Comment #3 – 3/28/11 – 11:47 a.m.

Thank you for the opportunity to comment on the exposure draft of ASOP 27.

These comments are my own and do not reflect the views of my employer or any organizations of which I am a member.

Regarding question 4 posed by the committee ("Do you agree that the guidance on arithmetic and geometric returns is appropriate?"), I believe the answer is no.

The last sentence of Paragraph 3.3.3(j) reads, "The use of an investment return assumption based on a geometric return, either by itself or in combination with an arithmetic return, is reasonable." Since the ASOP is silent on the use of an arithmetic return, the reader is left to make his/her own inference. The quoted paragraph could reasonably be interpreted to mean that an arithmetic return is the preferred standard but that a geometric return might also be reasonable. If the intent is (as I strongly believe it should be) that a geometric return is the preferred standard, this paragraph needs to be rewritten.

As an example of the industry standard on this question, I point you to the CFA Institute's Global Investment Performance Standards (GIPS), which allow for only geometric returns. A portfolio that returns 5%, 5% and 5% in three consecutive years is very different from a portfolio that returns -10%, 5% and 20% in those same years. In acknowledgement of this princople, I would suggest the following wording for the last sentence of Paragraph 3.3.3(j).

"The use of an investment return based on a geometric return is reasonable.
If the actuary instead uses an investment return based on an arithmetic return, either by itself or in combination with a geometric return, then the actuary should document the analysis and data underlying this selection."

Regards,

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