

Comment #1 – 2/20/20 – 8:05 a.m.

This email presents my comments on the second exposure draft of ASOP 4. I emphasize that these comments are personal and do not necessarily represent the views of my employer or of any of the actuarial bodies of which I am a member. I am a Fellow of the Institute of Actuaries (UK), a Fellow of the Society of Actuaries, a Member of the American Academy of Actuaries, and an Enrolled Actuary.

1 Paragraph 2.2 states that a pay-as-you-go method is not considered an actuarial cost method. I urge revision to this definition by indicating that a procedure that meets the rest of the definition of actuarial cost method should retain that status even if it includes a provision that the allocation to a time period be not less than the amount required under a pay-as-you-go method.

2 The final sentence of Paragraph 3.4.2 ignores the possibility that the purpose of a measurement might prohibit reflection of some events that occur subsequent to the measurement date. Therefore, I recommend changing in that sentence the words “measurement requires the inclusion” to “measurement prohibits or requires the inclusion”

3 Paragraph 3.5.1 ignores the possibility that the purpose of a measurement might prohibit reflection of some plan provisions. Therefore, I recommend changing in the final sentence of that paragraph “measurement requires that” to “measurement prohibits or requires that”

4 The basic structure of an ASOP places all guidance on disclosure in part 4. This ASOP includes the word “disclose” in several places in part 3. The ASB should not expect actuaries and others to wade through part 3 in search of guidance or requirements relating to disclosure; if it insists on imposing rules on what the actuary must disclose, it should put those rules entirely and only in part 4. Here are examples of locations in part 3 where the word “disclose “ appears. I recommend editing every sentence in part 3 that includes the term disclose so as to remove the term; to the extent the ASB believes actuaries should disclose the information currently required by these paragraphs, it should put the requirement in one or more paragraphs in part 4 and expose the entire ASOP afresh so those who might have missed those disclosure requirements through their not appearing in the proper location will have adequate opportunity to comment on them.

- The opening paragraph of 3.5
- The final paragraph of 3.5
- The opening paragraph of 3.11
- The final paragraph of 3.13
- The opening paragraph of 3.21
- The final sentence of 3.25

- The final sentence of 3.26

5 Paragraph 3.6.1 permits exclusion of persons below a minimum age. I urge that this exclusion not be allowed to apply to beneficiaries.

6 The wording of the second sentence of the opening paragraph of 3.8 seems to mean “the actuary should also assess whether the combined effect of the assumptions the actuary selected is expected to have no significant bias” I urge that it would be better to replace “no” with “any” – so that the actuary has to determine if significant bias exists, rather than determine if there is none. Further, the ASB should consider if part 4 of the ASOP should require or recommend that the actuary should disclose significant bias – as the actuary might be performing calculations using significantly biased assumptions to apply stress tests or investigate scenarios outside the area of the actuary’s reasonable expectations. The same principles apply to 4.1 part l.

7 The second paragraph of Section 3.11 requires the actuary to select “a discount rate.” I do not believe it is necessary to limit the actuary to using a single discount rate and suggest modifying the wording to allow for or even encourage the actuary to use an array of discount rates applied to different parts of the liability. Consistent with this comment, I urge that 4.1 part o.1. be “the discount rates used and rationale for their selection.” I recognize that one can calculate the single effective interest or discount rate that produces the same value as an array of interest or discount rates. I see no need for the ASB to require any actuary to provide the equivalent single discount or interest rate that would provide the same present value as the array of discount or interest rates actually used. I do not accept that the current wording “select a discount rate” properly reflects the order in which an actuary should value any liability. The array of appropriate interest or discount rates is what the actuary selects, the single equivalent discount or interest rate is a coincident calculation, not what the actuary selects.

8 In the last sentence of 3.12, please change “value is excluded” to “value should also be excluded”

9 If the ASB accepts comment 4 above in relation to the final sentence of 3.13, then “should calculate a funded status...using an immediate gain actuarial cost method” should change to “should also calculate a funded status...using an immediate gain actuarial cost method.” The same wording modification should also apply to the opening paragraph of 3.21 so that “should calculate and disclose” should be “should also calculate.”

10 It is obvious that if a funded status measure uses a different value from market then the funded status would be different using market value. Therefore, I suggest that 4.1 part q.3. include the suggestion to include the funded status measure using market value, not just state that it would be different.

Best wishes

Jan Harrington