

Comment #1 – 10/26/18 – 6:39 p.m.

TO: Actuarial Standards Board

FROM: Kenneth Steiner, FSA, Retired

SUBJ: Proposed Revision of Actuarial Standard of Practice (ASOP) No. 32—Social Insurance

DATE: October 26, 2018

Dear ASB Members

Thank you for releasing an Exposure Draft of proposed revisions to ASOP No. 32—Social Insurance, and thank you for providing actuaries and the public the opportunity to submit comments and suggest changes to the Exposure Draft language. The comments below are my own and do not represent the opinions of any group or other individual with whom I may be associated. In this comment letter I have focused only on the OASDI program (which I refer to as Social Security).

General Comments/Suggestions

1. **Consistency with other relevant ASOPs.** Social Security is a defined benefit pension plan with income sources specified by law. In many respects, the actuarial services performed by Social Security actuaries are similar to the actuarial services performed by actuaries for public pension plans where contribution rates are not actuarially determined, but are specified by law. In both circumstances, actuaries measure the adequacy of specified contribution levels to support expected program benefits and expenses. Also, these actuaries may be asked to price proposed legislative and regulatory changes to the program's income and/or outgo. Arguably, the calculation of an “actuarial status” by Social Security actuaries can be considered as (or comparable to) a “funded status” calculation anticipated in ASOP 4. Therefore, where possible, it seems to me that the ASB would probably want to make sure that the guidance provided to actuaries who perform similar actuarial services be consistent and similar. For example, here are three disclosure items required under ASOP 4 (or the proposed revised version of ASOP 4) that perhaps should be considered for ASOP 32:
 - Section 4.1(l) of the proposed revision of ASOP 4 requires a disclosure “indicating whether, in the actuary’s professional judgment, the assumptions other than prescribed assumptions or methods set by law and assumptions identified in section 4.2(b), are consistent and reasonable individually and in aggregate, in accordance with section 3.8,”
 - Section 4.1(r) requires disclosure of a statement, appropriate for the intended users, indicating that future measurements (for example, of pension obligations, periodic costs, actuarially determined contributions, or funded status as applicable) may differ significantly from the current measurement.”
 - Section 4.1(m) requires disclosure of a qualitative description of the implications of the contribution allocation procedure or plan sponsor’s funding policy on future expected plan contributions and funded status in accordance with section 3.14.2.

I suggest that the ASB review guidance provided in ASOP No. 4, ASOP No. 51 and other applicable ASOPs for consistency with ASOP 32 guidance.

2. **Deletion of Section 3.7 of the existing ASOP 32.** For some reason, the proposed revision of ASOP 32 appears to delete the guidance contained in Section 3.7 of the current version. I believe this deletion is an error. The current guidance in Section 3.7 states, “The actuary should note any significant differences between program income and cost toward the end of the valuation period. Further, the actuary should disclose the expected impact of such differences on the actuarial status in future valuations.” This section is quite significant and its removal should be explained. If projected program costs are expected to exceed projected program income at the end of the valuation period, then the actuarial status of the program (long-range actuarial balance) is expected to decline in each subsequent year’s valuation as future cost rates (76 years on) are included in the measurement. Consistent with the current guidance in Section 3.7, I believe that Social Security actuaries should, as part of their annual valuation of the program, prepare and disclose an “n”-year projection of the long-range actuarial balance measure (determined under intermediate or best estimate assumptions) with “n” being a sufficient period of years to disclose the projected trend of this measure. Consistent with the ASOP 4, Section 3.14.2 requirement imposed on non-Social Security actuaries to disclose the implications of the current funding policy, the Social Security actuary could develop this projection by assuming all assumptions used in the current valuation are realized and by making reasonable assumptions about future cost rates expected after the 75th year of the valuation. For example, for this purpose it may be reasonable to assume that the cost rate for the 75th year continues for “n” years. And while ASOP 4 requires the actuary to disclose only a qualitative description of the implications of the current funding policy, I believe the importance of the Social Security program justifies a more quantitative presentation of the implications.

3. **Precept 8 Considerations.** Consistent with Precept 8 of the profession’s Code of Conduct, the Social Security actuary should “recognize the risks of misquotation, misinterpretation, or other misuse” of his or her work product. I understand that this may sometimes be a difficult task for the Social Security actuary as he or she may not fully control communications in the annual Trustees’ Report. However, the Social Security actuary should, when possible, take reasonable steps to make clear that the 75-year long-range actuarial balance calculation disclosed in his or her annual valuation communication is based on realization of 75-years of Intermediate assumptions and that actual experience may and will deviate from assumed experience. Further, the Social Security actuary should take reasonable steps to project and disclose the expected trend of the long-range actuarial balance measure over the next “n” years as discussed above.

When pricing program changes designed to restore long-range actuarial balance, the Social Security actuary should indicate, if applicable:

- that the long-range actuarial balance calculation used to test reform options does not consider significant revenue shortfalls expected to occur after the end of the 75-year projection period, and may not be sufficient to achieve “sustainable solvency,” (or, as discussed below, the term used to describe the reform actuarial funded status target objective).

- The possible solutions assume immediate adoption of program changes, rather than gradual implementation. If changes to the program are gradually implemented, the required increases in tax revenue or benefit decreases will need to be larger than those necessary to achieve long-range actuarial balance.
- The long-term success of reforms will depend on how well actual future experience compares with the assumptions made by the trustees and the Social Security actuaries. There is no mechanism in current Social Security law to maintain the program's actuarial balance once it has been achieved. Thus, there can be no guarantee that the program's long-term financing problem will be "solved" for any specific length of time by enacting various system changes.

To avoid misinterpretation, the Social Security actuary should refrain from using the term "sustainable solvency." As noted in the bullet above, long-range projections for Social Security involve 75 years of assumptions that may not be accurate, and there is no mechanism in current Social Security law to maintain the program's long-range actuarial balance once it has been achieved. Further, the program's benefit provisions can be changed by Congress and the President at any time. These current program attributes are inconsistent with the generally understood concept of "sustainability." A better term to express this concept, in my opinion, would be "long-range actuarial balance that is projected to remain in balance over the next "n" years (as discussed in section 2 above). This term is essentially equivalent to the concept of "sustainable solvency" but it does not carry the same potentially misleading connotation. And, it is consistent with existing ASOP guidance.

Section Specific Comments/Suggestions

Section 2-- The ASB should consider whether the following ASOP 4 definitions would be helpful in ASOP 32 (at least as it applies to Social Security): "Actuarial Valuation", "Measurement Date" and "Funding Valuation."

Section 3—I suggest reinserting the current Section 3.7 for the reasons discussed in section 2 above.

Section 3.6—I suggest changing the title of this section to "Projections of year-by-year Program Operations" to distinguish these projections from the projections of summary statistics discussed in section 2 above.

Section 3.8—I suggest adding "long-range actuarial balance under intermediate assumptions that is projected to remain in balance over the next "n" years" to the list of tests described in 3.8 (at least for testing financial adequacy of the program over the long-range period).

Section 4—I suggest adding disclosure requirements in this section consistent with a changes made as a result of the foregoing suggestions.

