

Comment #2 – 6/3/23

This email presents my comments on the Exposure Draft for ASOP No. 27 – Selection of Assumptions for Measuring Pension Obligations, issued with a comment deadline of June 15, 2023. I emphasize that my comments are personal and do not necessarily reflect the views of my employer or of any actuarial body of which I am a member. I am an enrolled actuary, a Fellow of the Institute of Actuaries (UK), a Fellow of the Society of Actuaries, and a Member of the American Academy of Actuaries.

Section 1.2 Scope, 4th paragraph contains “Nothing in the standard is intended to require the actuary to select an assumption that has otherwise been selected by another party.” I fail to see the purpose of “otherwise.” I recommend removing “otherwise” and adding after party “that has authority to select the assumption.” It would also be helpful to clarify here that if an actuary advises another party to select an assumption, then the actuary should perform appropriate tasks (as if selecting the assumption) to provide that guidance. The standard should also clarify the obligations of an actuary who advises another party to select an assumption and the other party rejects the actuary’s advice. There are two broad areas that merit discussion. One is when the other party selects a significantly different assumption (both when the assumption is significant and when it is not significant) and when the other party selects an assumption that is only slightly different from what the actuary advises, for example, selecting a mortality improvement scale that is one year different from the improvement scale the actuary advises should be selected (both when the assumption is significant and when it is not significant).

Section 1.2 Scope 5th paragraph states that when ASOP 27 conflicts with ASOP 4 or ASOP 6 then ASOP 4 or ASOP 6 will govern. I believe that when an actuary determines such a conflict exists the actuary should identify the conflict in terms understandable to another actuary working in the same field of expertise.

Section 1.4 sets an effective date four months after adoption. As I have often noted in comments on ASOP exposure drafts, actuaries often provide guidance to a sponsor of several pension plans with different plan years. The effective date of any ASOP should allow such an actuary to apply the same standard for all guidance on all such plans. Therefore, the effective date should never be earlier than a year after adoption but should always clearly allow for earlier application if the actuary indicates in an SAO that it complies with an ASOP with a future effective date.

Section 2.4 limits prescribed assumptions set by another party to law, regulations, and accounting standards. This list might currently be complete, but authorities might come into existence in other areas that are not covered by this list. Therefore, I recommend changing “or accounting standards” to “accounting standards or other regulatory authority.”

Sections 3.2, 3.3, 3.6, 3.7, 3.8, 3.9, 3.10, 3.11, 3.12, 3.13, 3.14, 3.15, 3.16, and 3.17 together present a “paint by numbers” approach to assumption selection that verges on being prescriptive. This material should not be in an ASOP for use by actuaries with experience in working on pension plans. If included in the ASOP at all, it should be in the appendix of background and current practice.

Section 3.3. b mentions the “value” of any potential benefit payments. I suggest replacing value with size. The selected assumptions will determine the value, so the guidance as written becomes circular.

Section 3.4.6 deals with events that occur after the measurement date. I urge including a cautionary note that an actuary who intends to reflect an event that occurred after the measurement date should determine if the actuary is allowed to reflect it under the rules applicable to the calculations, as well as a discussion of if the actuary can adopt assumptions that implicitly reflect a known event that the actuary is not allowed to explicitly reflect.

Section 3.5 d. specifically mentions ASOP No. 51. Here and in all other places where the ASOP mentions ASOP 51 the words “for example,” should precede it because other situations may exist where significant bias is acceptable, for example, in presenting “what if” guidance.

Section 3.7.3 h focuses on a single investment return assumption appropriate to the expected or known timing of a significant event. Given that no actuary is required to select a single investment return assumption but is allowed to select return assumptions that vary over relevant time periods, there is no need to imply the need for a single return assumption when the actuary can select a suitable array of investment return assumptions for different time periods.

Section 3.9.2. b allows an actuary to give undue weight to short-term patterns when the measurement period is short. This is absurd. Actuaries may well justify the weighting they apply to patterns of any length, but no actuary should give undue weight to anything.

Section 3.9.2. d specifies when an actuary should take volatility into account. This is banal. Actuaries working in the area of DB plans deserve broad guidance on volatility, not prescriptive guidance such as this, which should be in an appendix on current practice and background.

Section 3.13, as noted above, presents information that should be in the background and current practice appendix. The concept of mortality improvement is not new; actuaries who provide services on defined benefit pension plans have been using it for decades. It is part of background and current practice.

Section 3.17.6 deals with benefits to children below a certain age. I see no way to value such a benefit without an assumption as to number and ages of children; therefore, “may be needed” should be “should be needed” or “will almost certainly be needed.”

Section 3.18 – 1st paragraph – deals with consistency of assumptions. Some assumptions are completely independent of each other, for example, expected return on assets and mortality. Rather than requiring assumptions to be consistent it would be more realistic to require them not to be inconsistent. Also, ahead of the first word of that paragraph, please insert “To the extent possible...”

Section 3.20 deals with assumptions not set by the actuary. While the actuary cannot do anything about assumptions set by law, that is no justification for excusing the actuary from assessing their impact on the calculations. If the law requires use of an assumption on mortality, discount rates, or expected return on assets, the actuary should assess the impact of those required assumptions on the calculation and how they will produce results inconsistent with the results that would have been produced if the actuary were free to select them. With that knowledge, the actuary can advise a plan sponsor or other interested party on the resulting divergence of values and recommend contributions that are different from those resulting from the use of assumptions required by law.

Section 3.21 deals with phase in of assumptions. In that paragraph, I recommend changing “the measurement date” to “each measurement date” wherever it appears.

Section 3.23 deals with assumptions chosen by another actuary, who might now be dead. I recommend changing “is qualified” to “is or was qualified.” I also question how an actuary can be reasonably satisfied that the other actuary selected the assumptions consistent with this or other ASOPs. I urge removal of that requirement.

Section 4.1.1 should be deleted with Section 4.1.2 renumbered as 4.1.1. Section 4.1.2 contains everything that 4,1,1 contains that is relevant and appropriate. Removal of 4.1.1 avoids duplication of requirements.

Section 4.1.2 2nd paragraph should expand “has not selected” to “has not selected or provided advice on its selection” – it is very easy for an actuary to ignore the fact that selection includes advising an authorized person to select.

Section 4.1.2 4th paragraph, replace “and generally available mortality tables” with ‘information.’”

Section 4.1.4 deals with events that will have happened in the past. Therefore, “occur” should be “occurred.”

As noted above, the appendix should be expanded to include the “paint by numbers” discussions from the body of the ASOP.

Best Wishes
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