Willis Towers Watson

July 27, 2018

ASOP No. 27 Revision
Actuarial Standards Board
1850 M Street, NW, Suite 300
Washington, DC 20036

Dear Sir or Madam,

This letter documents the response of Willis Towers Watson to the proposed revision of Actuarial Standard of Practice ("ASOP") No. 27 Selection of Economic Assumptions for Measuring Pension Obligations, as requested in the Exposure Draft (ED) of March 2018.

Willis Towers Watson is a leading global professional services company that employs over 40,000 associates worldwide, over 1,100 of whom are members of U.S. actuarial bodies subject to the standards and approximately 600 of whom are enrolled actuaries. We provide actuarial and consulting services to more than 1,700 defined benefit plans in the U.S. The undersigned have prepared our company's response with input from others in the company.

Our comments generally support four central themes that we believe should apply to the ASOPs that can be found on our website at https://www.towerswatson.com/en/north-american-retirement-principles.

Summary and General Observations

We appreciate the opportunity to comment.

Before identifying comments on specific sections of the ED, we would like to make a few general observations for you to consider. First, revising ASOP No. 27 provides an opportunity to clarify the extent to which ASOP No. 27 applies to retiree group benefit programs as well as pension programs (e.g., sections 1.1a, 1.2, 2.2, 3.1, 3.2, 3.6.1, 3.9 and 3.11 refer exclusively to pension plans).

Second, we would like to highlight one of the principles from our four central themes linked above. We believe no written standard can anticipate every situation that actuaries will confront and therefore, the ASOPs should not seek to substitute rules for the actuary's reasonable professional judgement (especially since most of our services are already highly regulated by governmental bodies). Due to the many current and forthcoming standards that now, or shortly will, provide guidance on actuarial assumptions, we believe that an actuary's reasonable professional judgement has become subservient to satisfying standards that represent the Board's view of "best practice", rather than "basic professional standards", and the actuary is no longer able to take a reasonable approach that, in the actuary's professional judgement, meets the Principal's needs. For this reason, in general we advise against adding additional requirements that may further constrain professional judgement.

Lastly, we believe that, based on the definition of measurement date, the standard will be effective and apply immediately upon adoption to projections that are more than 12 months out (similarly for section 4.1.4 Changes in Circumstances). We recommend modifying the effective date provisions to avoid this result.

Our specific feedback on the ED by section follows.

Specific Comments

Section 3.5.6 (Views of Experts) – We believe that the phrase "views of experts" is a misnomer. In some cases the sources listed would not be considered experts, and therefore we recommend revising this section to refer to "sources" of economic data and analyses.

Section 3.6.3 (Phase-In of Changes in Assumptions) – Please clarify the meaning of a phase-in of changes in assumptions. We interpret this section as either referring to a select and ultimate assumption, or an assumption for which the implementation of a change (and therefore the effect) is smoothed over a number of measurement dates. Selecting reasonable assumptions is already addressed in section 3.6(c) and 3.13 which respectively indicate that an assumption is reasonable if "it takes into account historical and current economic data that is relevant as of the measurement date" and "at each measurement date, the actuary should determine whether the assumptions selected by the actuary continue to be reasonable." We suggest deleting section 3.6.3 as the rest of ASOP No. 27 makes it very clear that assumptions should be reasonable at the measurement date (regardless of any phase-in).

Section 3.13 (Reviewing Assumptions) – We understand the need to assess assumptions, however we are concerned that this section makes no reference at all to the Principal. While the actuary will assess assumptions at each measurement at a high level, a more detailed assessment (including potential modifications to assumptions) is done at the discretion of the Principal. We believe the actuary should suggest experience studies to the Principal periodically, as well as at any point that the actuary has significant concerns regarding whether assumptions are reasonable. However, the detailed assessment and study are only done with the Principal's consent. Cleary the actuary should not be required to perform a study without the Principal's consent nor compensation and we are concerned that this section could be used against actuaries who do not do this. Instead, the actuary should resign from the work if he or she believes that a study is necessary to select reasonable assumption and the Principal does not consent.

Section 4.1.2 (Rationale for Assumptions) – The ED refers to changes to this section as a clarification and we disagree with this characterization. We view the changes as a substantial expansion to which we strongly object. As proposed, Section 4.1.2 would require disclosure of the rationale for a Prescribed Assumption or Method Set by Another Party. Under the current standard, this section is not applicable to such assumptions. Currently, the actuary discloses only if a Prescribed Assumption or Method Set by Another Party significantly conflicts with what would be reasonable. Under this revision, a new responsibility would effectively be imposed on the actuary to evaluate the reasonableness of assumptions not selected by the actuary and for which applicable law, regulations or accounting guidance give the responsibility for selecting the assumption to a different party. There is no justification for imposing this on the actuary and satisfying it would require additional work which would likely be uncompensated, have little use and could potentially put the actuary in conflict with the Principal. In addition, the assumption may be an assumption that the actuary does not have the expertise to evaluate.

We understand that the ASOPs already require the actuary to determine whether such assumptions significantly conflict with what would be reasonable. However, determining whether an assumption is reasonable and determining whether an assumption significantly conflicts with what would be reasonable are two very different things.

We believe the current requirement that the actuary disclose if he or she believes the assumption significantly conflicts with what would be reasonable is appropriate and sufficient, and strongly object to requiring the actuary to affirmatively determine whether such an assumption is reasonable. We do not believe the ASOP should effectively force the actuary's judgement on the Principal (or other party given the responsibility to select assumptions).

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

Sincerely,

Michael F. Pollack, FSA, EA, FCA
Senior Director, Retirement

203 326 5469
mike.pollack@willistowerswatson.com

Alan R. Glickstein ASA, EA
Managing Director
Head of Retirement Policies and Procedures
214 530 4538
alan.glickstein@willistowerswatson.com