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September 15, 2019

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

Re: ASB Comments—Comments on Second Exposure Drafts of ASOP Nos. 27 and 35

Members of the Actuarial Standards Board:

The Pension Committee, Multiemployer Plans Committee, and Public Plans Committee of the American Academy of Actuaries¹ are pleased to present the following comments to the Actuarial Standards Board (ASB) regarding the second exposure drafts of Actuarial Standard of Practice No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations* (ASOP No. 27) and Actuarial Standard of Practice No. 35, *Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations* (ASOP No. 35). We believe much good work has been done to improve the clarity of the proposed ASOPs. Nevertheless, we have some comments on the current exposure drafts.

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

Both ASOP Nos. 27 and 35

- Section 3.2.1—Both sections 3.2.1(b) and 3.2.1(c) in ASOP No. 27 (sections 3.2.1(c) and 3.2.1(e) in ASOP No. 35) mention “materiality,” and it is not clear what the difference is between these two references. We suggest that the word “materiality” either only be in one location or clarification be added to illustrate the difference meant between the two references. For example, if the first reference is meant to refer to the materiality of the obligation as a whole, then modifying the wording to make that distinction more clearly would be helpful.

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.

- In the response to a comment on the first exposure draft of ASOP No. 27, Section 3.5.2, it was noted that “should consider” was changed to “should take into account” to be consistent with ASOP No. 35. We note that ASOP No. 27 has nine uses of the phrase “should consider” and seven uses of “should take into account” (and ASOP No. 35 has four and 13, respectively). We suggest the use of these phrases be reviewed and made consistent throughout both ASOPs or, to the extent there the two phrases are intended to have different meanings, we suggest that clarification be provided of the difference.
- ASOP No. 27, Section 3.15 and ASOP No. 35, Section 3.9—For consistency with the other provisions of the applicable ASOP, we suggest this section be clarified to indicate that the assessment of reasonableness and consistency only apply when the phase-in of assumptions is selected by the actuary and should refer to the prior section (Section 3.14 in ASOP No. 27 and Section 3.8 in ASOP No. 35) for when it is not selected by the actuary.
- ASOP No. 27, Section 3.16 and ASOP No. 35, Section 3.11—The second sentence of these sections provides that an actuary should prepare documentation in such a form that another actuary could “assume the assignment if necessary.” Because internal documentation about the selection of assumptions can contain proprietary work product that is not required to be provided to another actuary who assumes the assignment (in accordance with Precept 10 of the Code of Professional Conduct), we believe the portion of this sentence that refers to assuming the assignment should be removed, or at least clarified to address items of a proprietary nature.

In addition, because this guidance is provided in Section 3 and not Section 4 of the proposed ASOPs, we read it to mean that it pertains to recommended practices and not to communications and disclosures. Therefore, we suggest that the reference to Section 4 be removed from the first sentence.

- Section 4.1 of ASOP Nos. 27 and 35—We suggest the first sentence be changed to add “with respect to required disclosures” at the end to specify what the actuary should consider in the listed ASOPs when issuing an actuarial report.
- Section 4.1.1 of ASOP Nos. 27 and 35—The first sentence requires the actuary to describe whether a significant assumption “represents an estimate of future experience, the actuary’s observation of the estimates inherent in market data, or a combination thereof.” We think this should be clarified to only require that information if the assumption was selected by the actuary. For example, if the assumption was selected by another party, the actuary may not know the basis for selecting the assumption.

ASOP No. 27 only

- Appendix 1—There is no header to introduce what had been Appendix 3 in the first exposure draft. We suggest adding an appropriate header, such as “Representative Sources.” In addition, we suggest reviewing the title of Appendix 1, which only

references the two existing headers on background and current practice, to determine if the title should be expanded because it now also covers the representative sample of available sources of economic data and analyses.

ASOP No. 35 only

- In general, when comparing the changes made to both exposure drafts, we noticed that the structure and order of ASOP No. 35 is not always consistent with that of ASOP No. 27. Because the ASB appears to be moving to more consistency between the two ASOPs, we suggest the ASB consider changing the structure and order of ASOP No. 35 to be more consistent with that of ASOP No. 27—with the main differences limited to the specifics of the various assumptions. This consistency would make it much easier for actuaries to use the ASOPs.
- Section 3.4.3—The second exposure draft references published mortality tables at the end of this section. However, we think that paragraph should be expanded to add the following underlined sentence to include the other common source of data that is sometimes used for mortality tables:

“In addition, the actuary should consider using recently published and generally available mortality tables. Also, the actuary may consider using actual participant mortality data, to the extent fully or partially credible.”

- Section 3.4.4—We observe that currently used mortality assumptions not prescribed by law reflect a wide variety of levels of projection of mortality improvement after the measurement date. We understand that the present wording may still reflect concern that existed at the time a requirement to consider reflection of future mortality improvement was first added to the ASOP, when the technical capacity of actuaries and their valuation systems to reflect such improvement was in some cases limited. In subsequent years, valuation systems have been widely adapted to accommodate projected mortality improvement, and full generational projection of mortality improvement is now commonly used in measuring pension obligations. We encourage the ASB to consider whether the language of Section 3.4.4 should be changed to reflect stronger expectations of actuaries’ ability to reflect future mortality improvement, such as the addition of the following underlined words:

“b. include an assumption as to expected mortality improvement after the **measurement date**. This assumption should reflect all expected future improvement in longevity that the actuary believes is appropriate for the purpose of the measurement. It should be disclosed in accordance with section 4.1.1, even if the actuary concludes that an assumption of zero future improvement is reasonable as described in section 3.2.5. Note that the existence of uncertainty about the occurrence or magnitude of future mortality improvement does not by itself mean that an assumption of zero future improvement is a reasonable assumption.”

- Section 3.4.7—We suggest the first sentence be changed to add the following underlined phrase because not all of the expenses listed are always appropriate to the purpose of the measurement:

“The actuary should take into account expenses paid from plan assets that are appropriate for the purpose of the measurement, such as investment advisory, investment management...”

For example, when developing an investment return assumption net of expenses, it may not be appropriate to the purpose of the measurement to reduce the assumed rate of return to reflect expected plan administration expenses. In addition, we suggest the ASB consider moving coverage of this assumption from ASOP No. 35 to ASOP No. 27, as we think it is more relevant to the selection of economic assumptions than to the selection of demographic assumptions.

- Section 3.10—For consistency with Section 3.5 of ASOP No. 27, we suggest the ASB consider changing the title to “General Considerations” and deleting “considerations” from “the actuary should take into account the following considerations...” in the first sentence.
- Section 3.10.1—For consistency with ASOP No. 27, we suggest the ASB consider replacing “considerations such as adverse deviation or” with “adverse deviation or reflect” in the first sentence.

We appreciate the ASB giving consideration to these comments. Please contact Craig Hanna, director of public policy (hanna@actuary.org, 202-223-8196), if you have any questions or would like to arrange a convenient time to discuss this matter further.

Respectfully submitted,

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