July 30, 2018

Actuarial Standards Board
1850 M Street, NW, Suite 300
Washington DC 20036

Subject: Comments on Proposed Revisions to ASOP 27

Dear Actuarial Standard Board:

Thank you for the opportunity to comment on the proposed revisions to ASOP 27.

1. In Section 1.1, should there be a reference to ASOP 51?

2. The reference to ASOP 34 was added to section 1.1 from the current version of the ASOP, and we believe this reference should be deleted or clarified. Nothing in the scope as articulated in section 1.2 would include the types of valuations normally done in conjunction with actuarial practice concerning retirement plan benefits in domestic relations actions, nor is ASOP 34 mentioned as one of the ASOPs related to measuring pension and retiree group benefit obligations in the background section. While in some ASOP 34 valuations, following concepts similar to the concepts articulated in ASOP 27 would be appropriate and Section 3.3.4 of ASOP 34 does reference ASOP 27, in many instances the guidance of ASOP 27 is not appropriate for valuations under ASOP 34.

   Before the ASB changes guidelines on how economic assumptions for all purposes under ASOP 34 are determined, we urge the ASB consult with individuals with actual experience in the actual application of ASOP 34 in practice. Further, since the stated motivation of the changes to ASOP 27 are related to issues related to public plans, and ASOP 34 has nothing to do with valuing public plans, this seems well outside the scope of the intent of the changes being made.

   Similarly, the ASB should harmonize including ASOP 34 in the scope with including ASOP 17 in the scope.

3. Should the title of Section 3 more accurately be "Analysis of Issues and Appropriate Practices?" The inclusion of the word "Recommended Practices" may give the idea that the issues mentioned in Section 3 are literally recommendations which an actuary may follow or not follow.

4. At the end of section 3.2, the words were changed from "measure obligations under a defined benefit pension plan" to "measure pension obligations." Under section 1.2 the scope of the standard only applies to measure obligations under any defined benefit pension plan. We would note that under federal tax law, a money purchase plan is classified as a pension plan but is not a defined benefit plan, so the two terms are not synonymous. Unless there was some intent to change the meaning of this section, we think this should not be changed.

5. In section 3.5.3 the proposed phrase "consider the balance between refined economic assumptions and the cost of using refined assumptions" was changed to "take into account the balance between refined economic assumptions and the cost of using refined assumptions." It is not clear to us what this intended change is supposed to accomplish. We would suggest reverting to the current language.

6. In section 3.5.5 the language of the first sentence was changed. It is not clear what this change is intended to reflect, and we would suggest that either the ASB explain how the proposed language has a different meaning from the current language, or revert to the current language.

7. The first sentence of 3.6 was changed. Unless there was some compelling reason for this change, we believe that the current language is superior, and should be retained, as the proposed language is not clear. We believe that the next sentence is unclear as to whether the assumption should individually meet each requirement (i.e. the sentence should say "…has **all** the following characteristics…") or should meet some of these characteristics. Also, it would appear that this list is intended to be exhaustive, in other words, the ASOP is stating that an assumption is reasonable, if and only if, it meets these requirements. We do not believe this to be true, and can think of many counter examples (i.e. where an assumption is reasonable, but does not meet that set of requirements and conversely where it might meet that set of requirements but still is not reasonable).

   An easy example of a problem with this list is an assumption regarding salary history in a one person plan, covering a lawyer, who just started his practice, and earned $100,000 in the first year. What possible "historical and current economic data" could possibly inform the actuary with regard to the selection of a salary scale assumption? If the response is "well, the requirement is 'that is relevant'" we would respond that if 3.6 requires all of these requirements to be met, but this requirement is not always applicable, then, at a minimum, it should say "if applicable" or "to the extent there is relevant data." In the alternative, we would suggest that the language should be changed to make clear that not all items are required (perhaps by saying "if applicable") and that an assumption is unreasonable if it does not meet these requirements (i.e. meeting the requirements is not conclusive that the assumption is reasonable).

8. Section 3.6.3, the exposure draft contemplates that the phased-in assumption is reasonable at each measurement date during the phase-in period. This requirement might be strengthened if there was also an explicit requirement that the phased-in assumption be consistent with other assumptions on each measurement date during the phase-in period.

9. Section 3.9 would be improved if it included guidance on how to select a discount rate for periods beyond the available yield curves.

10. Section 3.9a and 3.9b would be clearer if defeasement and settlement were distinguished from one another.

11. Section 3.10 would be enhanced by discussing developing a salary increase assumption for self-employed individuals (i.e. paid on Schedule C or K-1) and situations in which it would be reasonable to assume compensation decreases.

12. Section 3.10.2 would be enhanced by encouraging actuaries to consider the effect of legal changes. For example, an actuary should consider the effect of state and local laws that prohibit asking about an applicant's pay history. Similarly, the actuary should be encouraged to consider other trends such as the push for a $15 per hour minimum wage and/or companies voluntarily taking on audits to adjust for gender and racial pay gaps will affect the salary increase assumption.

13. In multiple locations in section 3.11.2, "()" were changed to "[]." Since these are sites to section of a law, and the law uses "()" not "[]" these should be changed back, as they are now wrong. Also, the use of the term "funding valuation" in 3.11.2 (which is used in this context as the valuation for purposes of determining the minimum required contribution and maximum deductible contribution) is inconsistent with how the term is now defined in ASOP 4.

14. The reference in 3.11.4 to "so-called floor-offset arrangements" should simply be "floor-offset arrangements." Also, the reference to ASOP 4 seems misplaced, since ASOP 4 seems to provide no guidance at all on "these types of benefits" other than to say that they may be difficult to value (unless we missed where this guidance is in ASOP 4).

15. Section 3.11.5 would be improved by providing guidance on how to select the economic portion of the variable annuity factor at each decrement date.

16. The language of section 3.12 was changed, but it is not clear exactly why. The main difference appears to be that previously the requirement was only that the economic assumptions be consistent with each other, but now the requirement is that the economic assumptions be consistent with all other assumptions (presumably requiring that the economic assumptions be consistent with the non-economic assumptions). The balance of the paragraph only addresses economic assumptions being consistent. If this was an intentional change, then we would suggest that the ASOP explain what consistency between economic and non-economic assumptions would mean in application. If this was not intentional, we would suggest reverting to the prior language.

17. Section 3.13 references the actuary reviewing recent gain and loss analyses. However, as drafted, the exposure draft does not contemplate that a gain/loss analysis is required. Further, it would require that "the actuary should consider reviewing recent gain and loss analyses" whether or not any such analysis exists. The ASB's position may be that ASOP 4 would require a gain and loss analysis, but, under the current exposure draft of ASOP 4, a gain and loss analysis would not necessarily be required in all situations where ASOP 27 apply. Further, we would reference our comments on ASOP 4's requirements regarding a gain and loss analysis. Noting that section 3.13 is an addition to the standard, we would recommend that it not be added.

These comments represent our personal comments and do not represent any actuarial organization to which we belong.

Sincerely,

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