

Actuarial Standards Board
1850 M Street, Suite 300
Washington DC 20036-4601

September 13, 2019

Subject: Comments on Proposed Revisions to ASOPs 27 and 25

Mercer is pleased to provide our response to exposure drafts of the proposed revisions to ASOPs 27 and 35. These comments were prepared by Mercer's Actuarial Resource Network, a group of senior actuaries in the retirement practice area representing all of the U.S. geographic areas in which Mercer operates.

As these proposed ASOPs are quite similar, we are providing one consolidated comment letter. In general, we believe the drafts show significant improvement over the earlier drafts, and we greatly appreciate the effort that went into these improvements. We only have a few remaining comments.

Section 3.16 of ASOP 27 and Section 3.11 of ASOP 35—Documentation

We note that this section is completely new since the last exposure draft. In our view, this section adds significant new guidance that is inappropriate for a number of reasons:

1. For certain actuarial engagements, the actuary must retain documentation relating to a specific aspect of the project. In other cases, the actuary may wish to retain technical supporting documentation. In those circumstances, section 3.8 of ASOP 41 would apply. But this new paragraph goes beyond the requirements of ASOP 41 to suggest documenting compliance with the ASOPs themselves. The most obvious benefit to such a requirement is to equip actuaries to defend themselves against a claim that they did not comply with the ASOPs. While this may be good business practice, the decision as to what type of documentation should be developed or retained for this purpose is a management decision that takes into account the legal environment. That is, this is a business issue, not an actuarial issue, and as such is inappropriate to include in an ASOP.
2. If the paragraph is retained in some manner, we suggest certain changes to the language:
 - A. The paragraph states that documentation is done to “support compliance with section 3.” “Support compliance” is an ambiguous phrase and we are uncertain as to its intent. Compliance with Sections 3 and 4 is completely possible without documentation beyond the actual Section 4 disclosures. If “support compliance” means to provide a rationale for the assumptions, then we believe this is already adequately covered by the rationale requirements of the ASOP. If it means to *demonstrate* compliance, then the language should be plainly say so.

- B. The paragraph indicates that the actuary should consider preparing and retaining documentation. We believe the requirement should be consistent with Section 3.8 of ASOP 41, which frames the retention requirement by saying the actuary “may choose” to do so.
- C. Following on the previous point, the paragraph also indicates that “when preparing documentation, the actuary should...” This means that an actuary choosing to prepare documentation must comply with certain requirements, whereas an actuary choosing not to prepare documentation has no obligation whatsoever. By contrast, in ASOP 41, actuaries who choose to prepare documentation are told only that they “should consider” retaining it. Placing a higher level of obligation on someone who has the choice not to document but chooses to do so seems illogical.

The last sentence of section 3.4.3 of ASOP 35 (section 3.5.3(a) in the previous exposure draft)

Our letter on the prior exposure draft contained a comment on this sentence, which says the actuary should consider using recently published and generally available mortality tables. In reviewing Appendix 2 of this draft, we find that the response to our comment does not address our main concern, so we assume we weren’t sufficiently clear. Here is our original comment: “We do not believe this sentence is appropriate as written. While we acknowledge that the stem only says ‘should consider,’ a non-actuary could easily be left with the impression that generally available mortality tables are necessarily better than other tables, including tables developed based on a plan’s own credible experience, when in fact, a table that has considered a plan’s own experience will often be a more appropriate assumption. We suggest appending the current sentence with ‘when tables which are more reflective of the plan’s actual experience are not available.’”

The Appendix 2 response is that section 3.2.4 provides sufficient guidance on the use of credible experience. While we agree we can use a plan’s own credible mortality experience in accordance with 3.2.4, that was not our point. The issue is that the language as written may give a non-actuary the perception that a published table is better than one derived from a plan’s own data. In fact, given sufficient credibility, the opposite is true. But this misconception will arise because the standard says only that an actuary should consider a published mortality table, without saying as clearly that an actuary should consider a mortality table derived from experience entirely germane to the plan in question. We again request that the sentence in question be modified as described in our initial comment or with similar words to that effect.

Section 4.1.2 of ASOP 35—Rationale for Assumptions

Similar to the above comment, we repeat here comments from our prior letter (with some expansion) because the explanation in Appendix didn’t seem to address the point we were making.

The last paragraph of this section requires rationale for using a mortality table substantially older than current relevant and generally available tables. We have two comments on this:

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1. As noted in our comment on Section 3.4.3, plan-specific tables can be more relevant than general tables. Rather than hinting at the opposite, we suggest comparing apples to apples by inserting “published” after “based on.” The Appendix 2 comment once again referred to credibility, while again our concern was the message the sentence sends to a non-actuarial user.
2. Other than the point raised immediately above, we agree with the requirement to provide rationale when it comes to healthy lives mortality. However, we are not convinced this is an appropriate requirement, at least at this time, for disabled life mortality. None of the recently published choices for disabled life mortality tables is necessarily appropriate for a given population, as those tables do not tie to a specific definition of disability. In fact, RPEC itself noted the limitations of the data (and thus the results) used to prepare the disabled life mortality table associated with RP-2014. Yet someone less schooled in the nuances of disabled life mortality could conclude that because RP-2014 is (by far) the most recent published table, an actuary not using it would be doing something improper, when in fact it may well be more reasonable to use an older table with appropriate projection. In short, we don’t believe that pension actuarial practice has evolved to the point where the requirement to “justify” the use of an older table (as opposed to the general rationale requirement that applies to any significant assumption) should apply to disabled life mortality.

We believe the above information is primarily factual, and leads to the conclusion we state. The Appendix 2 response summarizes our concern briefly—“...the requirement to justify selection of an older mortality table should not apply to disabled life mortality”—and states only that the reviewers disagree, without explanation of what is being disagreed with: the facts presented or the conclusion. We would also point out that many actuaries will not use the RPEC disability tables for the reasons RPEC described, and the ASOP requirement as written would require actuaries to repeatedly state what might appear to be criticisms of the RPEC table—not something that would add to public confidence in the actuarial profession. We suggest again that the requirement to disclose justification for using an older mortality table not be applied to disabled life mortality.

Thank you for the opportunity to comment on the exposure draft. If you have any questions, please contact me at 212 345 7257.

Sincerely,



Bruce Cadenhead, FSA, EA, FCA, MAAA
Partner & Chief Actuary, US Wealth