



# AMERICAN ACADEMY *of* ACTUARIES

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March 31, 2010

Actuarial Standards Board  
1850 M Street, NW, Suite 300  
Washington, DC 20036

RE: Proposed Revision of Actuarial Standard of Practice (ASOP) No. 35

To Whom It May Concern:

The Pension Committee of the American Academy of Actuaries<sup>1</sup> appreciates the opportunity to provide comment on the Actuarial Standards Board's (ASB) revision of ASOP No. 35, *Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations*. The committee applauds the effort of the ASB to raise awareness of the need to consider mortality improvements when setting actuarial assumptions for pension plan valuations. Similarly, when the committee undertook the effort to create the practice note<sup>2</sup> on *Selecting and Documenting Mortality Assumptions for Pensions*, published in October 2009, one important goal of that effort was to educate the actuarial profession about the importance of giving consideration to including an assumption for mortality improvement and the issues an actuary may encounter in setting such an assumption. However, we are concerned the ASB's approach goes too far toward mandating that a mortality improvement assumption be reflected.

Our responses to the questions in the proposed revision are as follows:

**1. Do you believe it is appropriate to update the guidance regarding assumptions as to future mortality improvement? If so, do you believe that the proposed changes represent the appropriate approach? If not, what approach do you recommend?**

We believe that it is appropriate to update the guidance regarding assumptions as to future mortality improvement particularly with regard to enhanced disclosure. Unlike other demographic assumptions, actuaries most often use published mortality tables—possibly incorporating some adjustments to reflect expected experience of the plan being valued. Furthermore, many plans are not large enough to produce credible experience, especially with respect to mortality improvements over time.

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<sup>1</sup> The American Academy of Actuaries is a professional association with over 16,000 members, whose mission is to assist public policymakers 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.

<sup>2</sup> [http://www.actuary.org/pdf/practnotes/mortality\\_oct09.pdf](http://www.actuary.org/pdf/practnotes/mortality_oct09.pdf)

We disagree in part with the approach proposed in the exposure draft which appears to directly mandate mortality improvement assumptions for periods after the valuation date. Certainly, to the extent that mortality experience has changed from the time period covered by the mortality table to the date of the valuation, the actuary should consider reflecting those changes in the assumption selected. When selecting other demographic assumptions, the actuary generally looks at experience in the years immediately before the valuation date. However, the exposure draft seems to reflect a conclusion that every mortality assumption must include an explicit assumption as to mortality improvement beyond the valuation date.

While published experience shows that mortality rates have continued to improve, it is also possible that mortality improvements will slow down (or even reverse) due to environmental or other changes. Additional discussion may be found in an article by Stuart Silverman entitled “Fatal Factors - Managing Mortality Risk” published in the March/April edition of *Contingencies*.<sup>2</sup> Furthermore, mortality has not improved at the same rate for different portions of the population (see Q-and-A No. 11 of the Pension Committee’s practice note *Selecting and Documenting Mortality Assumptions for Pensions*.)

Based on the above and as discussed in our responses to Question Nos. 2 to 4 below, the ASOP should explicitly acknowledge that the actuary could conclude and disclose that no assumption as to future mortality improvement is warranted.

Rather than focus on mortality improvement, we recommend that the ASOP emphasize that all demographic assumptions should reflect the actuary’s future expectations regarding each assumption and reflect any current trends that may change those expectations in the future. Then the ASOP could cite as an example that current trends reflect that it is often appropriate to assume some amount of mortality experience improvement through the valuation date and, in most cases, for some period of time beyond the valuation date for any valuations done at or near the time of the revision of the ASOP. Furthermore, the ASOP should specify that actuaries should continue to monitor developing trends in mortality experience and make adjustments (which may or may not include continuing to assume mortality improvement) to valuation assumptions in future years that reflect those trends.

**2. Is the guidance stating that the actuary should include an assumption as to future mortality improvement (if a mortality assumption is used) appropriate?**

Generally the revised guidance goes too far in requiring (“should include”) an assumption as to future mortality improvement (if a mortality assumption is used). This is a more prescriptive approach than is used for other assumptions. We ask the ASB to consider whether this level of universal conclusion and mandate with respect to the mortality assumption is consistent with Section 3.1.7 of the Introduction to the Actuarial Standards of Practice:

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<sup>2</sup> <http://www.contingenciesonline.com/contingenciesonline/20100304#pg28>

*3.1.7 The ASOPs are principles-based and do not attempt to dictate every step and decision in an actuarial assignment. Rather, the ASOPs provide the actuary with an analytical framework for exercising professional judgment, identifying factors that the actuary typically should consider when faced with a particular type or aspect of professional service. The ASOPs generally leave room for the actuary to use professional judgment when selecting methods and assumptions, conducting an analysis, and reaching a conclusion. Emphasizing process over outcome, the ASOPs recognize that actuaries can and do reasonably differ in their preferred methodologies and choices of assumptions and can reasonably reach differing opinions, even when faced with the same facts. Two actuaries could follow a particular ASOP, both using reasonable methods and assumptions, and reach appropriate results that could be substantially different.*

Instances when such an absolute requirement may not be appropriate include:

- Situations where a projection of mortality improvements may not be worthwhile (as described in Q-and-A No. 10 from the committee’s mortality practice note):
  - The use of such a table is precluded by law or the purpose of the valuation calls for stated or mandated assumptions.
  - A significant portion of the pension plan population works in a hazardous occupation that is expected to significantly affect pre- and/or post-retirement mortality improvements.
  - The plan’s benefits are primarily paid in a lump sum form or the death benefit is actuarially equivalent to the benefit payable under some other decrement(s) (e.g., turnover) such that the effect of mortality improvements would not be material.
- When data is inconclusive regarding the duration or universality of mortality improvements. (See Q-and-A No. 11 of the committee’s mortality practice note.)
- When age set-backs may be an appropriate substitute. [See Q-and-A No. 12 of the committee’s mortality practice note.]

Finally, the transmittal memorandum to the exposure draft advises, “Note that section 3.10.1, Materiality, would continue to be in force.” It should be made clear that, within the intent of the ASOP, the actuary could decide not to include an assumption as to future mortality improvement based on materiality.

In summary, the ASOP should highlight and give greater emphasis to the fact that the actuary should consider an assumption as to future mortality improvement (if a mortality assumption is used), rather than requiring such an assumption.

### **3. Are the examples of methods of incorporating mortality improvement appropriate?**

The examples of methods of incorporating mortality improvement should explicitly include the use of age setbacks to a standard table, with or without static or generational

projection. The examples should also reference the use of actual-to-expected experience ratios as evidence of provision for mortality improvements or lack thereof, regardless of the means used to incorporate such improvements in the assumption.

In other words, it should be allowed that a margin for future mortality improvement, however accomplished, is sufficient to have met the standard when it is the best estimate of the actuary's professional judgment.

Consideration could also be given to making a mortality assumption distinction between members already retired and members yet to be retired as of a date certain. (See Q-and-A No. 14 of the committee's mortality practice note.)

#### **4. Is the requirement to disclose a description of the provision made for future mortality improvement appropriate?**

Generally, yes. However the ASOP should make clear that the ASOP is satisfied if the actuary concludes and discloses that no assumption as to future mortality improvement is warranted for either healthy or disabled lives. See Q-and-A No. 2 for further discussion on the issue of requiring a mortality improvement assumption.

Item 2 of the Key Changes (page v) now reads "In section 4.1.1, a sentence has been added requiring disclosure of a description of the provision made for future mortality improvement." The actual text added to Section 4.1.1 now reads "The disclosure of the mortality assumption should include a description of the provision made for future mortality improvement." Both of these texts should clarify that the disclosure could be that no mortality improvement is assumed, if that has been determined to be appropriate by the actuary.

#### **5. Is the proposed effective date of June 30, 2011 appropriate?**

First, the effective date should be set so as to realistically reflect the timing of when the final ASOP revisions are complete.

Second, the effective date should accommodate plans—including many public sector plans—that perform a detailed experience analyses on a regular basis, typically every three to five years. A further consideration for such plans is that often the assumptions are made on the advice of the actuary but formally set by the plan's governing board. For such plans it may not be practical to effect a substantive change in assumptions outside the regular experience analysis cycle.

For such plans the effective date of the ASOP could be set in a manner similar to that used for many federal legislative changes for collectively bargained plans: the later of some fixed date or the effective date of the assumptions determined under the next regularly scheduled experience analysis, as long as it doesn't exceed a fixed number of years, such as three, from the effective date of the revised ASOP.

We would be happy to discuss any of these items with you at your convenience. Please contact Jessica M. Thomas, the Academy's pension policy analyst (202-785-7868, [thomas@actuary.org](mailto:thomas@actuary.org)) if you have any questions or would like to discuss these items further.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. H. Moore', with a long horizontal flourish extending to the right.

John H. Moore, FSA, MAAA, EA, FCA  
Chairperson, Pension Committee  
American Academy of Actuaries