

April 26, 2017

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

Comments on Proposed ASOP – Setting Assumptions

This letter is the response of Willis Towers Watson to the Exposure Draft (“ED”) of the Proposed Actuarial Standard of Practice (“ASOP”) – Setting Assumptions. Willis Towers Watson is a global professional services firm that helps organizations improve performance through effective people, risk and financial management. Willis Towers Watson has over 41,000 employees on a worldwide basis, over 1,100 of whom are members of U.S. actuarial bodies subject to the standard. The undersigned have prepared our company’s response with input from other actuaries in the company.

The request for comments asked these questions:

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?
2. Does the proposed standard provide appropriate guidance across all practice areas? If not, how should the guidance be modified?
3. Is the proposed standard clear on how to handle conflicts with practice-specific ASOPs? If not, how could it be improved?
4. Would it be helpful to define additional terms in section 2? If so, what terms?
5. Is the guidance in section 3.1.3(b) that the actuary should consider the reasonableness of each individual assumption, clear and appropriate?
6. Does the proposed standard appropriately address sensitivity analysis as discuss in section 3.2?
7. Are the disclosures about assumptions and changes in assumptions in section 4.1 of the proposed standard clear and appropriate?

We find the answer to all of these questions is “Yes,” except that we have some additional comments with respect to questions 4, 5 and 6.

With respect to question 4, we believe it would be helpful to define the terms **methodology**, **assumptions**, and **principal**. Additionally, it would be helpful to clarify what is meant by **information date**. It is unclear from the description provided if this is intended to be the date of a study or the date the work (assessment of assumption) is performed as of. For example, if a study is prepared as of March 2017 based on experience from 2011 through 6/30/2016 and we are assessing the reasonableness of an assumption as of year-end

2016, it's unclear whether the information date is intended to be year-end 2016 or 6/30/2016. Clarifying the information date will also clarify what is intended by 4.1.c, disclosing changes you become aware of after the information date.

With respect to question 5, we would recommend adding to 3.1.3, the statement "if practical and relevant," (as used in Section 4.1) as follows:

3.1.3 Reasonableness of Assumptions – When assessing the reasonableness of assumptions, the actuary should, ***if practical and relevant***, do the following:

We believe this statement will clarify that in some cases only a single assumption (e.g., mortality) or a subset of assumptions (e.g., policyholder behavior) is being assessed for reasonableness, rather than the full set of assumptions in aggregate based on the scope of a given consulting assignment. As well, in some instances looking at the results of analysis using the assumption is also beyond the scope of a consulting assignment. We believe clarifying as suggested above will cover these situations. As noted below, the ASOPs should not require the actuary to perform additional work that is outside the scope of the engagement, is not requested by the Principal, and for which the actuary is unlikely to be compensated.

With respect to question 6, we suggest adding the statement "and scope" to clarify that in a consulting environment, the ASOPs should not require the actuary to perform additional work that is outside the scope of the engagement, is not requested by the Principal, and for which the actuary is unlikely to be compensated, as follows:

3.2 Alternative Assumptions and Sensitivity – if appropriate to the intended purpose ***and scope***, the actuary should consider using sensitivity analysis to evaluate the potential effects of reasonable alternative assumptions on the findings.

We note that sensitivity tests can also be helpful in informing the level of detail that should be considered in assessing an assumption. We suggest adding something to that effect when discussing sensitivities.

Thank you for this opportunity to comment on the ED. If you have any questions concerning our comments, please contact either of us directly.

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