June 15, 2023

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

Re: ASB Comments—Comments on Exposure Draft of Proposed Revision of ASOP No. 27 and Repeal of ASOP No. 35

Members of the Actuarial Standards Board:

The Pension Committee, Multiemployer Plans Committee, and Public Plans Committee of the American Academy of Actuaries[1] are pleased to present the following comments to the Actuarial Standards Board (ASB) regarding the exposure draft of the proposed revision of Actuarial Standard of Practice No. 27, *Selection of Assumptions for Measuring Pension Obligations* (ASOP No. 27) and the repeal of 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 combine those two ASOPs into one document and simplify the language since the most recent versions adopted in 2020.

We have the following comments on the current exposure draft in the format you requested. Note that recommended new text has been underlined.

I. Identification:

Name of Commentator / Company
Pension Committee, Multiemployer Plans Committee, and Public Plans Committee of the American Academy of Actuaries

II. ASB Questions (If Any). Responses to any transmittal memorandum questions should be entered below.

Question No.	Commentator Response
1	Q: The consolidation of ASOP Nos. 27 and 35 is not intended to substantively change the guidance. Has the conversion achieved this goal? If not, please explain or provide examples. A: In general, we believe that the consolidation of ASOP Nos. 27 and 35 did not substantively change most of the guidance. However, we have noted some suggestions below where the impact of the

[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.

	consolidation is unclear or appears to have made a substantive change.
2	Q: Will the deletion of guidance about the assumption universe affect practice? If so, please explain or provide examples. A: Because section 3.4.1 includes the examples of sources of information that were in section 3.2.2 of ASOP No. 35, we do not think the changes will affect practice.

III. Specific Recommendations:

Section # (e.g. 3.2.a)	Commentator Recommendation (Please provide recommended wording for any suggested changes)	Commentator Rationale (Support for the recommendation)
1.4	"Effective Date—This standard is effective for any actuarial report <u>that meets the following criteria: (a) the actuarial report is</u> issued on or after four months after adoption of this standard<u>; and (b) the **measurement date** in the actuarial report is on or after four months after adoption of this standard</u>."	The suggested language aligns with effective date language used in other revised ASOPs recently, such as ASOP No. 4. Adding the language regarding the measurement date provides a helpful margin in the case where the report lags the actuarial work by a number of months. As an example, the work for a January 1 actuarial valuation often may be done in the first quarter of the year but the report may not be issued until the actuary receives audited plan assets or final contribution amounts in the fall. In this case we would not want an ASOP adopted after the actuarial work is completed and before the issuance of the report to require re-work. We acknowledge the changes to this exposure draft are not likely to cause changes in the actuarial work but do think it is best to have a consistent approach to defining the effective date across all new pension standards or revisions of pension standards.
3.1	"<u>Overview</u>—Pension obligation values incorporate assumptions about pension payment commencement, duration, and amount. Pension obligation values also require discount rates to convert future expected payments into present values. In order to measure a pension obligation, the actuary will typically need to <u>use professional judgment to</u> select or assess assumptions underlying the obligation."	The proposed overview section draws largely from the current section 3.1 in ASOP No. 27. which doesn't include any mention of professional judgment. However, professional judgment does play a central role in the corresponding section of ASOP No. 35. Although professional judgment arises later in the exposure draft, we believe prominent placement in the overview section appropriately emphasizes its importance.
3.3c-e, 3.4.5	3.3c-e "c. the characteristics of the obligation to be measured (such as **measurement period**, pattern of plan payments over time, open or closed group, ~~significance~~ <u>materiality</u>, and volatility); d. the contingencies that give rise to benefits or result in loss of benefits; ~~and~~ e. <u>the materiality of the assumption to the measurement (see section 3.4.3); and</u> ~~e~~f. the characteristics of the covered group" 3.4.5	We suggest retaining the word "materiality" rather than revising to "significance" for consistency with our understanding of the definitions of those words in ASOP No. 1. • Materiality is defined in ASOP No. 1, section 2.6 as *"a consideration in many aspects of the actuary's work."* There is specific direction as to what an actuary should do when evaluating materiality and direction that "guidance in ASOPs need not be applied to immaterial items". • ASOP No. 1, section 2.12 definition of Significance/Significant points out the

	"Rounding—Taking into account the purpose of the measurement, ~~significance~~ materiality, and the cost of using refined assumptions, the actuary may determine that it is appropriate to apply a rounding technique to the selected assumption. In such cases, the rounding technique should be unbiased."	ambiguity of the term by saying that "*Significance can have different meanings."* It also indicates the need for the actuary to "exercise care in interpreting or using these words*".* Using a term that has a definition linked to treatment under the ASOPs is more consistent and less confusing than changing to a word that is more ambiguous and where ASOP No. 1 suggests exercising care. Note also, our suggested updates are more consistent with the discussion of Materiality in section 3.4.3 of the exposure draft.
3.3 (11)	"~~other~~ assumptions about other items, such as Social Security; cost-of-living adjustments; rate of payroll growth; growth of individual account balances; variable conversion factors; household composition; marriage, divorce, and remarriage; open group; hours of service; transfers and return to employment; and missing or incomplete census data."	Some of the items listed are not necessarily types of assumptions, and are instead things around which types of assumptions are made. For example, actuaries make assumptions when projecting future Social Security benefits, such as the increase in taxable wage base and cost-of-living increases, but Social Security itself is not an assumption. Also, assumptions are made about specific missing data items, which may vary by the item that is missing in general (for example, for missing beneficiary ages assume females are three years younger than males) or by person (for example, John Doe's missing salary for current year is prior year salary with one year assumed salary increase). Our change clarifies that this subsection covers assumptions about those items.
3.4.1	Move the following two paragraphs from 3.4.1 and place in section 3.5 immediately before 3.5.1 "Experience of the covered group or other groups with similar characteristics may be useful in forming a judgment about future expectations. However, the actuary should not give undue weight to experience that is not sufficiently credible. For example, in small plans or recently formed plan sponsors, industry or national data may provide a more appropriate basis for developing assumptions. The actuary should refer to ASOP No. 25, Credibility Procedures, for additional guidance. In addition, the actuary should not give undue weight to experience that may not be relevant to future expectations. For example, if recent rates of termination and retirement were largely attributable to a one-time workforce reduction, it may be unreasonable to assume that such rates will continue over the measurement period."	This discussion regarding credibility and the weight given to recent experience is more closely related to section 3.5 on Selecting a Reasonable Assumption than section 3.4.1 on Relevant Information.

3.4.3—last sentence of first paragraph	"For example, a cash flow projection used to determine investment strategy or liquidity needs may require more refined assumptions than a liability measure used to determine the funded status or required contribution."	We suggest modifying the example to better demonstrate why more refined assumptions may be needed based on the purpose of the measurement rather than just its nature. As currently stated, the example is not specific enough to illustrate the point. A cash flow projection may not inherently require more refined assumptions than a liability measurement depending on the purpose for which it will be used. Alternatively, the example could be removed as it is less clear as drafted.
3.4.4	"Format—The actuary should select an appropriate format for each assumption. This appropriate format may take into account the degree to which a parameter (such as gender, age, service, or calendar year) is anticipated to affect experience. In many situations it is appropriate for the assumption format to include assumptions for different segments of the covered population. For example, it may be appropriate to have different mortality or turnover tables for salaried and hourly employees."	The proposed wording in the exposure draft appears to change the guidance. Section 3.2.3 of ASOP No. 35 uses wording similar to the first sentence of our proposed change. In that construction, the word "should" applied to selecting an appropriate format. The ASOP then listed several factors that might affect format specification, including the degree to which a parameter is anticipated to affect performance. In the exposure draft, the word "should" applies directly to this last factor, meaning that this analysis is now mandatory. Also, the exposure draft focuses on ASOP No. 35 section 3.2.3(c) and not the other items in section 3.2.3 (such as section 3.2.3(e), which is a more general criteria). Our proposed language reverts the analysis to a factor for consideration.
3.5.1	"Reasonable Assumption Based on Expected Future Experience or Market Data—The actuary should develop a reasonable assumption based on the actuary's estimate of future experience, the actuary's observation of the estimates inherent in market data (if any), or a combination thereof. Examples of how the actuary may observe estimates inherent in market data include the following: a. comparing yields on **inflation**-indexed bonds to yields on equivalent non-**inflation**-indexed bonds as a part of estimating the market's expectation of future **inflation**; b. comparing yields on bonds of different credit quality to determine market credit spreads; c. observing yields on U.S. Treasury debt of various maturities to determine a yield curve free of credit risk; and d. examining annuity prices to estimate the market price to settle pension obligations. The items listed above, as well as other market	We suggest that the examples from section 3.2.4(d) of ASOP No. 35 be included in this section and not in the first paragraph of 3.4.1(e) so that the examples from both ASOP Nos. 27 and 35 are in the same section. In addition, consistent with the wording in section 3.5(c), we added "(if any)" in the first paragraph. We also suggested a change to the title of the section since future experience is expected and is not yet known.

	observations or prices, include estimates of future experience as well as other considerations. For example, the difference in yields between **inflation**-linked and non-**inflation**-linked bonds may include premiums for liquidity and future **inflation** risk in addition to an estimate of future **inflation**. The actuary may want to adjust estimates based on observations to reflect the various risk premiums and other factors (such as supply and demand for tradable bond or debt securities) that might be reflected in market pricing. Examples of relevant factors known to the actuary that may affect expected future experience include: a. The economic conditions of the area or industry, b. Availability of alternative employment, or c. The human resources practices of the employer."	
3.4.4, 3.6.2, 3.7.4a, 3.9.3a	3.4.4 "Format — The actuary should select an appropriate format for each assumption. This may include ~~take into account~~ the degree to which a parameter (such as gender, age, service, or calendar year) is anticipated to affect experience. In some situations, a select and ultimate assumption may be appropriate to reflect expected variances by period from the measurement date or by age or service. For example, it may be appropriate for select and ultimate [inflation rates to vary by period from the measurement date (such as, inflation of x% for the first 5 years following the measurement date and y% thereafter)][termination rates to vary by service (such as, 25% termination in first two years of service and a table of rates thereafter)]. In many situations it is appropriate for the assumption format to include assumptions for different segments of the covered population. For example, it may be appropriate to have different mortality or turnover tables for salaried and hourly employees." 3.6.2 "~~Selection and Ultimate Inflation Rates —The actuary may assume select and ultimate inflation rates in lieu of a single inflation rate. Select and ultimate inflation rates vary by period from the measurement date (for example, inflation of x% for the first 5 years following the measurement date and y% thereafter).~~" 3.7.4a	In addition to the change to section 3.4.4 proposed above, we noticed that three assumptions—inflation, investment return, and salary scale—include specific references to select and ultimate assumptions. There are many other assumptions where a select and ultimate formulation may be appropriate (for example, recent discussions among practitioners have contemplated select and ultimate mortality assumptions). Therefore, we suggest including the select and ultimate format in section 3.4.4 as a potential format when appropriate. The specific examples of select and ultimate assumptions can remain in section 3.6.2, 3.7.4a, and 3.9.3a as examples or could be removed with one added to section 3.4.4 to provide context similar to the example in the last sentence. We provided draft wording consistent with the latter. If you retain these sections, a different example may be appropriate for section 3.4.4, such as select and ultimate termination rates which are used in some industries with high turnover for new hires.

	"~~Select and Ultimate Investment Return Rates—Assumed investment return rates vary by period from the measurement date (for example, returns of x% for the first 10 years following the measurement date and y% thereafter). When assuming select and ultimate investment return rates, the actuary should consider reflecting the relationships among inflation, interest rates, and market appreciation or depreciation~~." 3.9.3a "~~Select and Ultimate Assumptions—Assumed compensation increases vary by period from the measurement date (for example, x% increases for the first 5 years following the measurement date, and y% thereafter) or by age or service~~."	
3.24	"<u>Reliance on Expertise of Others</u>—An actuary may rely on the expertise of others (including actuaries not performing actuarial services) in the fields of knowledge used in the selection of the assumption. In determining the appropriate level of such reliance, the actuary ~~should take into account~~ <u>may consider</u> the following: a. whether the individual or individuals upon whom the actuary is relying has expertise in the applicable field; b. the extent to which the assumption has been reviewed or opined on by others with expertise in the applicable field, including any commonly known significant differences of opinion among others with expertise concerning aspects of the assumption that could be material to the actuary's use of the assumption; and c. whether there are industry or regulatory standards that apply to the assumption."	The actuary may rely on a non-actuarial expert for information but may not be able to obtain information about the individual's qualifications, the consistency of assumptions in the field, or any industry or regulatory standards. Due to this constraint, we suggest changing the language to allow the actuary to consider those elements but not require that consideration. This is also consistent with the language around reliance on experts in section 3.5 of ASOP No. 56. Other professions may not have the same documentation requirements as actuaries that allow other actuaries to assess qualifications and view statements that the analysis reflects current industry or regulatory standards. For example, the actuary may have limited ability to assess the expertise of the investment consultant who is responsible for developing the client's capital market assumptions. In this case, the actuary might simply receive a report that contains the capital market assumptions but lacks a specific signature, statements regarding the investment consultant's credentials, and statements about the compliance of such report with current standards (or how the assumptions differ from those of other experts in the field). It would take significant effort for the actuary to fully vet the investment consultant (or someone at their firm who puts together the assumptions to be used by all the firm's consultants) and do research outside of the scope of the assignment and the actuary's expertise to understand the industry and regulatory requirements of another profession.
3.25	"<u>Documentation</u>—The actuary should consider preparing and retaining documentation to support compliance with the requirements of section 3 and the disclosure requirements of section 4~~. If preparing documentation, the~~	The second sentence of this section provides that an actuary should consider preparing documentation in such a form that another actuary could "assess the reasonableness of the actuary's work." Because internal documentation

	~~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.~~ The amount, form, and detail of such documentation should be based on the professional judgment of the actuary and may vary with the complexity and purpose of the actuarial services. In addition, the actuary should refer to ASOP No. 41 for guidance related to the retention of file material other than that which is to be disclosed under section 4."	about the selection of assumptions can contain proprietary work product that is not required to be provided to another actuary who does not work for the same employer (which is in accordance with Precept 10 of the Code of Professional Conduct), we believe this sentence should be removed. In addition, because this guidance is provided in section 3 and not section 4 of the proposed ASOP, we read it to mean that it pertains to recommended documentation practices and not to communications and disclosures.
4.1	"Required Disclosures in an Actuarial Report—When issuing an actuarial report within the scope of this standard, the actuary should refer to ASOP Nos. 4, 6, 23, 25, 34, 41, 44, 51, and 56. In addition, the actuary should disclose the following in such actuarial reports:"	ASOP Nos. 6 and 34 specifically refer to ASOP Nos. 27 and 35, so they should be included in this list. (These two standards are currently referred to in section 1.1 of ASOP Nos. 27 and 35.) This would indicate that, even though ASOP No. 27 applies specifically to defined benefit pension plans, some of it may also be applicable to the valuation of retiree medical plans and to qualified domestic relations orders (QDROs). The other ASOPs we have noted also have disclosure requirements that may be relevant when preparing the disclosures required under this exposure draft. In addition, although ASOP No. 6 refers to ASOP Nos. 27 and 35, the scope of the exposure draft is limited to defined benefit pension plans. We suggest modifying the scope to refer to defined benefit postretirement benefit plans, using language similar to what is included in section 1.1, so as not to change practice for health actuaries.
4.1.4	"Changes in Circumstances—The actuary should refer to ASOP No. 41 for communication and disclosure requirements regarding changes in circumstances known to the actuary that occur after the **measurement date** and that would affect ~~economic~~ assumptions selected as of the **measurement date**."	The reference to economic assumptions was not removed.
Appendix	Delete appendix	We do not see the need for the appendix to this exposure draft so suggest deleting it. It does not appear to provide additional context to help actuaries apply the standard to their practice. The Pension Committee of the American Academy of Actuaries periodically issues practice notes that provide more current and practical background and practices used by actuaries.

IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
None	

V. Signature:

Commentator Signature	Date
See below	June 15, 2023

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We appreciate the ASB giving consideration to these comments. Please contact Philip Maguire, the Academy's pension policy analyst (maguire@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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