

**Comment #42- 4/30/17 – 6:31 p.m.**

To: Actuarial Standards Board and its General Committee

Re: Proposed Standard on Assumption Setting

I am generally in favor of the language and guidance supplied in this exposure draft. I have some concerns with regards to Transmittal Questions 2 & 3, in terms of the OPEB practice area and ASOP No. 6. This in turn leads to Transmittal Questions 5 & 7, regarding Section 3.1.3(b) and some Section 4 disclaimer language. The emphasis on Reasonableness seems especially appropriate. My particular concern is clarity regarding use of assumptions set or prescribed by others.

Let's start with current language in ASOP No. 6, regarding actuaries collaborating on a long term projection of future health care costs. The case may be that one actuary or non-actuary determines a present claim rate and another actuary projects that rate into the future. [Section 3.23 in ASOP 6 says that opining actuaries "must take responsibility for the overall appropriateness of analysis, assumptions, and results."](#)

The standard's intent was to make clear that an actuary offering an opinion as to results of an OPEB valuation would be doing substandard work if they did not vouch for the integrity of the present cost, the projection, and their compatibility. It is quite possible for a rate to be determined with the highest integrity, a projection to be extremely competent in every other aspect, and the valuation result itself to be bollixed. A clear example is if the rate is for a household and the projection inserts it for all participants, dependents as well as employees. Each assumption stands on its own, but the result is overstated because the applicability of the assumptions to each other isn't valid.

Known incidences of a health actuary or pension actuary issuing a valuation report without understanding the implications of one or more assumptions led to the need for the ASOP No. 6 language. At least one actuary must take responsibility for the whole.

The ED language is not as strong. I gather this from three different points in the ED, which I will identify in reverse order of their appearance. Section 4.2 (b) allows a disclaimer for " any material assumption selected by a party other than the actuary." Presumably this would include a second actuary's assumption. Section 4.1 (e) says the actuary should disclose the aspect of the work for which the actuary takes responsibility. Thus an actuary communicating actuarial findings can take responsibility for less than the complete set of assumptions.

In the second of the two paragraphs of Section 3.4, Reliance on Others, the possibility of expertise from two practice areas and the issuance of a joint report with disclaimers is raised. The last sentence states an assumption that the signing actuary or actuaries take responsibility for everything *if there is no disclaimer*. The inference many would take from this is that the standard approves of a report with signing actuaries disclaiming responsibility for some assumptions. That troubles me.

An actuarial finding is issued by two actuaries. Actuary A takes responsibility for all assumptions except Assumption X; Actuary B takes responsibility for Assumption X while disclaiming responsibility for all other assumptions. Those in receipt of the report think everything is covered, because the actuaries have said everything is covered. Except that nobody took the actuarial responsibility for finding that Assumption X fits with the other assumptions.

The only precaution against such collaboration going awry is the mention in Section 3.5 that “In determining whether to use assumptions selected by others” the actuary should be guided by the Code of Professional Conduct. That seems indirect and insufficient. The “must take responsibility” language of ASOP No. 6 seems much better for the profession.

At the least, the ASB should clarify that ASOP No. 6 takes precedence on this point. But it would be better if the ED were modified to emphasize overall responsibility in the case of *any* reliance on another for an assumption. The language of Section 3.1.3 b and 3.1.3 c seem to recognize that considerations of reasonableness may on occasion bump up against unreasonable results, without entreating the actuary to change those results. That is good; an unexpected result may be an important finding.

It can also be, however, that collaborating actuaries don’t have much of an expectation for a range of reasonableness in the results. Neither Actuary A nor Actuary B may find the results misleading. We should imagine, however, that instances of misleading results will occur, and not just in OPEB situations, when an actuary disclaims an assumption received from another but nevertheless publishes actuarial findings. We need some language in this standard to make such actuary take responsibility for the whole, even if they legitimately must disclaim responsibility for one or more assumptions.

Thank you for your attention to these matters.

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