Comment #1 – 8/20/19 – 1:26 p.m.

This email presents my comments on the second exposure draft of a proposed revision of Actuarial Standard of Practice No. 27.

I emphasize that these are personal comments and do not necessarily reflect the views of my employer or of any of the actuarial bodies of which I am a member. I am an enrolled actuary, a Fellow of the Institute of Actuaries (UK), a Fellow of the Society of Actuaries (US), and a Member of the American Academy of Actuaries.

To emphasize the personal nature of these comments, I am sending this email from my personal email address, not my employment email address.

1 Actuaries select assumptions and assess the reasonableness of assumptions selected by others. There is nothing about the selection process for economic assumptions that differs so significantly from the selection process for demographic assumptions to justify separate ASOPs for economic assumptions and demographic assumptions. Therefore, I recommend that ASOP 27 and ASOP 35 should be merged into a single ASOP Selection of Assumptions for Measuring Pension Obligations. Section 3.6.3, 3.12, and 4.1.3 appear to validate this comment.

2 Section 3.1.4 of ASOP 1 states that ASOPs are principles-based and do not attempt to dictate every step and decision in an actuarial assignment; also, that ASOPs are not narrowly prescriptive. I recommend deletion from the ASOP of these parts, which attempt to dictate every step and/or are narrowly prescriptive:

- 3.6.1 from Examples of how through market pricing.
- 3.7 including 3.7.1 and 3.7.2.
- 3.8 from In developing a reasonable through payments and assets in 3.8.4 b.
- 3.9 from Some examples through funding the plan.
- 3.10 from When selecting a compensation through compensation elements) at the end of 3.10.3 c.

3 The opening words of 3.16 are inadequate for a standard. If the ASB is determined to adopt this standard, then it should change “should consider preparing and retaining documentation” to “should prepare and retain documentation.”

4 The second paragraph of Section 4.1.2 appears based on the notion that the actuary must perform an analysis of the reasonableness, assumption by assumption, of each economic assumption not selected by the actuary that has a significant effect on the results. The requirement ignores the fact that someone who is not an actuary might reasonably adopt

an array of economic and demographic assumptions that such non-actuary considered, in combination, provided a reasonable scenario, regardless of how an actuary might parse it. If the ASB is determined to adopt this revision of the ASOP, the second paragraph of 4.1.2 should allow the actuary to assess the reasonableness of a combination of assumptions (which could be both economic and demographic), without any requirement to parse the array into distinct assumptions.

To emphasize the inappropriateness of the current wording, many actuaries would consider a salary scale an assumption and would review the entire salary scale, they would not regard a salary scale from age 16 to age 70 as 55 separate assumptions, each of which they should analyze for individual reasonableness or focus on the assumption at a specific age, perhaps the age before first eligibility for unreduced early retirement, which might individually have a significant effect on plan costs. If it is acceptable for an actuary to review a complete salary scale for reasonableness in setting that assumption, it is not unreasonable to accept that an actuary could review the comprehensive single assumption of inflation, investment return, salaries, and taking lump sum options that a plan sponsor might prescribe, without reviewing each individual "assumption" for individual reasonability, or to parse the aggregate set of assumptions into ones that have a significant effect and ones that do not, unless, perhaps, the actuary can parse the aggregate assumption into pieces none of which has a significant effect on values although the aggregate prescribed assumption very much does have a significant effect. Although I do not wish to encourage the ASB to impose any part of this standard, it seems clear that the current language, by excluding required review of the aggregate assumptions the actuary has not selected there is a gaping hole in the standard that allows the actuary to not analyze the aggregate effect of assumptions not selected by the actuary, even if that effect is significant, provided each individual assumption not selected by the actuary does not have a significant effect.

5 Section 4.2 uses the term "the source," but does not define that term. For clarity, I recommend replacing "the source of" with "the name of the person(s) and/or organization(s) that prescribed."

Best wishes

Jan Harrington