the extent an actuary is performing services which fall under the scope of a practice-specific standard that establishes guidance on assumption setting or assessing, this standard will not apply.” To the extent that there are new concepts covered in this ASOP that should be extended to areas covered by existing ASOPs, we believe that the clearest approach would be to modify the existing ASOPs, rather than expect the actuary to determine how to combine the guidance from two sources.

### **Section 3.1 – Setting or Assessing the Reasonableness of Assumptions**

We believe that the wording of section 3.1.1(d) should be changed because there will almost always be reasons one might expect future experience to differ significantly from past experience, so simply asking the actuary to reach this conclusion is of limited usefulness. Language such as “the extent to which the actuary believes that future experience will differ significantly from past experience” would provide more meaningful guidance.

We also believe the standard needs to address materiality/significance and the cost/benefit balance of refining assumptions. We suggest adding language similar to that included in sections 3.5.2 and 3.5.3 of ASOP 27.

### **Section 3.1.3 –Reasonableness of Assumptions**

We believe that the current language in subsection b of this section could lead to confusion. As written, the language could be interpreted to require the actuary to perform an additional analysis to assess the reasonability of results produced using the selected assumptions against the results produced using a set of assumptions that would be reasonable in the aggregate. We believe that the intent of this section is merely to have the actuary assess whether the cumulative effect of the selected assumptions could result in bias that is more significant than would be the case for any single assumption and that could lead to a conclusion that the assumptions are, taken together, not reasonable. To avoid confusion, we recommend that the language simply ask the actuary to assess whether or not this is the case, rather than speaking of “results” or “analysis.”

### **Section 3.2 – Alternative Assumptions and Sensitivity**

Evaluating the potential effects of reasonable alternative assumptions is, to us, a subset of the general concept of evaluating risk. We encourage the ASB to consider whether, given that the requirement in this subsection is a “should consider” rather than a “should,” it would be useful to include here the broader spectrum of risk analysis tools described in section 3.5 of the second exposure draft on “Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions.”

### **Sections 3.4 (and 4.1(e)) Reliance on Others**

We acknowledge the difficulty of providing guidance when actuaries in multiple practice areas are involved in a single project. However these two sections, as written, still leave holes.

Section 3.4 states “...the actuaries may issue a joint actuarial report indicating, in accordance with section 4.1(e), the assumptions for which each takes professional responsibility.” However 4.1(e) indicates that the actuary should disclose “the aspect of the work for which the actuary is taking responsibility, including the setting of specific assumptions.” We agree that setting assumptions is generally only part of the work involved in an actuarial assignment; however there is no requirement in Section 3.4 that the actuary disclose the specific aspects of the entire assignment for which the actuary is taking responsibility, just the assumptions. Also, given that the scope of the ASOP is limited to assumption setting, and that the last sentence of section 4.1(e) only deals with taking responsibility for the assumptions themselves, we suggest adjusting the first sentence of 4.1(e) cited above to read “the assumptions for which the actuary is taking responsibility, as discussed in Section 3.4.” The topic of whether to identify the actuary responsible for other aspects of the work should be addressed in an ASOP dealing with those other aspects of the work.

Note when there are two or more actuaries each taking individual responsibility for some of the assumptions, it is unclear which actuary is responsible for the aggregate reasonability assessment required in Section 3.1.3(b) and how that actuary is to carry out that responsibility.

### **Section 4.1 – Actuarial Communications**

Section 4.1.a requires the disclosure of “material assumptions in sufficient detail to permit another qualified actuary to assess the reasonableness of the assumptions, including rationale if necessary for this purpose.” We are somewhat confused by this sentence, and have had some internal disagreement on the intent of this requirement. We believe the proposed requirement is

that rationale should be included if the actuary believes that the inclusion of rationale would be necessary for another actuary to assess the reasonableness of the assumptions. Assuming that this is correct, we do not think it is appropriate to limit rationale to just these situations. The primary purpose of the rationale should be to enable the *user* to better understand the information, not another actuary.

If instead “purpose” means for the purpose of the work product, then we believe additional guidance is needed to help the actuary understand what types of purposes might preclude the need for rationale. Since the requirement for rationale is new, actuaries could well be inclined to consistently conclude that no rationale is needed if the language is left as is.

One problem is that “rationale” is not a defined term within the ASOP. We agree with including rationale along with the disclosure of the assumptions, but we believe explanatory language such as that provided in section 4.1.2 of ASOP 27 is needed, including the requirement that rationale be provided for each assumption that has a significant effect on the measurement

#### **General comments:**

We note that in many instances, the draft uses the phrase “should consider” in a manner that is different than that described in ASOP 1. Under ASOP 1, “should consider” is a term defined to suggest potential courses of action that an actuary might take, not a type of information the actuary might evaluate. For clarity, we suggest that, as is the case in other standards, “consider” when not used in the ASOP 1 sense should be replaced by a term such as “determine,” “evaluate,” or “assess,” or perhaps the phrase “take into consideration.”

We found the background section to be very appropriate and hope that it will survive into the final version.

#### **Specific questions asked by the Actuarial Standards Board**

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.
3. Is the proposed standard clear on how to handle conflicts with practice-specific ASOPs? If not, how could it be improved? NO—SEE COMMENT ON SECTION 1.2 ABOVE.

Page 5  
April 30, 2017  
Exposure Draft – Setting Assumptions

4. Would it be helpful to define additional terms in section 2? If so, what terms? NONE THAT WE CAN THINK OF.
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? NO, WE THINK THIS SECTION CAN BE IMPROVED—SEE COMMENT ON SECTION 3.1.3(b) ABOVE.
6. Does the proposed standard appropriately address sensitivity analysis as discussed in section 3.2? PERHAPS NOT. SEE COMMENT ON SECTION 3.2 ABOVE.
7. Are the disclosures about assumptions and changes in assumptions in section 4.1 of the proposed standard clear and appropriate? NO, WE THINK THIS SECTION CAN BE IMPROVED. SEE COMMENTS ON SECTION 4.1(a) AND 4.1(e) ABOVE.

Thank you for your consideration of these comments. If you would like to discuss or get clarification of any of these comments, please contact Bruce Cadenhead at 212-345-7257 or Jim Verlautz at 612-642-8819.

Sincerely,



Bruce Cadenhead, FSA, EA, FCA, MAAA  
Partner & Chief Actuary, US Wealth