

February 27, 2015

Modeling (Second Exposure)  
Actuarial Standards Board  
1850 M Street NW, Suite 300  
Washington, DC 20036

Dear Sir or Madam:

This letter is the response of Towers Watson to the Second Exposure Draft of the Proposed Actuarial Standard of Practice (“ASOP”) - Modeling. Towers Watson is a global human capital and financial management consulting firm specializing in employee benefits, human capital strategies, and technology solutions. Towers Watson employs approximately 15,000 associates on a worldwide basis, over 1,100 of whom are members of U.S. actuarial bodies subject to the standards. The undersigned have prepared our company’s response with input from others in the company.

Our comments generally support four central themes that we believe apply to the Actuarial Standards of Practice and that can be found on our website at <http://www.towerswatson.com/en/north-american-retirement-principles>.

In addition to our comments below, we would also like to refer you to our comment letter of September 27, 2013 regarding the First Exposure Draft. We note that most of our comments were not reflected and we ask that you reconsider those comments at this time. The remainder of this letter focuses on similar themes to the initial letter without reiterating the specific points.

We respect the effort and the quality of the considerations listed in this proposed ASOP. We also believe that the material in the exposure draft would be useful in the continuing education of actuaries. However, we believe that this guidance, if published as an ASOP, will strongly conflict with our central themes and be problematic for the profession. We explain our concerns below:

- Due to the wide scope of models used and the variety of situations in which we practice, this proposed ASOP impinges on the professional judgment of actuaries. There will be significant pressure as a result of this ASOP to apply a comprehensive checklist to all models, even those where reasonable professional judgment would indicate that they do not apply. This results in a shift away from professional judgment and reliance on a checklist approach to our work.
- This proposed ASOP provides best practices that are useful guidelines to follow in many of our projects. However, to protect oneself from litigation risk, there will be pressure to adopt the ASOP in full for situations for which it would be very reasonable to determine that it does not, and should not, apply. As a result, we believe that this proposed ASOP will either increase costs for our Principals or create additional litigation risk to actuaries.
- Paradoxically, the ASOPs explicit recognition that professional judgment can be used to not apply the standard, or apply it only in part, will lead to such professional judgment not being exercised. Under a standard with such vague application guidelines, an actuary’s judgment not to fully apply the standard will potentially be called into question for judgment by others by any unsatisfied Principal or other user. As a result we believe that the standard would result in an increased

amount of work under a checklist approach and a decrease in the use of judgment. We believe that the result would be different, and in fact quite positive, if the guidance were released in a form other than an ASOP.

- It will not serve our clients or the profession to have actuaries spending more time providing limitations and caveats to protect themselves from additional litigation risk rather than using that time to apply professional judgment in communicating the key issues of primary importance to the client, given the specific project and situation. The requirements regarding communicating any reasons the model could fail from meeting its intended purpose could result in a rather exhaustive list of situations not planned for to protect oneself.
- As additional caveats and limitations grow in length, they are less likely to be read and understood. Applying professional judgment about the issues that are important would allow us to provide a more meaningful and understandable report to our clients without being overly focused on litigation risk.
- We can envision many projects where documenting the deviance from this standard and considering what this standard requires us to include in the communication exceeds the time which would have been spent on the entire project. A result may be heavily relied upon and financially material, but be based upon a very simple model.

Thank you for this opportunity to comment on the Exposure Draft. If you have any questions concerning our comments, please contact any of the undersigned directly.

Sincerely,



Michael F. Pollack, FSA, EA  
Senior Consultant, North America Retirement Actuarial Leadership  
[mike.pollack@towerswatson.com](mailto:mike.pollack@towerswatson.com)  
(203) 326-5469



John (Jay) Toslosky, FSA, EA, MAAA  
Senior Consulting Actuary  
[jay.toslosky@towerswatson.com](mailto:jay.toslosky@towerswatson.com)  
(303) 391-1386