

Comment #23- April 17, 2017 – 11:24 a.m.

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

Re: Comments Regarding the Proposed Actuarial Standard of Practice “Setting Assumptions”

ASB Members,

I am submitting the following comments regarding the proposed Standard of Practice – Setting Assumptions. The statements in this letter are my own, and should not to be construed as the opinion of any members of the Pennsylvania and Delaware Compensation Rating Bureaus.

The body of Actuarial Standards of Practice (ASOPs) lies at the foundation of all sound actuarial work in the United States. The importance of the process for developing new ASOPs and updating existing ones cannot be overstated. It is with respect for the ASOPs, the Actuarial Standards Board, and those who worked to produce this proposed ASOP that I write these comments:

This proposed ASOP is not needed. The rationale for this statement is detailed below, with underlining to emphasize specific language:

- 1) ASOP 41 – Actuarial Communications already provides several requirements regarding assumptions and methods in any actuarial communication.
 - a) Section 3.1 provides, “The performance of a specific actuarial engagement or assignment typically requires significant and ongoing communications between the actuary and the intended users regarding the following: the scope of the requested work; the methods, procedures, assumptions, data, and other information required to complete the work; and the development of the communication of the actuarial findings.”
 - b) ASOP 41, Section 3.2 provides, “In the actuarial report, the actuary should state the actuarial findings, and identify the methods, procedures, assumptions, and data used by the actuary with sufficient clarity that another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary’s work as presented in the actuarial report.
 - c) The proposed ASOP repeats many parts of ASOP 41, and is largely duplicative.
 - d) In cases where the proposed ASOP adds requirements to those already found in ASOP 41, the latter should be revised to incorporate the additions.
- 2) Every current ASOP discusses assumptions and methods. A separate standard will only serve to create redundancy or conflict.
- 3) This proposed ASOP would create a confusing process of examining practice-specific ASOPs and cross referencing to this proposed ASOP to find any inconsistencies. This will not provide better service to the recipients of an actuary’s work product, but will create an avenue for legal proceedings aimed at finding fault with an actuary’s compliance with the ASOPs.

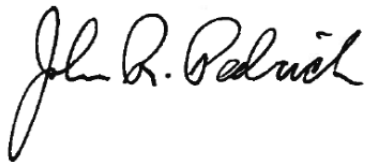
- 4) Efforts to strengthen the standards for assumptions and methods used by an actuary should be directed to improving the language regarding assumptions and methods in existing ASOPs.
- 5) The background section states, “While certain practice-specific assumption-setting standards exist ... there remain gaps in guidance.” There is no further explanation of these gaps. Presumably, they arise in an area of practice. Shouldn’t these gaps be addressed by strengthening existing ASOPs or creating new practice-specific ASOPs?

The following comments address some of the specific requests for comments in the proposed ASOP:

- Item 2. No, this proposed standard does not provide appropriate guidance, but duplicates guidance in all existing ASOPs, creating a confusing process for ascertaining the standard to apply to every assumption in any actuarial work product.
- Item 3. No, this proposed standard creates avenues for conflict where any section of an existing ASOP doesn’t specifically address assumptions.
- Item 7. The disclosures about assumptions are clear where they repeat sections of ASOP 41. Otherwise, they create a burdensome process of reviewing all prior communications for changes in assumptions.

I respect the efforts expended so far in developing this proposed ASOP. I know several actuaries who worked on this and respect and appreciate their commitment, professionalism, judgment, and their friendship. However, I do not believe this proposed ASOP is needed.

Respectfully,



John R. Pedrick, FCAS, MAAA
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