

COMMENT 24: AUGUST 1, 2008

August 1, 2008

ASB Comments
American Academy of Actuaries
1100 17th Street, NW, 7th Floor
Washington, DC 20036

To the Members of the Actuarial Standards Board:

Buck Consultants, an ACS Company, is a leading global employee benefits and human resources consulting firm that employs many actuaries who are subject to the Actuarial Standards of Practice. We are writing in response to your request for comments about ASOP 27 and potential revisions.

We think that the current version of ASOP 27 is so generalized that by failing to provide any practical advice on how to actually select economic assumptions in specific circumstances it induces actuaries to comply by trivial documentation rather than by serious analysis. As a result ASOP 27 fails to either reflect or affect the way that actuaries currently select economic assumptions. Revisions to ASOP 27 should be made that clearly address the variety of purposes for which economic assumptions can be used and that differentiate and explain all cogent processes for selecting economic assumptions that are appropriate for each purpose.

We believe that the ongoing debate between “traditional” practice and “financial economic” practice is being confused by mischaracterizations, misrepresentations and a disruptive level of zealotry and rhetoric from the more extreme adherents on both sides. There are tenets of both positions that many actuaries can appreciate without adopting the entire doctrine of either. Any revision of ASOP 27 at this time must not curtail the ongoing debate, favor one position over the other, or reduce the possibility that a theoretically superior middle ground may be developed by accepting some premises while rejecting others from each position. It is far from clear that either camp has all the right answers in all situations, especially considering the wide variety of purposes for which economic assumptions may be used.

Finally, we believe that pension and OPEB actuarial practice in the United States has suffered and continues to suffer from a single-minded focus on identifying the mean value of the benefit commitment, with virtually no attention to the more important issues of the shape of the distribution under differing economic and demographic conditions, its associated variance and confidence levels, or how existing assets should be taken into account. While the profession is far from being able to develop any actuarial standards in this regard, anything the ASB can do to help address this deficiency should be done.

Sincerely,

A handwritten signature in black ink, appearing to read "Douglas K German". The signature is fluid and cursive, with a large loop at the end.

Douglas K German, FSA, EA, MAAA

Chief Actuary – Retirement
Buck Consultants, an ACS Company