

Comment #1 – 4/9/21 – 2:01 a.m.

This email presents my comments on the Third Exposure Draft of the Proposed ASOP “Setting Assumptions” with a comment deadline of April 15, 2021.

I emphasize that these are my personal views and that they do not necessarily represent the views of my employer or of any actuarial organization of which I am a member. I am an enrolled actuary, a Fellow of the Institute of Actuaries (London), a Fellow of the Society of Actuaries, and a Member of the American Academy of Actuaries.

1 Members of the actuarial profession in the United States, the public that it serves, and third parties affected by those actuarial services deserve straightforwardness over complexity. This proposed ASOP will add at least one extra layer of complexity. The fifth paragraph of 1.2 sets out a confusing priority order related to compliance with this proposed ASOP, existing and future practice-area ASOPs, and existing and future cross-practice ASOPs. This confusing array of priority orders risks bringing the profession into disrepute as actuaries, the public they serve, third parties, legislators, and courts attempt to determine which competing piece of which ASOP deserves priority treatment. I urge the ASB to refrain from adding to the confusion of priority order by adopting this ASOP; instead, I urge the ASB to construct an ASOP that totally replaces all parts of all current ASOPs that deal with actuarial assumptions, so we have a single principles-based ASOP on Assumptions, with no tangle of different approaches to demographic, economic, catastrophic, casualty, health, retirement, and other single, dual, and multiple practice-areas.

2 Section 3.1.d. presents a negative statement: “The actuary is not required to set a more refined assumption when in the actuary’s professional judgment such use or selection is not expected to produce materially different results.” The title of this proposed ASOP is “Setting Assumptions” not “Not Setting Assumptions.” The name should reflect the content – why does the ASB refrain from adding a statement “The actuary is required to set a more refined assumption when in the actuary’s professional judgment such use or selection is expected to produce materially different results?” The missing statement seems more in tune with the title of the proposed ASOP than the statement that it contains. It seems to beg the question, “If not then, when?”

3 Honey is unique in that it never goes bad. Everything else, whether stated or not, has an expiry date. My EA status will expire 3.31.2023; my ability to sign an SAO will expire 12.31.2021, my can of New England Clam Chowder will expire 4.1.2024. All actuarial assumptions have dates beyond which they cease to be valid. Actuarial assumptions specified by a government agency have clear expiry dates. Many actuaries fail to specify the expiry date of the assumptions they select or recommend. That failure often leads users of actuarial services falsely to believe they have a much longer validity than intended by the actuary who chose or recommended them. To protect users of actuarial services and third parties whose security depends on the use of valid actuarial assumptions, I urge the ASB to include in the ASOP I suggest in my first comment a requirement or strong recommendation that an actuary who selects and assumption after the effective date of the ASOP must set out a clear date after which the assumption ceases to be valid. This will require performance of an experience study or similar review to determine

valid assumptions to use after the expiry date. I also recommend the ASB to impose a default sunset provision for all assumptions selected or recommended before the effective date of the ASOP by any actuary and for those selected or recommended after the effective date by an actuary who does not specify the expiry date. I suggest that default expiry date should be 5 years after the later of (a) the effective date of the ASOP and (b) the date the actuary selected or recommended the assumption.

4 Actuaries set assumptions not just for situations where they should reflect the concepts set out in 3.3. They also set assumptions to determine the thresholds at which material bias begins to occur, and to kick the tires of an array of circumstances to determine the robustness of assumptions in catastrophic circumstances. Section 3.3 represents a straitjacket that prevents actuaries from performing such worthwhile tasks. At the very least, the ASOP needs to allow such flexibility and non-compliance with the current 3.3 in such circumstances without having to resort to the language of the deviation clause.

5 Situations exist when an actuary cannot reflect an event that occurs after the required date for setting assumptions. 3.7 covers only the converse situation, where the actuary may, but need not, reflect such an event. This proposed standard should also reflect the contrary situation by including equally important language along the lines of “in some situations, an actuary is prohibited from reflecting an event that occurs subsequent to a specific date.” The ASOP should not only reflect such a prohibition but should encourage the actuary to explain the assumptions selected and the rules that prevent the actuary from reflecting such material information. Absent such encouragement, mystifying situations will exist where actuaries select assumptions (not for kicking the tires or doing other stress tests) that must ignore events that occurred after a specific date, although such ignored events materially invalidate the reasonableness of the assumptions the actuary must use.

Best Wishes

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