

Comment #1 – 5/18/18 – 5 p.m.

This email presents my comments on the proposed revision to ASOP 35. I emphasize that my comments are personal and do not necessarily represent the views of my employer or of any actuarial body of which I am a member. I am a Fellow of the Institute of Actuaries (London), a Fellow of the Society of Actuaries, An Enrolled Actuary, and a member of the American Academy of Actuaries.

In general, I have presented my comments in the order in which an issue appears in the exposure draft and describe each issue as a “part,” regardless of if the wording applies to a section, paragraph, subparagraph, or text with another name.

1 The ability of myself, other actuaries, and other interested parties to comment on this proposed revision would be greatly enhanced – to a minimum acceptable level – if the ASB issued a red line version of the proposed revision, using strikeout font for text in the original that the ASB proposes to remove and by using *italic*/different color font for text the ASB proposes to add. Such a version is essential for us to make a reasonable review of the changes and to catch areas where the changes appear to need further revision or removal. I urge the ASB to provide red line versions for all future proposed revisions of ASOPs and to provide red line versions of all current draft ASOPs that are proposed revisions of existing ASOPs.

2 I urge removal of 1.1.d. – a new part that indicates a purpose being to supplement the guidance in ASOP No. 34 relating to the selection of economic assumptions for these reasons:

- The first paragraph of Part 1.2, which is unchanged, excludes the use of this ASOP for measurement of individual benefit calculations. The demographic assumptions used for calculations in Domestic Relations Orders almost always relate to individual benefit calculations. It is inappropriate to modify ASOP 35 to include a specific kind of individual benefit calculation when all other individual benefit calculations are excluded.
- Any revision in guidance on Domestic Relations Orders belongs solely in ASOP 34. If the ASB believes the ASOPs should include additional guidance on the selection of demographic assumptions for Domestic Relations Orders, it should propose changes to ASOP 34, not to any other ASOP.

3 I urge removal of the new penultimate paragraph of part 1.2 “The standard also applies whenever the actuary has an obligation to assess the reasonableness of an economic assumption that the actuary has not selected.” My reasons appear in my discussion of part 4.1.2.

4 I urge removal of part 3.4 ASOPs are intended for use by qualified actuaries. This addition is a “paint by the numbers” approach to guidance, appropriate for an actuarial textbook, blog, or informal presentation, but not appropriate for an ASOP. The wording of the existing ASOP requires the actuary to select reasonable assumptions at each measurement date; nowhere did it excuse an actuary from doing so for any reason. 3.4 adds nothing worthwhile to the ASOP; by omitting any reference to phasing in of assumptions chosen by a party other than the actuary, this new part suggests, contrary to later

wording, that the actuary need not be concerned about the reasonableness of assumptions at each measurement date when a party other than the actuary selects a phase in of assumptions. The part has no merit. Consistent with this comment on 3.4, I urge a thorough review and pruning of the entire ASOP to remove or shorten the many places where the ASOP provides guidance more suitable to a textbook for new actuaries than for a standard for qualified actuaries. In many places, the wording is prescriptive.

5 The proposed expansion of 3.5.3 on Mortality is unnecessary – the ASOP is better without it.

6 The proposed revision to 4.1.2 directly conflicts with ASOP 41 part 3.4.4 b. 1. , which reads: If a material assumption or method is selected by another party...[and] If the assumption or method does not conflict significantly with what, in the actuary’s professional judgment, would be reasonable for the purpose of the assignment, the actuary has no disclosure obligation.

- a. Nothing in ASOP 35 makes its wording override ASOP 41
- b. Any proposed change to any ASOP that conflicts with ASOP 41 should not appear without coincident proposed revision to ASOP 41
- c. A frequent situation where a party other than the actuary chooses demographic assumptions relates to the withdrawal rates, and retirement rates in actuarial measurements for accounting purposes. In many such situations, the party that sets the assumptions is the plan sponsor based on confidential information on planned changes in personnel, plant closures, windows, RIFs, and CICs. The ASOP maintains the absolute requirement to protect confidential information. If adopted, this proposed change will result in a sentence in many affected SAOs along the lines of “The actuary believes the demographic assumptions selected by NAME to be reasonable, but is prohibited from providing any rationale for such belief due to the confidential nature of the information provided to the actuary by NAME in support of such assumptions.”
- d. The proposed requirement is a fishing expedition, which increases the risk to every actuary subject to this ASOP of being sued by an interested party for having published two or more apparently contradictory rationales for considering different assumptions reasonable in different situations. This proposal is not so much the start of a slippery slope as a plank it forces actuaries to walk and almost inevitably fall from into a litigious swamp.
- e. Missing from the proposed revision is any change to 4.2.a. The ASOP should apply consistent rules on the an actuary’s obligation to provide a rationale for (a) considering an assumption reasonable and (b) considering an assumption not reasonable. So long as an actuary has no obligation to provide a rationale for considering an assumption chosen by another party to be not reasonable, so the actuary should have no obligation to provide a rational for considering an assumption chosen by another party to be reasonable.

Meetings of the ASB and of the ASB Pension Committee that will discuss the comments on this proposed revision will be under different rules from those that applied in the past. The meeting chair can now prohibit attendance by anyone for any reason and for no reason. The ASB should have sought input from the Academy membership before piggybacking on the changes adopted for Academy board and committee meetings. I urge the ASB, as a separate entity from the AAA, to sever its meeting attendance policy from the policy for the Academy meetings and adopt a modern web-based attendance policy that would make live webcasts of all ASB board and committee meetings (similar to C-Span) readily accessible to anyone, and to provide an accessible library of recordings of past such meetings. I am confident the ASB could provide appropriate rules for those rare situations where the confidential nature of some discussion merits in-camera treatment. The ASB refuses to post or consider anonymous comment communications on draft ASOPs. The ASB and its pension committee should not adopt a “do as I say, not as I do” approach, by holding meetings that those interested in the ASOP have no guarantee of attending (thereby, being unable to identify the people on the committee or board whose comments lead to welcome or unwelcome changes).

An unresolved conflict of interest could exist if an actuary’s work on the ASB or any ASB committee could affect (a) any client of the actuary, or (b) any other direct or indirect financial interest of the actuary. I urge the ASB to publish standard signed statements by each member of the ASB and of each of its committees prior to participating in any ASB-related meeting that attest to (a) having received approval from each client to perform work on the ASB or ASB committee at that meeting regardless of if that work affects that client and (b) having no material conflict of interest in any other matter in relation to ASB board or committee work.

Best Wishes

Jan Harrington