

## COMMENT LETTER #5 – JULY 28, 2008

28 July 2008

ASB Comments  
American Academy of Actuaries  
1100 17th St., N.W.  
7th Floor  
Washington, DC 20036

Dear Actuarial Standards Board:

The Actuarial Standards Board (ASB) has issued a Request for Comments concerning ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*.

We thank the ASB for the opportunity to provide comments. Our comments address Questions 7 and 10 of the Request.

7. Is there a need for guidance concerning the selection of economic assumptions for purposes other than measuring pension obligations (for example, for measuring pension risk)? If so, in which specific areas is guidance needed? Should any such guidance be provided in ASOP No. 27 or in a separate ASOP? What specific guidance, if any, should ASOP No. 27 provide with respect to such practices?

Many actuaries work with clients who maintain both pension plans and retiree group benefit plans. Actuaries currently have disparate guidance for their work on pension plans when compared to guidance for their work on retiree group benefit plans. Accordingly, we believe that it would be helpful to actuaries to have a single ASOP focused on all economic assumptions used in both pension and retiree group benefit measurements. We suggest that the guidance currently in ASOP 6, *Measuring Retiree Group Benefit Obligations*, regarding certain non-pension economic assumptions be moved to ASOP 27, which could then be retitled as *Selection of Economic Assumptions for Measuring Retirement Benefits*.

Currently, ASOP 27 is focused solely on economic assumptions used in measuring pension obligations (cf. section 1.2). However, section 3.8.1 of ASOP 6 does direct an actuary to the guidance of ASOP 27 when selecting certain (but not all) economic assumptions used in the measurement of retiree group benefit obligations, thereby creating a conflict between section 1.2 of ASOP 27 and section 3.8.1 of ASOP 6. For example, an actuary considering the interest assumption for a retiree medical plan would look first to Section 3.8.1 of ASOP 6, which refers the actuary to ASOP 27, which in turn refers the actuary to ASOP 4.

Section 1.2 of ASOP 27 also provides that, in case of conflict with ASOP 4, that ASOP 4 will govern. There is no such hierarchy of ASOPs between ASOP 6 and ASOP 27, or between ASOP 4 and ASOP 6.

A single ASOP focused on all economic assumptions used in both pension and retiree group benefit measurements would be helpful to actuaries by eliminating the cross-references between ASOPs and clarifying the relationship between ASOP 6 and ASOP 27.

An additional benefit of this consolidation of guidance would be to provide actuaries with clear guidance in assessing prescribed assumptions (section 3.2 of ASOP 4). Since ASOP 27 defers to ASOP 4 in case of conflict, we believe that the guidance in section 3.2 of ASOP 4 does apply to those all economic assumptions discussed in ASOP 27 (including those used in the measurement of retiree group benefit obligations, as provided by section 3.8.1 of ASOP 6), but not to the other (“non-pension”) economic assumptions used in measuring retiree group benefit obligations. ASOP 6 provides little guidance when these “non-pension” economic assumptions are prescribed by the plan sponsor. If guidance regarding the selection of all economic assumptions for both pension and retiree group benefit measurements is located in ASOP 27, this discrepancy would be eliminated.

The considerations discussed in our response to Question 7 are also applicable to Question 5, which requests input on changes in actuarial practice since the original adoption of ASOP 27. Both ASOP 4 and ASOP 6 have been revised since ASOP 27 was originally published. Both of these revisions (particularly the revision to ASOP 4) have changed actuarial practice since ASOP 27 was promulgated in 1990.

10. How might any of your comments apply to ASOP No. 35? Are there similar issues that apply to both ASOPs? Should the ASB review ASOP No. 35 at the same time it reviews ASOP No. 27?

We believe that actuaries benefit from consistent guidance, and so would support the review of ASOP 35 at the same time as the review of ASOP 27.

We believe the above comments should also be considered with regard to ASOP 35. ASOP 6 identifies some assumptions that are neither economic nor demographic (“coverage assumptions”). We believe that the selection of these assumptions has many of the same considerations as the selection of demographic assumptions and so should also be covered by ASOP 35.

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We acknowledge the effort of the Actuarial Standards Board in updating ASOP No. 27, and thank them for the opportunity to provide comments. We would be pleased to discuss any of these comments in person, if they feel it would be helpful.

We are providing these comments as individual experienced consulting actuaries and not on behalf of our employer or any other organization.

Sincerely,

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