

**Comment #45 – 4/30/17 – 2:15 p.m.**

April 30, 2017

Pinnacle Actuarial Resources, Inc. (Pinnacle) is pleased to have the opportunity to provide the following comments in regards to the Exposure Draft of the proposed *Setting Assumptions* standard of practice.

**Response to the specific questions posted**

- 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?**

It is not sufficiently clear. Methodology and Assumptions are two different things but appear to be blended in the first paragraph.

- 2. Does the proposed standard provide appropriate guidance across all practice areas? If not, how should the guidance be modified?**

The guidance is broad enough to cover all practice areas.

- 3. Is the proposed standard clear on how to handle conflicts with practice-specific ASOPs? If not, how could it be improved?**

The proposed standard does not specifically address other practice-specific ASOPs. A concise statement as to the prioritization could be included.

- 4. Would it be helpful to define additional terms in section 2? If so, what terms?**

It would be helpful to add the following definitions

- Assumptions
- Actuarial Services
- Actuarial Work Product
- Material Assumption
- Principal

- 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, the guidance is clear and appropriate.

- 6. Does the proposed standard appropriately address sensitivity analysis as discussed in section 3.2?**

We have two concerns with section 3.2:

- Suppose a principal provides assumptions related to future payout of expenses and the actuary is not qualified to opine on the assumptions provided by the principal, but the assumptions are not in line with the principal’s prior history of expense payout or an

industry expectation of expense payout in a jurisdiction. In this example, sensitivity testing as it relates to industry expectations and actual history is prudent by the actuary and important for disclosure to regulatory bodies. To add clarity to the statement “If appropriate to the intended purpose...” section 3.2 could include a specific example such as “If appropriate to the intended purpose (e.g., disclosure/reporting to regulatory bodies)...”

- The section could add that sensitivity analysis may be used to determine which assumptions need additional testing.

**7. Are the disclosures about assumptions and changes in assumptions in section 4.1 of the proposed standard clear and appropriate?**

Yes, the disclosures are appropriate.

**Additional Comments**

- This draft seems redundant with ASOP 41 *Actuarial Communications* and ASOP 23 *Data Quality*. We are not sure that adding this ASOP adds value to our current ASOPs.
- Section 3.1.3a in particular, and the standard as a whole, poses a danger of asking actuaries to “wag the dog” with respect to their analyses. If actuaries are to only document and use methodologies (or adjusted methodologies) that conform to their preconceived notion of being reasonable, there is a danger that other elements are not being considered.

The comments above are the collected comments of the consultants employed or affiliated with Pinnacle. If you have any questions regarding our comments, please contact Laura Maxwell at [lm Maxwell@pinnacleactuaries.com](mailto:lm Maxwell@pinnacleactuaries.com).