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July 31, 2019

Actuarial Standards Board  
1850 M Street NW, Suite 300  
Washington, DC 20036  
Via email to [comments@actuary.org](mailto:comments@actuary.org)

**Re: ASB Comments—Comments on Second Exposure Draft of the Setting Assumptions ASOP**

Members of the Actuarial Standards Board:

The Pension Committee of the American Academy of Actuaries<sup>1</sup> is pleased to present the following comments to the Actuarial Standards Board (ASB) regarding the second exposure draft of *Setting Assumptions*, a proposed actuarial standard of practice (ASOP). We believe much good work has been done to improve the clarity of the proposed ASOP. Nevertheless, we have some comments on the current exposure draft.

Following are our specific comments on various sections of the proposed ASOP:

- Section 1.2—The beginning of this Section reads very similarly to the beginning of the same section in the proposed *Modeling* ASOP. However, there is a phrase missing (see underlined words below) that we think should be added to this ASOP for consistency and to reinforce that all practice areas are required to comply with this ASOP.

“This standard applies to actuaries in any practice area when performing actuarial services...”

- Section 1.4—We find the wording of this section ambiguous, as it is unclear exactly when “actuarial work involved in setting assumptions” is performed. Consider a pension funding projection performed early in 2020 based on assumptions set for the 2019 valuation. The

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<sup>1</sup> 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.

work involved in setting the assumptions could reasonably be considered to be performed on any one of a number of dates: the date the funding valuation was finalized, the date the actuary decided to use the funding valuation assumptions for the projection, the date the reviewing actuary agreed the 2019 assumptions remained appropriate for the projection, or as late as the date the final actuarial communication was issued—as up to that point, the assumptions could have been changed. We suggest this section be changed to reference the date the report is issued because that is that date when the selected assumptions are finalized.

- Section 2.1—Many assumptions are not a single value. For example, a mortality assumption for a pension plan is generally a set of values. Therefore, we suggest the beginning of this definition be changed to something like “A value or set of values...” or “A numerical representation...”
- Section 2.2—The definition of “Data” in this exposure draft is not consistent with the definition in the fourth exposure draft of the proposed ASOP on modeling, although it does match exactly the definition in ASOP No. 23, *Data Quality*. We believe the existence of multiple definitions of the same word in different ASOPs may lead to unnecessary confusion within the actuarial community. We understand that the *Modeling* ASOP is outside of the purview of the Assumptions Task Force, but we suggest that the ASB conform the definitions of “Data” among different ASOPs as closely as possible. Ideally, a single definition of “data” would appear in ASOP No. 1, unless there is a compelling reason to maintain separate definitions.
- Section 3.1—The proposed ASOP does not discuss several general characteristics of assumptions that we think are very important and are included in Pension ASOP Nos. 27 and 35. While these are all things that might fall under the category of an actuary’s professional judgment (Section 3.4(b) of this proposed ASOP), we feel it is important to clarify to the actuarial community that these are general characteristics of assumptions that the actuary should consider when using their professional judgment.
  - Characteristics of the measurement—although Section 3.1(a) includes the purpose of the measurement, there are characteristics of the obligation being measured using the assumptions that are unrelated to the purpose that we think should be considered, for example, the period over which the measurement is being made. (See proposed ASOP No. 27, Section 3.2(b) and proposed ASOP No. 35, Section 3.2.1(c) for examples of wording.)
  - Materiality of the assumption to the measurement—we think the balance between refined assumptions and materiality is a very important consideration. (See proposed ASOP No. 27, Section 3.5.2 and proposed ASOP No. 35, Section 3.10.2 for examples of wording.)
  - Cost of using a refined assumption—we also think there is a balance to be considered between developing a more refined assumption and the cost to develop that refined

- assumption. (See proposed ASOP No. 27, Section 3.5.3 and proposed ASOP No. 35, Section 3.10.3 for examples of wording.)
- Rounding—we think there should be some guidance that allows the actuary to use rounding as long as the rounding technique is unbiased or not material. (See proposed ASOP No. 27, Section 3.5.4 for an example of wording.)
  - Changes in circumstances—although assumptions should be set as of the measurement date, the actuary may know of changes that occur after the measurement date. The ASOP should clarify that the actuary can, but is not required, to use the knowledge of changes in circumstances. (See proposed ASOP No. 27, Section 3.5.5 and proposed ASOP No. 35, Section 3.10.5 for examples of wording.)
  - Range of assumptions—we think it is also important to recognize that there could be a range of reasonable assumptions and that an actuary may select different assumptions for different measurements. (See proposed ASOP No. 27, Section 3.6.2 and proposed ASOP No. 35, Section 3.3 for examples of wording.)
  - Reviewing assumptions—although the proposed ASOP has a lot of information about setting assumptions, assumptions should not be set and then used indefinitely. We think that guidance about reviewing assumptions is important to provide to actuaries to encourage them to consider periodically reviewing old assumptions. (See proposed ASOP No. 27, Section 3.13 and proposed ASOP No. 35, Section 3.8 for examples of wording.) The information date concept on its own is not sufficient as the language in the exposure draft does not suggest any particular timeframe for updating the information date.
- Section 3.1(a)—We suggest the use of “purpose” here be changed to “Intended Purpose” for consistency with other ASOPs, such as the proposed *Modeling* ASOP. This change should also be considered in other places in the proposed ASOP, such as in sections 3.3, 3.4(a), 3.4(d), and 3.11.
  - Section 3.2(a)—This section states that the actuary should consider using “actual experience” to set assumptions, but it isn’t clear to which actual experience this section refers. How does this actual experience differ from the “other relevant and sufficiently reliable” experience in 3.2(b)?
  - Section 3.3—Another important consideration in setting a margin is the inherent variability in the assumption itself. For example, if the annual return was certain to be 5% over the relevant time period for a particular asset, then it would not be appropriate to add a margin to that assumption. However, if the return is not certain, then the any single return assumption would represent merely one point in a distribution of possible outcomes. If 5% is the median of that distribution, instead of a single expected return, it may be appropriate for some purposes to add a margin by assuming a return that is lower than the median return. This consideration is not captured by 3.3(a), which relates only to uncertainty attributable to lack

of underlying data, nor is it captured by 3.3(b), which relates to differences in the degree of uncertainty that varies by time period. While the current language does not prohibit the actuary from considering factors other than those listed, we think that such an important factor should be mentioned explicitly.

- Section 3.4(d)—Actuaries often need to set assumptions that they know are biased when assessing risk. For example, the assumptions used in stress testing should be biased. We believe the language should be modified to reflect this situation, just as the language is already modified to reflect instances when margin is included. We suggest appending to the current language a phrase such as “or when alternative assumptions are used for the assessment of risk” consistent with the wording in ASOP Nos. 27 and 35.
- Section 3.5—This section discusses consistency requirements when the actuary is setting assumptions for which the actuary is taking responsibility. However, under the ASOPs, an actuary can’t set an assumption without taking responsibility for it; the phrasing of this sentence suggests that there might be assumptions set by the actuary other than those for which the actuary is taking responsibility. (Actuaries may *use* assumptions without taking responsibility for them, but only if the assumptions were set by another party and the actuary properly discloses the reliance.)

We suggest the language closely mirror the language in the latest exposure drafts of ASOP Nos. 27 and 35:

“If the assignment requires the actuary to set multiple **assumptions**, the actuary should select assumptions that are consistent with the other assumptions selected by the actuary, unless an assumption considered individually is not material.

The actuary is not required to select assumptions that are consistent with assumptions not selected by the actuary.”

- Section 3.6—We believe this section should be deleted. Section 3.4 of the proposed ASOP requires assumptions to be reasonable individually, and Section 3.5 requires that assumptions set by the actuary be consistent with other assumptions set by the actuary. We believe these two requirements in tandem will generally produce an assumption set that is reasonable in the aggregate. We also believe that the aggregate reasonableness of a set of assumptions can’t be assessed by simply looking at the assumptions themselves. Rather, the actuary can only assess the reasonability of a set of assumptions by looking at the output of a model based on that assumption set. As such, the requirement for aggregate reasonability more properly

belongs in the *Modeling* ASOP, and we note that Section 3.1.6(f) of the latest exposure draft on *Modeling* already requires this assessment.

- Section 3.11—To improve clarity and reduce redundancy, we recommend changing the second sentence to match that in the documentation section (i.e., Section 3.6) of the fourth exposure draft of the proposed *Modeling* ASOP. That sentence in the proposed *Modeling* ASOP is “The actuary should consider preparing such documentation in a form such that another actuary qualified in the same practice area could assess the reasonableness of the actuary’s work or could assume the assignment if necessary.”
- Section 4.1(c) —This section uses the term “actuarial finding,” which may not be familiar to all actuaries, especially those in the retirement field. The term is not defined in this proposed ASOP, and although it is defined in ASOP No. 41, only ASOP No. 1 definitions are automatically considered part of other ASOPs. Therefore, to enhance clarity, we recommend including either a definition in this ASOP or a reference to the definition of the term contained in ASOP No. 41.
- Section 4.2(d) —This section refers to “the disclosure in ASOP No. 41, section 4.2, of any prescribed assumptions set by law and prescribed assumptions set by another party.” This reference is confusing because Section 4.2 of ASOP No. 41 relates only to “certain assumptions or methods prescribed by law” and makes no mention of prescribed assumptions set by another party. Currently, disclosures regarding assumptions set by another party (prescribed or otherwise) are covered in Section 4.3 of ASOP No. 41 and thus appear to be covered by the reference in Section 4.2(e) of this exposure draft. Therefore, we suggest deleting “and prescribed assumptions set by another party” from Section 4.2(d).

However, if the inclusion of prescribed assumptions set by another party in 4.2(d) was intentional, then it seems to be an attempt to indirectly modify ASOP No. 41. If that is the case, we think modifying ASOP No. 41 itself would minimize confusion among practitioners. But we would have concerns with any such modification, as it would appear to create a distinction between the disclosures applicable to prescribed assumptions set by another party and those applicable to non-prescribed assumptions selected by another party.

In particular, the new ASOP would weaken the existing guidance in ASOP No. 41 by stating that prescribed assumptions set by another party (which under ASOP No. 41 are disclosed under Section 4.3) are now subject only to the more limited disclosures under ASOP No. 41, Section 4.2. We do not believe this weakening of the ASOP No. 41 requirements is appropriate or in the best interest of the profession or the public.

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We appreciate the ASB giving consideration to these comments. Please contact Monica Konaté, the Academy's pension policy analyst ([konate@actuary.org](mailto:konate@actuary.org); 202-223-7868), if you have any questions or would like to arrange a convenient time to discuss this matter further.

Respectfully submitted,

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American Academy of Actuaries