

**Comment #19 – 7/30/19 – 4:49 p.m.**

The following individuals reviewed the language of the Second Exposure Draft of the Proposed ASOP on Setting Assumptions:

- Marcy Baker
- Gene Hauser

The comments that follow represent our combined review of the exposure draft.

2.1: Are all assumptions values? Should methods be considered an assumption? Using language found in the appendix, perhaps something like “Values or methods developed and used in actuarial models or projections in order to produce estimates under conditions of uncertainty. These values and methods may represent expectations, possibilities based on professional judgement, or may be prescribed by law or by others.”

2.3: Consider changing to “Information Date(s)” and capturing that in some cases both a beginning date and an end date are relevant. For example, experience data used in assumption-setting may be limited to only the past 10 years even if older experience data exists. As another example, there may be cases where data is incomplete, difficult to validate, or otherwise untrusted (e.g., data from a legacy admin system). Such data may be excluded to ensure assumption-setting is based on validated, trusted, and relevant data, which is not wholly defined by a single “information date.”

2.5: Could clarify by rewording as: “A specific assumption that is mandated by applicable law (statutes, regulations, and other legally binding authority); or a specific assumption that is selected from a range or set of assumptions where the range or set of assumptions from which the selection is made is deemed to be acceptable by applicable law (statutes, regulations, and other legally binding authority).”

3.2(c): Could clarify by rewording as: “future expectations, or estimates inherent in market data, or a combination of both, when available and appropriate”

3.2(c): The term ‘market’ is undefined and unclear, and it seems this could refer to either financial markets or the insurance market (i.e., industry data) or both.

3.3: Consider that the impact of uncertainty might also be considered. If there is a lot of sensitivity to small changes in an assumption, a margin may be appropriate even when there is less uncertainty. However, in other cases, if there is limited sensitivity to changes in an assumption, then little margin may be needed, even when there is greater uncertainty about the assumption.

3.3(b): How is the “time horizon of the assignment” defined or to be interpreted? Does this refer to the time period during which the assumption may have an impact (which could be 20+ years) or the time horizon during which the assumption will be used (e.g., setting a pricing assumption to be used for pricing only in 2020)?

3.3(b) Furthermore, assumption-setting might also consider uncertainty if the future looks different from the past; e.g., in terms of financial market expectations, industry expectations, competitive

landscape, impending changes to the regulatory environment, etc. In such cases, margins may be appropriate even if company and/or industry data exists.

3.4: Recommend ordering (c) before (b)

3.4(d): How is “significant” in “significant bias” defined? Does this imply bias is allowed, as long as it is not “significant”? Recommendation is to remove (d). If an assumption is appropriate for the assignment, reflects relevant experience, and is based on an actuary’s judgement, then (d) seems unnecessary.

3.5: Should this subsection more broadly consider “reasonably consistent with other assumptions” and not just those for which the actuary is taking responsibility? An actuary could set assumptions that are consistent with each other, but inconsistent with others in the model, if the entire set of assumptions is not considered.

3.6: How does “reasonableness in the aggregate” interact with margins? If results must be reasonable in the aggregate, this may impact ability to set a margin that would otherwise be deemed appropriate based on the uncertainty of a specific assumption.

3.11: Is “degree of documentation” understood? Consider “scope” or “extent” instead of “degree.” Further, consider adding the language shown in italics here: “The degree of such documentation should be based on the professional judgment of the actuary, may vary with the complexity and purpose of the actuarial services, *and may also vary with the complexity and purpose of the assumption being documented.*”

4.1: “Significant” is introduced as a qualifier for assumptions. How is a “significant” assumption defined, how is an assumption determined to be either “significant” or insignificant, and do the required disclosures not apply to insignificant assumptions?

4.2(d): If ASOP 41 already requires these disclosure, is the redundancy needed in the Assumption-Setting ASOP?

Sincerely,

Marcy Baker, FSA, MAAA