

Comment #10 – 7/9/19 – 1:34 p.m.

Greetings,

First, congratulations on making significant progress toward finalization of the new ASOP on Setting Assumptions. This ASOP will be an important addition to the existing body of guidance from the ASB.

I have one comment on the second exposure draft. As noted in Appendix 1, "the importance of disclosing assumptions is increasing" as a result of several developments over the last decade. Appropriate and reasonable assumptions in actuarial analysis have always been a high priority, but never more so than at present. The actuarial profession is generally held in high regard, based on the ability of actuaries to evaluate uncertain financial risks and develop methods for helping to address those risks. Performing such work objectively and honestly has always been a critical goal of the profession. Use of reasonable assumptions is one of the most fundamental aspects of this responsibility.

The first exposure draft for "Setting Assumptions" included the following language (emphasis added to final sentence):

3.5 Assumptions Set by Others—In assessing whether assumptions set by the principal or another party are reasonable, the actuary should follow the guidance in section 3 of this ASOP. Where the actuary disclaims responsibility for the assumptions set by the principal or another party, the actuary should provide appropriate disclosure as discussed in section 4.2(b) and in ASOP No. 41 section 3.4.4(b). In determining whether to use assumptions selected by others for which the actuary disclaims responsibility, the actuary should be guided by Precept 8 of the Code of Professional Conduct, which states, "An Actuary who performs Actuarial Services shall take reasonable steps to ensure that such services are not used to mislead other parties."

The bolded sentence above was deleted from the second exposure draft. No reason was given in the discussion of changes shown in Appendix 2.

I urge the Assumptions Task Force to restore this important reminder in the final ASOP. It is a reference to one of the most critical Precepts in the Code of Professional Conduct, and I believe that its inclusion in the "Setting Assumptions" ASOP is both relevant and extremely valuable. The actuarial profession cannot afford to use unreasonable assumptions dictated by others, where the ultimate impact is to seriously bias the resulting actuarial analysis.

I do not know whether such practices are rare or common, but I am aware that they exist and have sometimes been used to mislead authorities and evade statutory requirements. By restoring the bolded language from the first exposure draft, the new ASOP would help reinforce that actuaries should never acquiesce to such behavior.

Thank you for your efforts in developing the new ASOP on “Setting Assumptions.” Please let me know if you have any questions about this comment.

Richard S. Foster, FSA, MAAA

Consulting Actuary

Former Chief Actuary, Centers for Medicare & Medicaid Services (1995-2012)