

September 13, 2019

ASOP No. 27 Revisions
Actuarial Standards Board
1850 M Street, NW, Suite 300
Washington, DC 20036

Dear Sir or Madam,

This letter documents the response of Willis Towers Watson to the proposed revision of Actuarial Standard of Practice (“ASOP”) No. 27 Selection of Economic Assumptions for Measuring Pension Obligations, as requested in the Second Exposure Draft (ED) dated June 2019.

Willis Towers Watson is a leading global professional services company that employs approximately 45,000 people worldwide, over 1,100 of whom are members of U.S. actuarial bodies subject to the standards and approximately 600 of whom are enrolled actuaries. We provide actuarial and consulting services to more than 2,000 defined benefit plans in the U.S. The undersigned have prepared our company’s response with input from others in the company.

Summary and General Observations

We appreciate the opportunity to comment.

Before identifying comments on specific sections of the ED, we would like to make a few general observations for the Board to consider.

We believe no written standard can anticipate every situation that actuaries will confront, and therefore the ASOPs should not seek to substitute rules for the actuary’s reasonable professional judgement (especially since most of our services are already highly regulated by governmental or accounting bodies). We believe many of the recent changes to the ASOPs actually impose “best practices”, as opposed to “acceptable practices”, fail to consider the widely different circumstances in which these standards apply, and unreasonably constrain the actuary’s ability to exercise professional judgement.

In particular, with respect to the pension practice, we believe that the many current and forthcoming standards that now, or shortly will, provide guidance on actuarial assumptions (for pension actuaries, ASOP Nos. 4, 27, 35, 41, 51, the Assumptions ASOP and the Modeling ASOP) are confusing and represent overkill. With ASOP Nos. 27 and 35 providing very detailed and consistent guidance that directly applies to the work pension actuaries do, augmented by the requirements of ASOP Nos. 41 and 51, there is no need to subject pension actuaries to the ordeal of trying to interpret how the assumptions setting requirements of the Assumptions and Modelling ASOPs are or are not consistent with pre-existing, rather comprehensive ASOPs. We believe that if there is to be an Assumptions ASOP, the Modelling ASOP should not include assumptions guidance, and furthermore pension actuaries should not be subject to any assumption requirements included in the Modelling or Assumptions ASOPs. If there are believed to be any gaps in the assumption setting guidance applicable to pension actuaries, those gaps should be addressed directly via changes to ASOP Nos. 27 and 35.

Finally, we note that a second ED providing proposed revisions to ASOP No. 4 Measuring Pension Obligations and Determining Pension Plan Costs or Contributions was not released at the same time as the second EDs for ASOP Nos. 27 and 35. We believe releasing the EDs at the same time, similar to what was done with the first set of EDs, would have been preferable considering the close

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relationship among the three ASOPs. When making adjustments to any of the three EDs it will be important to consider whether similar adjustments are needed to the other EDs.

Our specific feedback on the ED by section follows.

Specific Comments

Section 3.2 (Identification of Economic Assumptions Used in Measurement) – To be consistent with the first sentence of this section, and with section 3.2.1 of ASOP No. 35, we believe the title should be Identification of **Types of** Economic Assumptions Used in Measurement.

Section 3.5.1 (Adverse Deviation or Plan Provisions that are Difficult to Measure) and Section 4.1.1 (Assumptions Used) – We believe these two sections are inconsistent with respect to the disclosure of implicit adjustments to assumptions (e.g., choosing a more conservative assumption from a range of reasonable assumptions, without first explicitly identifying the “best estimate”) to provide for adverse deviation or plan provisions that are difficult to measure. Section 3.5.1 requires that **any** such adjustment be disclosed under section 4.1.1, but section 4.1.1 only requires it for explicit adjustments, which we believe is appropriate. We believe that section 3.5.1 should be modified to be consistent.

Section 3.5.3 (Cost of Using Refined Assumptions), Section 3.5.5 (Changes in Circumstances) and Section 3.7.2 (Select and Ultimate Inflation Rates) – While we realize this language exists in the current ASOP, we believe that the final sentence of section 3.5.3 (“However, they are not precluded from using relevant plan-specific facts”) should be struck. First, it states the obvious, so does not provide guidance. More importantly, we believe that ASOPs should avoid saying that an actuary “is not precluded from” doing something, or “may” (when it means “is permitted to”) do something, because it implies that whenever an ASOP does not say an actuary can do something he or she cannot.

Another example is section 3.5.5, which says “If appropriate, the actuary may reflect this change as of the measurement date” - it is obvious that an actuary may do so if appropriate (i.e., if required or allowed to do so by the accounting or regulatory rules that apply to the measurement). A third example is in section 3.7.2 where it says “The actuary may assume select and ultimate inflation rates in lieu of a single rate”. In both of these cases, either “may” means “has permission to”, in which case it is inappropriate, or else it means “might”, in which case it is purely educational and provides no guidance. Either way, the sentences should be struck.

Section 3.8.3.a (Investment Policy) – The last sentence in this section should be modified to add “if appropriate”, as follows “If appropriate the actuary should consider whether the current investment policy is expected to change during the measurement period”. In some situations, such as corporate financial reporting for qualified pension plans, it is generally not permitted to assume that the current investment policy will change in the future.

Section 3.13 (Reviewing Assumptions Previously Selected by the Actuary) – This section makes clear that the actuary should re-evaluate the assumptions selected by the actuary each year and determine whether they remain reasonable. It does not address situations where an actuary is working on a measurement for the first time (e.g., when a new actuary performs a pension valuation that was performed by a different actuary the prior year). We believe it would be helpful if this section made clear that the actuary should also review the economic assumptions used by the actuary who last performed the measurement before using them to ensure they remain reasonable.

Section 3.15 (Phase-In of Changes in Assumptions) – We appreciate the attention given to this section and the emphasis on selecting reasonable assumptions. However, we still believe that this section is not clear or necessary. While we do not believe this is the intent, we are concerned that this section could be read to apply to select and ultimate assumptions. We believe the intent is to address situations where a transition from an unreasonable to a reasonable assumption is smoothed over a number of measurement dates. However, selecting reasonable assumptions as of each measurement date is already required elsewhere in this ASOP. We suggest deleting this section.

Section 3.16 (Documentation) – We believe that this section is an unnecessary addition to the ASOP and may encourage additional and unnecessary work for the actuary that would likely be uncompensated. We note that requiring an actuary to maintain documentation that would enable another actuary to assume the assignment is a high bar, and goes well beyond the guidance that is included in ASOP No. 41, Section 3.8. We also note that this section does not require an actuary to prepare and retain documentation (“the actuary *should consider* preparing and retaining documentation”), but apparently, if the actuary does so, it must be to the level needed to enable another actuary to assume the assignment (“when preparing documentation, the actuary *should* prepare documentation in a form such that another actuary qualified in the same practice area could assess the reasonableness of the actuary’s work or could assume the assignment if necessary”). It does not make sense to us not to require documentation, but to require that if documentation is prepared it be extremely comprehensive, which is what this section does. We believe that Section 4 in the ED and ASOP No. 41 section 3.8 provide sufficient guidance regarding required documentation and this section should be deleted.

Section 4.1.2 (Rationale for Assumptions) – “Prescribed assumptions set by another party” are, by definition, assumptions that the actuary cannot set because law, regulations or accounting standards give another party the responsibility for selecting such assumptions. For pension actuaries, these assumptions are most commonly financial reporting assumptions that are, under the accounting literature, the responsibility of the plan sponsor.

In the current ASOP, the actuary is not required to provide a rationale for a “prescribed assumption set by another party”, but is simply required to disclose if that assumption “significantly conflicts with what, in the actuary’s professional judgment, would be reasonable for the purpose of the measurement”.

Whether an assumption “significantly conflicts with what, in the actuary’s professional judgment, would be reasonable” is often a rough professional judgement call (a “smell test”) not explicitly arrived at based on “information and analysis”. Because the assumption is developed by others, the actuary often does not have the information, expertise, or ability under the scope of the assignment to perform a rigorous analysis to judge the reasonability of such an assumption. Recognizing this, ASOP No. 41 appropriately allows the actuary to disclose that the actuary was unable to judge the reasonableness of an assumption without performing a substantial amount of additional work beyond the scope of the assignment, and did not do so, or that the actuary was not qualified to judge the reasonableness of the assumption.

By contrast, the ED would require the actuary to assess the assumption and disclose under section 4.1.2 “the information and analysis used to support the actuary’s determination that the assumption does not significantly conflict with what would be reasonable”, or else indicate that the actuary is **unable** to assess whether it significantly conflicts with what would be reasonable.

Regarding the first clause above, requiring an actuary to disclose “information and analysis” that led the actuary to conclude that an assumption did not significantly conflict with what would be reasonable is tantamount to asking the actuary to perform a rigorous analysis to judge the reasonableness of the assumption, and will be viewed as such by outside parties.

Regarding the second clause, “unable” is a very strong word that goes well beyond the much more appropriate requirements of ASOP No. 41. Such an assessment may be possible (and thus the actuary cannot say he or she is “unable” to do it), but it may require very extensive data collection and analyses that are not part of the actuary’s assignment and for which the actuary will not be compensated, and potentially the use of outside expertise.

We believe the current requirement that the actuary disclose if he or she believes the assumption significantly conflicts with what would be reasonable is appropriate and sufficient, and strongly object to requiring the actuary to provide supporting information and analysis for an assumption that does not seem to significantly conflict. That analysis may be interpreted to mean that the actuary has affirmatively determined that such an assumption is reasonable. We also do not believe the ASOP should effectively force the actuary’s judgment on the party who has been given the responsibility by law, regulations or accounting standards to select the assumptions, through what will be viewed as a backdoor requirement for the actuary to explain why it is reasonable. We believe this is an inappropriate attempt to shift responsibility to the actuary for an assumption he or she does not control, and may not be able to support with “information and analysis” without doing extensive analysis that the party who does control the assumption may not support with the required information or funding.

Thank you for this opportunity to comment on the ED. If you have any questions concerning our comments, please contact us directly.

Sincerely,



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