



AMERICAN ACADEMY of ACTUARIES

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July 8, 2019

Actuarial Standards Board
1850 M Street, Suite 300
Washington, DC 20036-5805
Via email: comments@actuary.org

Re: Proposed Actuarial Standard of Practice, *Setting Assumptions*

To Whom It May Concern:

The Life Practice Council of the American Academy of Actuaries¹ has formed a Task Force to Review the Second Exposure Draft of the proposed actuarial standard of practice (ASOP), *Setting Assumptions*. The task force is pleased to provide the following comments.

1. Section 1.4—We believe an effective date 12 months after adoption is too long. We do not believe the standard requires extensive changes in procedures and systems. Therefore, we suggest setting a shorter time period, and believe a four-month period would be sufficient.
2. Section 3 includes some disclosure requirements. Should all disclosure requirements be moved to Section 4? So doing would be consistent with the location of disclosure requirements in other recent exposures.
3. In Section 3.3, the reasons given for needing a margin seem to be too limited. The decision on whether a margin is required should consider the materiality and sensitivity of the margin. We believe the actuary should disclose whether a margin is needed, and if so, why it is needed, the margin sensitivity, and any limitations the margin may have.
4. Section 3.6 only requires the actuary to determine aggregate reasonableness for the specific assumptions for which they are responsible. However, assumptions provided by others may have offsetting margins (e.g., where one actuary sets a mortality assumption and another sets a lapse assumption). Therefore, it may only be appropriate to achieve aggregate reasonableness for all assumptions, not just those the actuary set. Also, there is no guidance given on how the actuary should determine aggregate reasonableness when some of the assumptions were provided by others.

¹ The American Academy of Actuaries is a 19,500-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.

5. Sections 3.7 through 3.11 and 4.2 do not match the standard language of other recently exposed ASOPs. For example, compare Section 3.7, which references ASOPs Nos. 41 and 23 with the nearly identical Section 3.8 in the ASOP No. 2 exposure draft, which only references ASOP No. 23 and names it. Also, for example, Section 4.2 includes disclosures specific to the ASOP, while in other exposures all such disclosures are consolidated in Section 4.1, with Section 4.2 reserved for the specific requirements of ASOP No. 41.
6. Sections 3.7 and 3.8 give no guidance other than to refer the reader to other ASOPs, and Section 3.10 only guides disclosure. We believe that each section should contain guidance. For example, in Section 3.8 the actuary could be guided to check data or other information supplied by others for reasonableness and appropriateness.
7. Section 3.11 requires that disclosure should be extensive enough so that another actuary “could assume the assignment if necessary.” This is a stronger requirement than in the past, where ASOPs only required another actuary to be able to assess the reasonableness of the work. We believe the other actuary should be able to understand the conclusion reached, even if they would have come to a different conclusion. The ability to assume the assignment based on nothing more than the previous actuary’s documentation may be an excessive requirement. For example, if an assumption relies on guidance from a consultant using proprietary information, that information cannot be disclosed. An actuary assuming the assignment would have to either contact the consultant or find another data source, and could not rely solely on the prior actuary’s documentation.
8. The standard does not currently address the concept that different actuaries can reasonably develop different best-interest assumptions within an acceptable range. We believe that guidance on this point would be useful in the standard.

We hope these comments are helpful. Please contact Ian Trepanier, the Academy’s life policy analyst (trepanier@actuary.org), if you have any questions.

Sincerely,

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Chairperson, Setting Assumption ASOP Review Task Force
American Academy of Actuaries

Task Force to Review ASOP, *Setting Assumptions*

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