

Comment #11 – 7/31-18 – 3:25 p.m.

July 30, 2018

ASOP No. 35 Revision
Actuarial Standards Board
1850 M Street, NW, Suite 300
Washington, DC 20036

Dear Former Colleagues:

I first wish to congratulate you all on your ability to modernize the wording of ASOP 35, even though it had been revised only four years earlier. As a member of the Pension Committee at the time of the latest restatement of ASOP 35, I harbor no resentment toward the current members of the Committee that they saw fit to improve upon the earlier wording.

There is one area, however, that I feel is in need of further revisiting, and I would have voiced this opinion to the Committee if I were still a member. The Committee may recall that the State of Illinois has over 650 Police and Firefighter pension plans to value. There is a propensity of the municipalities of the State to “shop” for actuaries on the basis of (1) cost of services and (2) the ability to reduce plan liabilities and expenses. One such actuary, who controlled over 200 of these municipal pension valuations, has indeed been publicly reprimanded by the ABCD.

Unfortunately, another actuary has jumped into the void created by the departure of that individual. This actuary, a Member of the Academy, has decided to make his own mortality tables for Illinois Police and a *separate* one for Illinois Firefighters. Not only are those sample sizes too small to yield credible results, he is using a subset of them, namely, data only from his firm's clients, which consist of small municipalities. Because the sample size is far too small, Credibility Theory would indicate that there is no justification in modifying the RP-2014, much less allowing his Illinois tables to stand alone.

I attach a 2018 article for those curious enough to examine the accuracy of the previous paragraph: “Credibility Theory: An Application to Pension Mortality Assumptions” by Julie Curtis

<http://pensionsectionnews.soa.org/?issueID=14&pageID=12>

As you may imagine, his resulting tables show mortality rates much higher than the RP-2014, which in turn artificially ratchet down liabilities and expense. Taxes are kept low, but the disclosure is misleading.

I offer the following changes to ASOP 35 to protect against the questionable practices of the above-mentioned individual. As I noted in the first paragraph of this letter, there is no pride of authorship here. If you can come up with alternative language that protects the profession from these practices, I will wholeheartedly support it.

ASOP 35 comments
Mitchell Serota

First, add a subsection “e” to Section 3.5.3

3.5.3 Mortality

e. the use of relevant plan or plan sponsor experience, as sanctioned in §3.2.2, but only if at least one of the following two conditions are met:

- i. the sample size of the group is large enough to meet the confidence level criteria of Credibility Theory
- ii. the sample size of the group is large enough so that the Credibility Factor is at least 0.05.

Second, add a sentence to Section 4.1.1:

4.1.1 Assumptions Used

4.1.1 *[Add the following where you deem appropriate.]* The disclosure of the mortality assumption should contain sufficient detail to permit another qualified actuary to understand any Credibility Theory basis to the adjustment of the underlying table.

You will undoubtedly notice that I capitalized “Credibility Theory” and “Credibility Factor” because both are terms of art with specific meaning. Definitions of both may be found in the Julie Curtis article. I fear that using “credibility” is too much of a short cut which could open the door to abuse. The Committee may wish to define Credibility Theory and Credibility Factor.

I further recommend that the two members of the ASB who have been assigned to the Pension Committee consult with their Life colleagues as to how they deal with Credibility Theory in their ASOPs.

I thank you for your time. I wish you all energy and mutual respect for dealing with the review process you are embarking upon. I recall the bowl of caramel corn used as a post-lunch snack. Not only did the sugar supply instant energy, but the caramel also contained a chemical that triggered the brain to sympathize with all those seemingly obstinate members who disagree.

Respectfully submitted,

Mitchell I. Serota, F.S.A., M.A.A.A.