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April 30, 2017

Setting Assumptions
Actuarial Standards Board
1850 M Street NW, Suite 300
Washington, DC 20036
Via email to comments@actuary.org

RE: Comments on the Exposure Draft of the ASOP, *Setting Assumptions*

Members of the Actuarial Standards Board:

The Pension Committee of the American Academy of Actuaries[1] is pleased to present the following comments to the Actuarial Standards Board (ASB) regarding the exposure draft, *Setting Assumptions*. In general, we believe this proposed actuarial standard of practice (ASOP) will improve U.S. actuarial practice. However, based on our experience with the application of similar pension-specific guidance,[2] we do have three suggestions on the requirements related to "conflict" (between applicable ASOPs) and those related to "reasonableness" and the provision for "conservatism" in selecting a reasonable assumption.

Applicability to Retirement Plan Practitioners

Retirement plan actuaries are already subject to strict guidelines regarding the setting of assumptions. In particular, ASOP Nos. 4, 6, 27, and 35 include detailed and rigorous guidance on the selection and assessment of reasonable assumptions and methods. We do not believe there is any guidance in the proposed ASOP that directly conflicts with the guidance in these pension-specific ASOPs. Accordingly, while we believe that this proposed ASOP may strengthen actuarial practice for other practice areas, we do not expect it to substantially change the scope of U.S. pension practice. However, see our comments below regarding the standard for assessing reasonableness of assumptions.

The ASOP contains a definition of scope in Section 1.2 that describes the coordination of the proposed requirements with those of other ASOPs by use of the word "conflict." Question 3 of your Request for Comments asks whether this language is clear. Our concern is that "conflict" may not be a sufficiently expansive term.

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[1] The American Academy of Actuaries is a 19,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

[2] Throughout these comments, we use "pension" or "pension-specific" to refer cumulatively to the guidance applicable to both pension and post-retirement benefit plans.

It would be helpful to provide better clarity about which standards apply in the event of any perceived conflict, to ensure that the years-long efforts to develop those pension-specific ASOPs are not inadvertently compromised. To that end, we suggest that the first sentence of the third paragraph in Section 1.2, Scope, be changed to: "To the extent guidance in this standard may **conflict, differ, or be inconsistent** with other practice or activity-specific ASOPs that provide guidance on setting assumptions, those ASOPs will govern." (Note the recommended addition of the hyphen in "activity-specific.") The second sentence of the same paragraph would be similarly modified.

Assessing the Reasonableness of Assumptions

We note that the reasonableness standard in Section 3.1.3 does not directly mirror the standard set in the pension-specific standards for selecting economic and demographic assumptions (ASOP Nos. 27 and 35, respectively). These standards provide that each economic or demographic assumption selected by an actuary should be individually reasonable and consistent with other economic or demographic assumptions selected by the actuary. By comparison, section 3.1.3(b) of the exposure draft requires the actuary to assess whether the selected assumptions are reasonable in the aggregate and suggests some kind of analysis of results as part of this assessment.

While a very similar requirement applies to certain work prepared by retirement plan actuaries through regulatory requirements (e.g., IRS funding valuations and related work) it does not apply directly as a result of the existing ASOPs. Since there are already established guidelines for assessing the reasonableness of assumptions relative to other assumptions in ASOP Nos. 27 and 35 (each of which has been updated within the last four years), we encourage the ASB to consider whether this additional requirement should apply to work already covered by those ASOPs when addressing our comments above about conflict with other standards.

Provision for Conservatism

We also have some concern that the provisions of Section 3.1.3 and Section 3.1.4, relating to the reasonableness of assumptions and the potential application of margins for adverse deviation, are not entirely clear.

These subsections contain references to a "tendency to significantly underestimate or overestimate the result," "prudence or optimism in multiple assumptions," and "margins for adverse deviation." Each of these phrases seems to address essentially the same concept (i.e., assumptions that may not reflect best estimates) but with slightly different words and in slightly different contexts.

We contrast that language with the provisions of ASOP No. 27 (which addresses the selection of economic assumptions for measuring pension obligations). The provisions of ASOP No. 27, Section 3.6 require assumptions to be "reasonable", to reflect "the actuary's estimate of future experience" and "to have no significant bias … except when provisions for adverse deviation ... are included and disclosed." This language appears to be a more concise and direct way of expressing essentially the same concepts.

If the intent of the proposed ASOP (applicable to general practice) is to be less prescriptive than the ASOP No. 27 language, that is if the intent is to specify only that the actuary *consider* whether and how these issues apply, then we believe that the requirements could probably be stated more simply and succinctly.

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We appreciate the ASB giving consideration to these comments. We would be happy to discuss any of these items with you at your convenience. Please contact Monica Konaté, the Academy's pension policy analyst (202-223-8196, konate@actuary.org) if you have any questions or would like to discuss these items further.

Respectfully submitted,

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