

Comments on the Second Exposure Draft of the Proposed Actuarial Standard of Practice on Modeling

February 27, 2015

The Actuarial Standards Board

The American Society of Pension Professionals & Actuaries (ASPPA) and the ASPPA College of Pension Actuaries (ACOPA) appreciates this opportunity to comment on the exposure draft of the Actuarial Standard of Practice (ASOP) on *Modeling*.

ASPPA is a national organization of more than 18,000 retirement plan professionals who provide consulting and administrative services for qualified retirement plans covering millions of American workers. ASPPA members are retirement professionals of all disciplines, including consultants, investment professionals, administrators, actuaries, accountants and attorneys. All credentialed actuarial members of ASPPA are members of ACOPA, which has primary responsibility for the content of comment letters that involve actuarial issues.

ACOPA continues to have serious concerns about the broad scope of the proposed standard, and finds the discussion of the applicability of the guidance in section 3.1.1 neither clear nor appropriate. The definition of “Model” in section 2.9 is so broad as to encompass any actuarial work that involves inputs and outputs. As in the first draft, Section 3.1.1 of the second exposure draft bases the determination of whether or not full application of the guidance of the ASOP is appropriate on whether or not “intended model users rely heavily on the results and the model has a material financial effect.” The actuary is to be guided by section 2.6 of ASOP 1 for guidance on determining materiality. That section provides that “An item or a combination of related items is material if its omission or misstatement could influence a decision of an intended user.” ACOPA finds this standard of materiality to be inappropriate for determining the applicability of the proposed modeling standard.

Consideration of materiality should also include the extent to which additional disclosures required by the proposed standards would be beneficial to the intended user. Section 3.7 provides that if guidance in another ASOP is inconsistent with that in the modeling ASOP, the other ASOP governs. Guidance in the modeling ASOP that is *not* inconsistent with another ASOP, but application of which is not material to the intended user assuming guidance in the other ASOP has been followed, should deem the results immaterial for purposes of applicability of the proposed modeling ASOP.

This concept appears to be reflected in the new paragraph in section 3.1.1 providing:

“If, in the actuary’s professional judgment, circumstances are such that applying some or all of the guidance in this ASOP is not warranted for the specific intended purpose as described above, this is not considered a deviation. The actuary should be able to identify these circumstances, if asked.”

The profession would be well-served by providing more clarity with regard to this concept.

ACOPA recommends that examples of models that would or would not be subject to full application of the guidance be provided to lay a framework for the subject actuary’s decision making and to provide a context for interpretation by others. An example of a model for which the requirements of the proposed ASOP are not material when considering the requirements of other applicable ASOPs would be an actuarial valuation made for the purpose of determining the minimum required and maximum deductible contributions under the Internal Revenue Code and ERISA. Existing ASOPs already provide guidance on practice standards for the valuation of pension liabilities. ASOP 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*, is devoted to this practice. ASOP 27, *Selection of Economic Assumptions for Measuring Pension Obligations*, and ASOP 35, *Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations*, are also specifically directed toward the valuation of pension liabilities. The benefit added by the guidance in the modeling ASOP would be immaterial relative to the contribution of the other relevant ASOPs. An actuarial valuation on which contribution recommendations are based using the same software, as well as calculations for purposes of financial reporting under Accounting Standards Codification (ASC) 715 or ASC 950 also meet this criteria of immateriality.

In contrast, a modeling system that generates sufficient iterations with random earnings fluctuations to determine a desired contribution pattern with a specified level of confidence would be subject to the requirements of the modeling ASOP to the extent there is no conflict with the other standards for determining pension liabilities.

ACOPA further recommends that after the standard is expanded to include examples and clarify the definition of "model" another exposure draft be issued to provide an opportunity to comment on the more restrictive scope.

This letter was prepared by a task force chaired by Richard A. Block, FSPA. If you have any questions, please contact Judy Miller, Executive Director of ACOPA, at (703) 516-9300 ext. 152.

Thank you for your consideration of these comments.

Sincerely,

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