



AMERICAN ACADEMY *of* ACTUARIES

December 28, 2012

ASOP No. 25 Revision  
Actuarial Standards Board  
1850 M Street, NW, Suite 300  
Washington, DC 20036

By email to: [comments@actuary.org](mailto:comments@actuary.org)

**Re: Proposed Revision of Actuarial Standard of Practice (ASOP) No. 25, *Credibility Procedures***

To the Credibility Task Force:

The Pension Committee of the American Academy of Actuaries<sup>1</sup> has reviewed the Exposure Draft, Proposed Revision of Actuarial Standard of Practice (ASOP) No. 25, *Credibility Procedures*, as released by the Credibility Task Force of the Actuarial Standards Board (ASB) in September 2012. We request your consideration of our comments and recommendations concerning the application of ASOP No. 25 to pension actuarial practice.

We understand that the ASB desires to expand the scope of ASOP No. 25 to encompass all practice areas. For pension practice, however, we believe the proposed ASOP No. 25 both ignores realities and would be confusing to pension actuaries. We have the following specific concerns regarding the proposed credibility procedures as detailed in the proposed revisions to ASOP 25:

1. Pension practice makes very little use of statistical credibility procedures for selecting actuarial assumptions for specific reasons. Other than occasionally for mortality assumptions, pension actuaries generally have little or no statistically relevant historical experience for pension plans, and rarely have the homogeneity of pension data needed for selecting other demographic assumptions using credibility procedures. For example, rates of employee termination and retirement are continuously and strongly affected by both macroeconomic events and, in private pension plans, corporate actions and plan design. As a result, pension actuaries often don't use what has happened in the past to strongly influence future demographic expectations. Instead, general expectations about the future may be more relevant. Pension plan mortality assumptions are prescribed for most plan funding calculations and as a result rarely take into account plan-specific

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<sup>1</sup> 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 qualification, practice, and professionalism standards for actuaries in the United States.

experience. And in other circumstances, sufficient mortality data relevant to a participant group is rare and actuaries usually default to variations on standard tables.

2. ASOP No. 35, *Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations*, is the long-established standard of assumption setting for pension practice. ASOP No. 35 uses the word “credible” in a less mathematically rigorous way than in the ASOP No. 25 Exposure Draft and does not deal with statistical credibility procedures at all (consistent with our comments in item 1 above). Having ASOP No. 25 apply to pension practice with different standards than in ASOP No. 35 will lead to ambiguities and confusion and may result in pension actuaries overlooking ASOP No. 25 because it is not cross referenced in ASOP No. 35.
3. In addition to ASOP No. 35, the Pension Committee of the American Academy of Actuaries has issued a practice note (*Selecting and Documenting Mortality Assumptions*) discussing current and emerging practice in selecting a mortality assumption, which was most recently updated in October, 2011. This practice note includes information about how pension actuaries might consider using credibility in the rare circumstances when it is warranted.
4. Section 3.2 of ASOP No. 25 specifies that “The actuary should be familiar with and consider various methods of determining credibility.” As noted above, since pension actuaries generally don’t need to use statistical credibility as described in ASOP No. 25, they are not typically familiar with most of these methods of determining statistical credibility and have not needed to be familiar with them to practice as a pension actuary.
5. Based on our reading, the ASOP No. 25 Exposure Draft doesn’t unequivocally require anything other than that the actuary be aware of credibility procedures and consider alternatives. If the Board’s goal is to expand knowledge of credibility procedures generally, we think that it would be more effective if the profession provided focused education campaigns with examples relevant to each area of practice. In addition, Academy practice councils may want to draft practice notes on the issue.
6. While doing nothing about credibility procedures is, arguably, compliant with the proposed ASOP No. 25 and what most pension actuaries might initially do after considering credibility, we doubt the usefulness of issuing a Standard that encourages doing nothing.

In summary, we believe that for pension practice, the proposed Standard is confusing, conflicts with ASOP No. 35, ignores the realities and current best practices of pension assumption setting, and assumes far more understanding and use of statistical credibility methods than is needed for pension practice. We urge the ASB to resolve the ambiguities that ASOP No. 25 would create vis-à-vis ASOP No. 35 by referring pension actuaries to the provisions of ASOP No. 35 in ASOP No. 25 and exempting pension actuaries from ASOP No. 25. ASOP No. 35 is currently the standard for selecting demographic assumptions for measuring pension obligations and, if needed, credibility procedures appropriate to pension practice should be addressed there. On a longer-term basis, consideration can be given to convergence of the two standards; however, that will require significant effort, time and education to accomplish.

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We again thank you for affording us this opportunity to provide feedback on the exposure draft. We would be pleased to provide additional detail on any of these comments. Please contact David Goldfarb, the Academy's pension policy analyst (202-785-7868, [goldfarb@actuary.org](mailto:goldfarb@actuary.org)) if you have any questions or comments.

Sincerely,

Michael Pollack, MAAA, FSA, FCA, EA  
Chairperson, Pension Committee  
American Academy of Actuaries