

## ASOP No. 12 Risk Classification (For All Practice Areas)

**Comment Deadline: [May 1, 2024]**

Instructions: Please review the exposure draft, and give the ASB the benefit of your recommendations by completing this comment template. Please fill out the tables within the section below, adding rows as necessary. Sample for completing the template provided at the following link: <http://www.actuarialstandardsboard.org/email/2020/ASB-Comment-Template-Sample.docx>

Each completed comment template received by the comment deadline will receive consideration by the drafting committee and the ASB. The ASB accepts comments by email. Please send to [comments@actuary.org](mailto:comments@actuary.org) and include the phrase 'ASB COMMENTS' in the subject line. Please note: Any email not containing this exact phrase in the subject line will be deleted by our system's spam filter.

The ASB posts all signed comments received to its website to encourage transparency and dialogue. Comments received after the deadline may not be considered. Anonymous comments will not be considered by the ASB nor posted to the website. Comments will be posted in the order that they are received. The ASB disclaims any responsibility for the content of the comments, which are solely the responsibility of those who submit them.

### I. Identification:

Name of Commentator / Company
WTW

### II. ASB Questions (If Any). Responses to any transmittal memorandum questions should be entered below.

Question No.	Commentator Response

### III. Specific Recommendations:

Section # (e.g. 3.2.a)	Commentator Recommendation (Please provide recommended wording for any suggested changes)	Commentator Rationale (Support for the recommendation)
1.2 (SCOPE)	Add "This ASOP does not apply to work performed that is subject to the requirements of ASOPs 4, 27 and 35"	We understand the ASB's desire to adopt broad-based standards that apply to all practice areas. Nevertheless, it is clear that this ASOP is primarily aimed at practice areas (e.g., life insurance, property and casualty, healthcare) where risk classification systems are used that can make the difference between the success and failure of a financial or personal security system (e.g., the decisions to accept or decline to insure certain risks, the premiums charged for different coverages, etc.) Pension plan sponsors and their actuaries are rarely if ever making decisions of that type. While we believe that actuarial assumptions used in a pension valuation meet the definition of a "risk classification system" under the Exposure Draft, we do not believe that the guidance in this ASOP would have any effect on practice in the pension area, because our interpretation of the Exposure Draft would not require the actuary to do

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		<p>anything not already required by ASOPs 4, 27 and 35. We would prefer that work covered by these ASOPs be categorically excluded from applicability of ASOP 12 to relieve individual actuaries of the need to parse through this ASOP to determine on their own that it does not require them to change how they do their work, and to avoid having outside parties make different interpretations of this ASOP to suggest that such an actuary has not done something it requires.</p>
4.1(g)	<p>This section requires the disclosure of “the effectiveness of the risk classification framework on the viability of the financial or personal security system”</p> <p>We would prefer that this disclosure be deleted.</p> <p>If it is retained, we believe it should be changed to:</p> <p>“the effectiveness of the risk classification framework in preventing losses in the financial or personal security system during the period between the last actuarial report and the current actuarial report on the system”</p>	<p>We believe that the disclosures required under the Exposure Draft would generally apply to pension actuarial assumptions, but are duplicative of the disclosure requirements of ASOPs 4, 27 and 35. However, we do have concerns about the required disclosure in section 4.1(g) of “the effectiveness of the risk classification framework on the viability of the financial or personal security system”. While we suspect that this requirement is problematic for all practice areas, we will focus our comments on its potential effect in the pension practice area.</p> <p>In a pension valuation, the assumptions used do not directly affect the viability of the system, unlike in insurance where the risk classification system will directly affect the revenue and losses of the system, through the levels of premiums for different coverages or groups, declining to insure certain risks (where allowed by law), etc. In the pension world, risk classifications that turn out to be ineffective (i.e., assumptions that are not realized) do not directly affect the revenue or risk of the system. While assumptions that are not realized may indirectly affect the viability of the system if they lead to lower employer contributions, the pension ASOPs require that significant gains or losses be disclosed, that assumptions be best estimates at each measurement date and that rationales for significant assumptions and changes in assumptions be disclosed. Gains and losses generated are required to be considered at each measurement date with any appropriate adjustments in assumptions made. In addition, funding rules typically will require that losses be paid back over prescribed periods through higher employer contributions. Thus, self-correction of gains and losses occurs automatically at each measurement date.</p> <p>This disclosure requirement in section 4.1(g) is concerning. It is requiring the actuary to “disclose the effectiveness of the risk classification system.” A</p>

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**IV. General Recommendations (If Any):**

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)

**V. Signature:**

<p>Commentator Signature</p> <p>Francis X. Reagan, FSA EA Head, North American Retirement Actuarial Leadership</p>	<p>Maria M. Sarli, FCA, FSA, EA U.S. Retirement Resource Actuary</p>
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