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AMERICAN ACADEMY *of* ACTUARIES

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January 31, 2014

ASOP No. 35 Revision  
Actuarial Standards Board  
1850 M Street, NW, Suite 300  
Washington, DC 20036

**Re: Comments on ASOP No. 35, *Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations***

Members of the Actuarial Standards Board:

On behalf of the American Academy of Actuaries'<sup>1</sup> Joint Committee on Retiree Health, I appreciate the opportunity to comment on the proposed revision to Actuarial Standard of Practice (ASOP) No. 35. This standard provides guidance relevant to actuaries who practice in the area of retiree health and other retiree group benefits (RGB).

References to retiree group benefit practice

In the Background and Scope/Purpose sections of the exposure draft, there are references to RGB and ASOP No. 6 as well as pension plans and ASOP No. 4. In the more substantive sections in the exposure draft, however, there is no mention of RGB plans; every reference is to pension plans.

Section 1.1, Purpose, the third bullet states, that ASOP No. 35 supplements the guidance in ASOP No. 6, although Section 1.2, Scope, indicates that in case of conflict ASOP No. 6 will govern. As these are the only references to RGB practice in the standard, however, it is unclear how the standard would supplement ASOP No. 6 for RGB.

The lack of specific reference to RGB may make it difficult for an actuary who needs guidance on work such as a retiree life measurement or a retiree health redesign to know what information from ASOP No. 35 applies. Similarly, anyone evaluating whether such actuarial work meets professional standards may find it difficult if there are no references to the RGB work in question.

There are simple ways to rectify this:

- change references to pension plans to include RGB plans;
- use a single, uniform term such as “retirement plans” or “postretirement plans;”
- include an statement that “pension” includes RGB.

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<sup>1</sup> The American Academy of Actuaries is a 17,500 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.

These simple fixes may not be effective for at least two reasons. First, a blanket change, of the “find & replace” variety, may exacerbate the situation. Each instance would need to be examined by experienced RGB practitioners to determine applicability and make refinements appropriate to RGB practice while consistent with pension practice.

Second, ASOP No. 27, which might be considered a fraternal twin of ASOP No. 35, was recently released in final form. It has the same structural and substantive issues—early mention of RGB and ASOP No. 6 without later specific reference. To change ASOP No. 35 without changing ASOP No. 27 may not be desirable from the perspective of either pension practice or RGB practice.

Appendix 2 of ASOP No. 27 states that “the value gained by spending more time to restructure the standards [for better coordination of the two practices] does not outweigh the value lost by further delaying updated guidance.” We understand the importance of updating pension guidance, appreciate recognition of the value of coordinating the two practices, and do not disagree with the priority given to updated guidance, which may apply to No. 35 as well as to No. 27. Restructuring the retirement standards for improved guidance related to the interaction between pension and RGB practices, however, should not be delayed too long.

#### Differences in demographic influences across practices

The second exposure draft of ASOP No. 6 (Section 3.12.2) states, “more refined demographic assumptions may be required to appropriately measure retiree group benefits obligations than are required to measure pension obligations.” It would be beneficial to RGB practice for actuaries to see this addressed in ASOP No. 35 as well, with specific cross-references. There are demographic and other noneconomic assumptions with limited relevance to pension measurement that have an important impact on RGB measurement. Two particularly influential demographic assumptions are the dependent coverage assumption and the retiree participation assumption. Both are related to retiree contributions, dynamic over time, and in need of careful ASOP guidance. While they are mentioned in ASOP No. 6, they are clearly demographic assumptions and yet have no mention in ASOP No. 35, except for a reference to how household composition may affect annuity benefits to surviving children or payment of annuity benefits after remarriage, divorce, or death (see Sections 3.6.2 and 3.6.3). The examples cited are from pension practice. The exclusion of reference to RGB and the diffusion of demographic guidance for RGB between two standards complicate matters regarding professional practice. An actuary, or an individual outside the profession, might inadvertently exclude consideration of these assumptions or give them improper weight in RGB measurement.

ASOP No. 35 also provides the platform to highlight the interactive effect on retirement and termination rates of provisions in retiree health plans and pension plans, and changes in those provisions. Section 3.5.1 includes an example of the availability of retiree health benefits being a consideration when selecting the retirement assumption. A more general consideration, however, is that incentives or disincentives in one plan are likely to influence retirement decisions and should be considered in setting demographic assumptions in related plans. The specific considerations in Section 3.5 could be expanded to include assumptions for RGB measurement.

In addition, Section 3.7, on Consistency among Demographic Assumptions, could address consistency across multiple benefit plan measurements.

Employees making retirement decisions in the years before Medicare eligibility are sensitive to trade-offs between expected income and health coverage. ASOP No. 35 could provide guidance that, for both pension and RGB measurement, selection of retirement and participation assumptions should recognize potential effects of changes to provisions across benefit plans. Guidance regarding interaction between retirement and participation assumptions for pension and RGB plans sponsored by one entity is important, particularly so when two actuaries are accepting responsibility for a RGB measurement.

#### Concerns about coordination between pension and retiree group benefit standards

An Oct. 29, 2013 letter to the ASB from three Academy committees stated the case for coordination between ASOPs No. 4 and No. 6. It encouraged the ASB review of ASOPs No. 27, No. 35, and No. 44 with attention to their effect on RGB practice, possibly by moving ASOP No. 6 guidance that focused on economic, demographic, and asset assumptions into those ASOPs. We understand that the ASB may have considered it impractical to take on such a significant restructuring shortly before the planned release of revised ASOPs No. 4 and No. 27. Nonetheless, given the release of those ASOPs without significant restructuring for coordination with RGB practice, near-term changes in language or structure of ASOPs No. 6 and No. 35 are unlikely to remedy the guidance concerns indicated in that letter or mentioned here. Accordingly, a longer-term plan to address these concerns may be appropriate.

In the Background section of this ED of No. 35, the ASB Pension Committee acknowledges that the idea of a consolidated standard for all pension and RGB guidance is “worth investigating.” We think coordination is important enough that we encourage the ASB to initiate a new project that substantially improves the level of coordination, which might be accomplished without consolidation across all practices. Alternatively, ASOP No. 6 could be structured as a stand-alone, all-inclusive standard with respect to RGB practice, so that no references to ASOPs No. 27 and No. 35 would be needed. This approach would give specific guidance on selection of economic and demographic assumptions relevant to RGB measurement in one standard, without referencing standards written for pensions.

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The Joint Committee on Retiree Health appreciates the opportunity to comment on standards of the actuarial practice. If you have any questions about these comments or if you need additional information, please contact David Goldfarb, the Academy’s pension policy analyst, at 202.223.8196 or [Goldfarb@actuary.org](mailto:Goldfarb@actuary.org).

Sincerely,

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American Academy of Actuaries