

April 28, 2017

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

To Actuarial Standards Board

We applaud the task force's well-thought-out efforts to develop an Actuarial Standard of Practice on Setting Assumptions. Overall, we believe that the proposed ASOP provides useful guidance on setting assumptions. However, we recommend a few clarifications and revisions, as outlined below. Our responses primarily pertain to Question #2 ("Does the proposed standard provide appropriate guidance across all practice areas? If not, how should the guidance be modified?"). We do not have significant concerns or comments relating to the remaining questions.

Advice on assumptions (Section 1.2)

We recommend that the ASB modify the "Scope" section (1.2) as follows:

Any reference to setting assumptions includes providing Statements of Actuarial Opinion relating to the setting of assumptions when another party is ultimately responsible for setting those assumptions.

The Qualification Standards define a Statement of Actuarial Opinion (SAO) as "an opinion expressed by an actuary in the course of performing Actuarial Services and intended by that actuary to be relied upon by the person or organization to which the opinion is addressed." We believe that the proposed ASOP should apply in situations where the actuary provides an SAO relating to the setting of assumptions. However, there may be situations where an actuary is asked by a colleague for an informal opinion relating to an assumption, and the opinion doesn't rise to the level of an SAO (e.g. because the actuary doesn't intend for the other party to rely on the informal opinion). We question whether the guidance in the proposed ASOP – particularly the communication and disclosure requirements – should apply in these situations. We believe that the revision shown above would provide greater clarity regarding the applicability of the proposed ASOP.

Data quality (Section 3.1.1.b)

We recommend that the ASB modify section 3.1.1.b to include a reference to ASOP No. 23, *Data Quality*.

The proposed ASOP states that the actuary should consider "available and relevant data, including, where appropriate, the credibility of any such data as discussed in ASOP No. 25, *Credibility Procedures*" (3.1.1.b). While we agree that credibility is an important consideration, we believe that data quality is equally important. Therefore, we believe it would be appropriate to include a reference to ASOP No. 23, as well as ASOP No. 25.

Underestimating or overestimating results (Section 3.1.3.a)

We recommend that the ASB remove the following sentence from section 3.1.3.a:

The actuary should consider to what extent it is appropriate 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.

We struggled to interpret the intent of this statement. Is it intended to caution the actuary against using assumptions that knowingly underestimate or overestimate the results? Or is it intended to imply that it's OK to use assumptions that knowingly underestimate or overestimate the results, as long as the actuary first considers whether such assumptions are appropriate?

There may be some situations where it is acceptable to use conservative assumptions, based on the intended purpose of the analysis (e.g. statutory reserve calculations or asset adequacy analysis). However, section 3.1.1 already states that "the actuary should set assumptions that are reasonable for the intended purpose." We believe that the guidance in section 3.1.1 is sufficient, and therefore, the additional guidance in 3.1.3.a is unnecessary and potentially confusing.

Reasonableness of assumptions (Section 3.1.3.b)

The proposed ASOP requires the actuary to consider "whether the results of the analysis are reasonable", even in situations where one or more prescribed assumptions are used (3.1.3.b.2). We recommend that the ASB eliminate or modify this requirement. Suggested wording is shown below:

The actuary should consider whether the results of the analysis are reasonable, except for situations where it is not feasible or practical to do so. For example, it may be difficult to determine the reasonableness of an aggregate set of assumptions where one or more assumptions are prescribed by law, or where the actuary is not responsible for the full set of assumptions.

We generally agree that the actuary should review the results of the analysis for reasonableness. However, there may be situations where the majority of the key assumptions used in a calculation are prescribed by law, and the actuary only has discretion in setting a few of the assumptions. In some cases, the prescribed assumptions may differ from what the actuary would consider to be a reasonable assumption. In these situations, it may be difficult for the actuary to assess whether the results are reasonable. Furthermore, it may not be appropriate to treat the prescribed assumptions as "independent of the other assumptions used," because there are often interdependencies between the various assumptions in a model. Therefore, we recommend that the ASB eliminate the requirement for actuaries to assess the reasonableness of assumptions in the aggregate in situations where prescribed assumptions are used. Alternatively, the ASB could revise the guidance to require the actuary to assess the aggregate reasonableness of only the assumptions that the actuary has selected (i.e. the assumptions that are not prescribed by law).

In addition, there may be situations where an actuary is asked to provide a subset of the assumptions used in the analysis, but the actuary is not responsible for the full set of assumptions or for the final work product. In these situations, we believe that the actuary should gain an understanding of how the assumption will be used, and make sure that the assumptions that he or she provides are appropriate for the intended purpose. However, it may not be feasible or practical for the actuary to assess the final results of the analysis for reasonableness.

Margins for adverse deviation (Section 3.1.4)

We recommend that sections 3.1.4 and 4.1.a be revised to require the actuary to disclose any material margins for adverse deviation (MADs), whether explicit or implicit.

Section 3.1.4 indicates that in situations where it is appropriate to include a MAD, the actuary may either “adjust the assumptions by including such margins, or choose assumptions that have already been adjusted.” We interpret this to mean that the actuary may include either an explicit MAD or an implicit MAD. However, the guidance goes on to state that “the actuary should disclose, in accordance with section 4.1(a), any explicit adjustments that have been made to material assumptions” (emphasis added). In addition, section 4.1.a states that the description of assumptions “should include a disclosure of any explicit margin for adverse deviations” (emphasis added).

We believe that the actuary should disclose any material MADs, whether explicit or implicit. Such disclosure may include a description of the MAD and, where applicable, a quantification of the MAD. When using an implicit MAD, we acknowledge that it may not be possible to explicitly identify or quantify the MAD. However, we believe that it would be appropriate for the actuary to state that the assumption includes an implicit MAD, and to explain why he or she believes that the assumption is inherently conservative.

We appreciate the opportunity to comment on the exposure draft for the proposed ASOP on Setting Assumptions and look forward to the eventual adoption as a standard of practice for actuaries.

Sincerely,

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