



AMERICAN ACADEMY *of* ACTUARIES

April 9, 2004

ASOP No. 23 Revision
Actuarial Standards Board
1100 Seventeenth Street, NW, 7th Floor
Washington, DC 20036-4601

**Re: Comments on ASB Proposed Revision of Actuarial Standard of Practice No. 23
Data Quality**

Ladies and Gentlemen:

On behalf of the American Academy of Actuaries'¹ Pension Practice Council, I am submitting comments on the Proposed Revision of Actuarial Standard of Practice No. 23, Data Quality. Members of the council appreciate the opportunity to comment on the ASB's exposure draft as quality data forms the basis for almost all of the work product generated by actuaries in the field we represent, that is pensions and other post-employment benefits. We agree with significant aspects of the exposure draft but have elected to comment only on those issues where our point of view suggests changes.

Background Comments

The comments below are relative to the practices of actuaries who value the pension and other post-employment benefit plans of our clients. We believe the handling of data by actuaries doing this type of work differs significantly from how data is typically handled by actuaries doing other types of work. Among these differences are the following:

1. In virtually all cases, all of the data used is provided to the actuary by his or her client, and the actuary relies on the data after making some checks on the reasonableness of the data.
2. When a plan sponsor makes a change in the actuarial firm providing services to the plan, the new actuary relies on the data provided from the prior actuary.
3. When doing the final calculation of benefit payments to be made to beneficiaries of the client's plan (either when one individual retires from the plan or when the whole plan is being terminated and the benefits of all participants must be accurately calculated), accurate data is required.

¹ The American Academy of Actuaries is the public policy organization for actuaries of all specialties within the United States. In addition to setting qualification standards and standards of actuarial practice, a major purpose of the Academy is to act as the public information organization for the profession. The Academy is nonpartisan and assists the public policy process through the presentation of clear actuarial analysis. The Academy regularly prepares testimony for Congress, provides information to federal and state elected officials, regulators and congressional staff, comments on proposed federal and state regulations and legislation, and works closely with state officials on issues related to insurance. The Academy also develops and upholds actuarial standards of conduct, qualifications and practice, and the Code of Professional Conduct for all actuaries practicing in the United States.

4. Many clients are now outsourcing their benefits administration and giving the responsibility to the actuary for maintaining an accurate, up-to-date database of plan participant data. Non-actuaries, in many cases, also do this type of work.

Issues 1 and 2 above imply that the application of section 3.3 of the exposure draft is routine, and the source of the data is external and beyond the actuary's authority to affect any quality control at the source of the data. Section 3.1 of the exposure draft states that completely accurate data is "seldom, if ever, available," but completely accurate data is a fundamental requirement of the projects described in issues 3 and 4 above.

Specific Comments

Our specific comments are listed below in the order of the sections of the exposure draft:

Section 1.2 - Scope—We agree with the added emphasis on not requiring the actuary to audit data. Auditing the data is typically beyond the scope of the client engagement. Also, the plans' accountant is responsible for auditing the data used in the actuarial valuation of the plans. [AICPA Audit and Accounting Guide, *Audits of Employee Benefit Plans*, Chapter 10.] However, actuaries are sometimes hired to specifically conduct audit or compliance work. The ASB should consider whether special provisions should be included in the standard to cover this type of work.

—If it ever happens that a law, regulation, or other binding authority allows for a lower standard of data quality, the actuary should still be required to comply with the requirements of this ASB standard. If the binding authority requires a higher standard, then compliance with the binding authority would, by extension, be compliance with the standard.

—When an actuary is assigned the responsibility for maintaining an accurate, up-to-date database of plan participant data (as in issue 4 above), we believe that the level of accuracy required in such a project may require different standards of practice than proposed in this exposure draft. For example, the exposure draft does not include standards that would apply when assessing whether the actuary's data is "accurate." Also, the standard may include a provision requiring an actuary to have an audit of the data performed, which is contrary to this exposure draft. We recommend that the ASB either include separate requirements for projects requiring accurate data in this proposed standard or exclude projects of this type from the scope of this exposure draft and consider whether it is appropriate to develop a new, separate standard for this type of work. The council would be happy to provide additional information to help you make this assessment.

—It is not entirely clear whether an actuary doing work that is not of an actuarial nature (for example, calculating an employer matching contribution in a defined contribution plan) is required to comply with this standard.

Section 1.4 - Effective Date—In most cases the pension actuary uses a significant amount of data collected in prior years. To do the current year valuation, the actuary uses the compensation and service history that was collected in past years and accumulated in the actuary's database over time. The benefit payments to plan participants that will be calculated by the actuary and used in the current valuation after the effective date of the new standard will depend in large part on this data collected prior to the effective date of the new standard.

This example is typical of virtually all actuarial valuations of pension plans and many other types of work product prepared by pension actuaries. It would be impractical to require the actuary to review that prior data to comply with any additional requirements under the new standard that were not in effect when the data was originally collected. Therefore, this prior data should be exempted from the provisions of the new standard and only be subject to the standard in effect at the time the data was collected.

Section 2.3 – Comprehensive—There is no discussion of the meaning of the terms “inventory or sampling methods” and no discussion of when each method is appropriate in the exposure draft. There is no discussion of the factors to determine if a sample size is large enough to be considered “comprehensive.” In the pension context, sampling methods are often inappropriate and are impermissible when accurate data is required.

Section 2.4 – Data—Actuaries often use numerical data contained in reports prepared by other professionals. For example, a trust fund report prepared by a financial institution or an actuarial valuation report prepared by another actuary (e.g., a PBGC actuary testifying to PBGC’s claim in a bankruptcy court). Such data should be covered by the definition of “Data” in the exposure draft. In these cases, the actuary would indicate his or her reliance on the data and would generally not be able to conduct more than a limited review, if any.

Section 2.6 - Practical (The third question in your request for comments)—When accurate data is required, as described in our background comments above, practical considerations may not be involved in determining how the actuary should review the data quality. In fact, the time it takes to collect the data and the cost of doing it may drive the whole project and represent the greatest portion of the cost.

Section 3.1 – Overview—In our background comments above, we noted that accurate data are specifically required in several situations. This section should mention that the quality required may vary depending on the nature of the work being done. In the pension context, actuarial valuations generally require less data quality than other work directly affecting the benefits payable from the plan to the plan beneficiaries (including plan termination and outsourcing). Often work requiring higher standards of data quality are supplemented by providing the plan participant with the information used in the calculation (e.g. date of birth, salary), pointing out data that is estimated, and offering an opportunity for the participant to respond with data corrections.

Section 3.3 – Reliance on Data Supplied by Others (The first question in your request for comments)—As mentioned above, in virtually all cases our practice is to rely on data provided by our clients (i.e., the plan sponsors). However, in virtually all cases our practice also includes an extensive review of the data provided to ensure that it is consistent with other information in our possession, that individual data items are reasonable and consistent, and that there are no significant missing items. As written, the exposure draft does not clearly indicate that the actuary should be responsible for some level of review of the data even though he or she relies on the data provided by another. Section 3.3 should be changed to specify that the actuary must also comply with the provisions in Section 3.5 for the review of the data even though the actuary relies on the data supplied by others. This review may or may not be just as extensive as a review conducted by an actuary when he is not relying on the data supplied by others, but the review should not require the actuary to audit the data or collect additional data from the other party solely to check the validity of the original data.

—In some situations, the actuary receives data from a third-party who originally collected the data from the plan sponsor. This third-party may or may not be another actuary. An example of when this situation may occur is when a plan sponsor hires Firm A and Firm B to do two different projects. Suppose the plan sponsor provides the data directly to Firm A only and Firm B collects the data from Firm A, who may or may not have conducted some level of data review before passing it to Firm B. If the work for Firm B is done by an actuary, the actuary should be required to (a) ascertain from Firm A the level of review conducted by Firm A; (b) consider doing further review of the data (particularly when the level of accuracy required by the project to be done by Firm A is less than the level required by the project to be done by the actuary in Firm B); and (c) verify the reasonableness of the data with the original source of the data (in this case, the plan sponsor).

Section 3.4 – Reliance on Other Information Relevant to the Use of Data (The fourth question in your request for comments)—This section seems to be clear and appropriate.

Section 3.5 – Review of Data (The fourth question in your request for comments)—It is not clear when Section 3.5 applies as described above in our comment on Section 3.3.

—When an actuarial firm takes over the work of a prior actuarial firm, the new actuary typically receives a copy of the data used by the prior actuary in prior years. Unless the client indicates that there may be a problem with the quality of this prior data, the new actuary typically relies on the data provided by the prior actuary without conducting a review of any kind on the presumption that the prior actuary complied with the Data Quality standard in effect at the time the data was collected. The exposure draft should allow the actuary to make this reliance without complying with the review standard of Section 3.5. Furthermore, in cases where the prior data is not needed by the new actuary, the new actuary should not be required to request the prior data from the prior actuary and test it against the new data he or she collects from the client.

Section 3.5(a) - Consider Review of Prior Period Data—Reviewing prior data is common in pension work, however it is somewhat less common in other post-employment benefit valuation work. In the latter case, much of the data can be expected to change from period to period (e.g., medical benefit elections). Furthermore, if it has been several years since a valuation has been done (which is not uncommon for the valuation of benefits other than pensions and for certain public sector pension plans), reviewing certain elements (e.g., medical plan elections) of prior data for consistency with current data is less common and of limited value. Therefore, we believe this section should be changed from “should review the prior period data” to “should consider the review of prior period data” to reflect that the comparison to prior period data is not always valuable.

Section 3.5(b) - Identify Questionable Data Values (The second question in your request for comments)—The line “The actuary is not required to develop additional data compilations solely for the purpose of searching for questionable or inconsistent data,” was deleted from the exposure draft. We are not sure how this fits in the context of pension actuaries. Normally the plan sponsor provides us data annually and we review it for consistency. In conducting that review, we compile the data in various ways to check for inconsistencies. For example, we may be provided plan participants’ dates of birth and dates of hire, and we may prepare a distribution of their age and years of employment to look for inconsistencies between the two dates (for example, a young person with a long period of employment). If the line was meant to be taken in that context, we

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agree with the deletion of the line from the exposure draft. It should be left to the judgment of the actuary whether such additional compilations are necessary in each particular case.

On the other hand, if “additional data compilations” in the pension context means that the actuary could be required to collect additional data from the plan sponsor for the sole purpose of checking the consistency of the data, then we reach the opposite conclusion. For example, the client’s plan may require the use of plan participant compensation in the form of W-2 compensation plus 401(k) elective deferrals. If the client provides the actuary with total compensation on that basis, the actuary should not be required to go back to the client to collect separate data for W-2 compensation and 401(k) deferrals so that the actuary can check that the original data was indeed the sum of the two amounts. In the pension context, this would be an audit function, not the function of the actuary. If this was the intent of the line in the existing standard, we recommend that this line not be deleted (or at least added back in a modified form to clarify this distinction).

Section 4.1(f) – Disclosure—We believe that this item is appropriate and important to our practice. It is not uncommon for a client to ask for work to be completed in a time frame that is too short to review, and sometimes even to collect, data that would comply with the requirements of this standard.

We want to thank you for this opportunity to share our thoughts on the exposure draft. Please contact Heather Jerbi, the Academy’s pension policy analyst (202-223-8196; Jerbi@actuary.org) if you have any questions or would like more information.

Sincerely,

Kenneth A. Kent, FSA, FCA, MAAA, EA
Vice President, Pension Practice Council
American Academy of Actuaries