Watson Wyatt Worldwide

July 31, 2008

ASOP No. 27 Request for Comments
Actuarial Standards Board
1100 Seventeenth Street, NW, 7th Floor
Washington, DC 20036-4601

Dear ASB Members:

This letter is the formal response from Watson Wyatt & Co. to the March 2008 request to comment on Actuarial Standard of Practice (ASOP) No. 27, Selection of Economic Assumptions for Measuring Pension Obligations. Watson Wyatt supports the ASB and the standard setting process. While the ASOP provides guidance on all economic assumptions, our response focuses mostly on the investment return and discount rate assumptions.

Watson Wyatt employs approximately 7,000 associates on a worldwide basis with about 300 being members of the American Academy of Actuaries. As the company's Resource Actuary in the U.S., I have prepared our response with input from others in the firm.

General

ASOP 27 was initially adopted in 1996. Since ASOP 4 has been revised, ASOP 27 is now the oldest of the four main ASOPs applicable to measuring pension obligations. There have been changes in other ASOPs and there have been changes in risk measurement that affect actuarial practice covered by ASOP 27. In general, we do not have a problem if the ASB decides to revisit ASOP 27 with the intent to improve it, as this is certainly consistent with the ASB's mission statement.

Best-Estimate Range

We do not necessarily oppose the concept of a best-estimate range for certain purposes. For example, such a range can be useful when an actuary is called upon to evaluate a prescribed assumption selected by the plan sponsor for reasonableness (ASOP 4, Section 3.2). On the other hand, there may be circumstances where the range may not represent the actuary's best estimate. In those situations, it may make sense to incorporate something like the "no expected gain/loss over the measurement period" concept introduced in ASOP 35.

Risk Measurement

The ASB introduced several new concepts in ASOP 4 (revised) which encourage actuaries to consider the use of stochastic methods and potential volatility in pension measurements rather than relying solely on measurements based on deterministic assumptions. We believe that these concepts are important, particularly in situations where the actuary is being asked to price new plans or plan changes. Therefore, we believe that any changes to ASOP 27 or 35 should support these new concepts. In particular, we believe the use of assumptions that may fall outside the actuary's best estimate range should not be considered a deviation from an ASOP if used to measure potential volatility.

Investment Return vs. Discount Rate Assumptions

Given changes in the pension plan environment over the past 12 years, it may make sense to provide guidance which focuses more on development of discount rate assumptions for measuring pension obligations than is currently provided in ASOP 27. In addition, it might make sense to modify the current building block approach for selecting an investment return assumption to the current economic environment.

Disclosure

As the ASB is aware, there is currently divergent opinion regarding discount rate assumptions used to determine pension obligations and whether such obligations should be determined by discounting projected payments by an expected rate of investment return that reflects investments in the underlying trust, including in many cases equities. We believe that this is an issue that should be addressed by the ASB. Consistent with the intent to quantify risk, it may make sense to require an actuary who uses an expected rate of investment return to discount future benefit payments to also disclose plan liabilities based on observed high quality bond yields in the market place (in addition to using other economic assumptions that are consistent with such bond yields). For example, a cash balance pension plan with market interest rate credits might be expected to disclose something close to the sum of the (vested) cash balance accounts for plan participants under this alternate disclosure measurement.

Please contact me if you have any questions about our comments.

Sincerely,

Kenneth A Steiner

Kenneth A. Steiner
Resource Actuary