



AMERICAN ACADEMY *of* ACTUARIES

May 31, 2012

ASB Comments
Actuarial Standards Board
1850 M Street NW, Suite 300
Washington, DC 20036

Re: Comments on Proposed Revision of ASOP No. 27

To Whom It May Concern:

On behalf of the American Academy of Actuaries'¹ Joint Committee on Retiree Health, I thank you for the opportunity to comment on the proposed revision to Actuarial Standard of Practice (ASOP) No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*. Our committee also is considering the exposure draft of proposed revisions to ASOP No. 6, *Measuring Retiree Group Benefits Obligations and Determining Retiree Group Benefits Plan Costs or Contributions*, an ASOP that in its current and proposed versions references ASOP No. 27.

Interaction of Guidance in ASOPs related to Retiree Group Benefits Practice

The exposure draft of ASOP No. 6 was released April 17, while the current exposure draft of ASOP No. 27 was released Jan. 23. The interaction of the ASOPs, in current and proposed form, combined with the timing of the exposure drafts and their comment deadlines, has limited the time to adequately review the standards of practice in the retiree group benefits field. We offer a few general comments here for your consideration, but we expect that the comments we submit in July on ASOP No. 6 also will address the selection of economic assumptions for measuring retiree group benefits.

The relevance of ASOP No. 27 to retiree group benefit practice is most clear when the language and substance of the ASOP recognizes that not all aspects of pension practice apply to retiree group benefit practice. The relevance to retiree group benefit practice is less obvious, however, in cases in which there is overreliance in ASOP No. 27 on pension language and substance. The initial example of the latter is the standard's title—*Selection of Economic Assumptions for Measuring Pension Obligations*. There are numerous instances in which the exclusive use of the word "pension" makes the application of the standard to retiree group benefit practice tenuous. We encourage the ASB to clarify in this ASOP that mastery of pension practice is not the same as mastery of retiree group benefit practice (or vice versa).

¹ The American Academy of Actuaries is a 17,000 member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualifications, practice, and professionalism standards for actuaries in the United States.

In addition, Section 1.1.c. indicates that the purpose of the standard is to enhance those provisions of ASOP No. 6 that relate to the selection and use of economic assumptions. (Please note that the name of ASOP 6 was changed for the exposure draft and may need to be updated in 1.1.c.) There are a number of economic assumptions important to retiree health benefit measurement (most obviously, health care cost trend) that are not mentioned in ASOP No. 27. On the other hand, there are economic assumptions covered in ASOP No. 27 that have no relevance to retiree group benefits (several in Section 3.11). As a result, there is an asymmetry—ASOP No. 6 is home to economic assumptions specific to measuring retiree group benefit but ASOP No. 4 is not home to economic assumptions specific to measuring pensions (which are addressed by ASOP No. 27). The ASB may want to address this asymmetry by moving sections from one ASOP to another or by acknowledging it in one or more ASOPs. The allocation of practice-specific assumptions among ASOPs No. 27, No. 4, and No. 6 does not provide the symmetry that we believe the ASB intends and that would be most helpful to practitioners.

Guidance on Reasonableness of Assumptions

The general language in Section 3.6 regarding reasonable assumptions is a good addition to the standard. It clearly has relevance to the selection of health care trend rates, although that is not stated. The mention of financial market data there and in Section 3.6.1, however, does not have such relevance to retiree group practice and thus loses connection with that practice. These inconsistencies need to be addressed. Section 3.7 similarly should be expanded to cover health care inflation or generalized to acknowledge the importance of health care trend (of which inflation is just one aspect).

More generally, Section 3.6.2 of ASOP No. 27 does not seem appropriate to a standard—it simply tells the actuary to recognize uncertainty without guidance as to how that relates to the work product. We suggest the section may need to make the explicit point that if the work product communicates a measurement based on a single set of assumptions, care should be taken in the actuarial disclosure to note that: 1) the actuary believes that other assumptions also may be reasonable, and 2) use of a particular assumption set does not elevate the appropriateness of the result over the results derived from other reasonable assumptions nor does it add to the result's precision.

Section 3.13 provides that “The actuary should use the principles set forth” in ASOP No. 27 “whenever the actuary has the obligation to assess the reasonableness of a prescribed assumption.” Since the word “principles” is not used to define anything in the standard, the meaning of this sentence would seem to be that everything set forth in the standard should be considered when assessing the reasonableness of a prescribed assumption. This guidance is different from the guidance in the exposure drafts of ASOP No. 4 (Section 3.16.2) and ASOP No. 6 (Section 3.21.2). In both of those paragraphs, the actuary is told to rely on professional judgment when evaluating reasonableness of a prescribed assumption (and to disclose any significant conflicts). The second sentence of Section 3.13 notes that “The actuary’s obligations with respect to prescribed assumptions are governed by ASOP Nos. 4, 6, or 41,” and is further indication that the first sentence is misleading and unnecessary.

Also complicating the interpretation of Section 3.13 is the last sentence of Section 3.12, “Assumptions selected by the actuary need not be consistent with prescribed assumptions.” The point that this sentence attempts to convey will be better understood if it is stated earlier in Section 3.12, probably by including prescribed assumptions in the first sentence as an exception, similar to assumptions not material. As a transition to Section 3.13, it can be confusing.

Discount Rate Guidance

Section 3.9 on discount rates begins “The discount rate is used to measure the present value of expected future plan payments.” We suggest that a discount rate does not “measure” present values and that a better verb might be “determine” or “calculate.” Similarly, in Section 3.9.b and Section 3.9.d, there is reference to “measuring” a present value and “measuring” a price. Throughout the rest of the standard the verb “measure” always is used in conjunction with “obligation.” Obligations may be in need of measurement, while prices and present values are in themselves measures and thus not subject to measurement.

In terms of measuring retiree group benefit obligations, the standard would be improved by moving the final general paragraph in this section forward to precede the list of four subsections and that list’s introductory sentence. The opening sentence of that paragraph could be replaced by: “The present value of expected future pension payments and expected future retiree group benefit payments may be calculated from the perspective of different parties, with the chosen discount rate assumption varying with the reason for the measurement.”

The objective of the four subsections also needs clarification. From the introductory use of the word “examples,” the list of measurement purposes would not appear to be exhaustive. (Financial reporting is not shown as a measurement purpose.) Within each subsection, however, the language seems to set a standard for that measurement purpose (from the use of the word “alternatively” in the first subsection, among other indications). But Section 3.9 also mentions “perspectives of different parties,” recognizing this as another determinant in selecting a discount rate. In the face of the many possible actuarial clients requesting a present value, the subsection language is too precise. An instance of this for retiree health benefits is that equating market measurement with bond yields (Section 3.9 (c)) ignores the possibility that the market might consider a payment stream so uncertain that a discount rate matching a bond yield would be insufficiently high to establish the (low) market value. This also pertains to defeasance or settlement calculations (Section 3.9 (b)).

Plan Contributions from Participants

Contributions from participating retirees are now an important part of retiree health benefit financing and pricing. This could be acknowledged in Section 3.9(a) or 3.9(d), and a distinction could be made between sponsor and employee/retiree contributions.

As noted earlier, these general comments are likely to be supplemented with more specific comments our committee will submit in July related to the interaction of ASOPs No. 6 and No.

27 and their proposed revisions. We recommend that the ASB not release ASOP No. 27 before reviewing any related comments on ASOP No. 6. The desire for consistency of language should override the fact that the exposure draft for ASOP No. 27 has a comment period that will end sooner than the comment period for ASOP No. 6.

The Joint Committee on Retiree Health appreciates the continued efforts of the ASB to ensure that the standards of the actuarial practice are current. If you have any questions about these comments or if you need additional information, please contact Heather Jerbi, staff liaison to the Joint Committee on Retiree Health (Jerbi@actuary.org; 202.785.7869).

Sincerely,

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American Academy of Actuaries