

Comments on the Proposed Introductory Actuarial Standard of Practice

May 31, 2012

The Actuarial Standards Board

The American Society of Pension Professionals & Actuaries (ASPPA) and the ASPPA College of Pension Actuaries (ACOPA) appreciate this opportunity to comment on the proposed Introductory Actuarial Standard of Practice (ASOP).

ASPPA is a national organization of more than 9,500 retirement plan professionals who provide consulting and administrative services for qualified retirement plans covering millions of American workers. ASPPA members are retirement professionals of all disciplines, including consultants, investment professionals, administrators, actuaries, accountants and attorneys. Our large and broad-based membership gives ASPPA unique insight into current practical applications of ERISA and qualified retirement plans, with a particular focus on the issues faced by small- to medium-sized employers. ASPPA's membership is diverse but united by a common dedication to the employer-sponsored retirement plan system. All credentialed actuarial members of ASPPA are members of ACOPA, which has primary responsibility for the content of comment letters that involve actuarial issues.

These comments have been prepared by actuaries who work primarily on small to mid-sized plans, including a significant number of plans in which the principal employees are directly benefiting.

Comments

The Introductory ASOP adds “Terms of Construction” and definitions to apply to all ASOPs. While the addition of the “Terms of Construction” section may add clarity to the meaning of future ASOPs, the addition of the “Terms of Construction” potentially changes the meaning of all existing ASOPs without providing actuaries an opportunity to comment on those changes. Because these terms were not explicitly defined previously in the ASOPs, an actuary during ASOP comment periods and then while applying the ASOPs would have read these terms using a common sense meaning instead of the meaning the Introductory ASOP currently assigns to them. Below are three examples of how application of these proposed “Terms of Construction” and definitions to existing ASOPs will cause confusion about the meaning of current in-force ASOPs.

1. It would be inappropriate to apply the Introductory ASOP's proposed definition of “should” on a retroactive basis. In differentiating “should” from “must”, an

actuary may have read the word “should” in the current ASOPs as a strong urging to follow a particular course of action, but may not have understood that failing to follow that course of action is and, according to this proposal, always was a deviation from the ASOP requiring additional disclosures. Actuaries deserve an opportunity to review and comment on the application of the proposed definition of “should” in each ASOP since this effectively revises existing standards.

2. The distinction between the Introductory ASOP’s definition of “should” and “should consider” is confusing and strained. A common sense reading of the expression “should consider” would be that the actuary is urged to reflect upon the issue following the expression “should consider” before choosing a course of action. Additionally, a common sense reading of “should consider” would include the concept that an actuary’s consideration of a matter would only be necessary to the extent experience and education require that an actuary reflect on the matter. Again, the impact of the definition is creation of a revised rule, and actuaries should have an opportunity to review and comment on the distinctions between the Terms of Construction in each ASOP.
3. The Introductory ASOP adds a definition of materiality. The first sentence of the definition is not generally appropriate for pension engagements. Issues of materiality on pension engagements tend to arise in areas such as determining whether an assumption, data deficiency, plan provision, or method materially change the results. Materiality in these circumstances cannot be measured in terms of whether “its omission or misstatement could influence a decision of an intended user.” Additionally, ASOPs do sometimes apply to immaterial matters. Lastly, the definition of materiality does not clearly deal with circumstances where a party other than the actuary has chosen a materiality threshold that the actuary feels is inappropriate. For example, a client may assert that a matter is immaterial when the actuary believes the same matter is material. Guidance on materiality would be useful for actuaries, but actuaries need an opportunity to review and comment on the proposed definition in the context of each individual ASOP so that the definition of materiality can be meaningful for all practice areas and appropriate for all ASOPs.

ACOPA recommends that the Terms of Condition and definitions be deleted from the Introductory ASOP and be added to an exposure draft of each individual ASOP so the actuarial community may review and provide comments concerning the Terms of Construction and definitions’ application to each ASOP, and any related modifications that

should be considered as a result. Only after each existing ASOP has been adopted with Terms of Construction and definitions should these Terms of Construction and definitions could be added to the Introductory ASOP. ACOPA recognizes this would be a time-consuming process, but believes thoughtful consideration of the impact on each existing ASOP is the only way to maintain the actuarial community's confidence in the Actuarial Standard Board's process.



This letter was prepared by the ASOP Task Force of the ACOPA Intersocietal Committee, Richard A. Block, Chair. The primary authors were Richard A. Block, MSPA; Thomas J. Finnegan, MSPA; Robert Mitchell, MSPA; Kurt Piper, MSPA, Karen Smith, MSPA, and Clifford Woodhall, MSPA.

Thank you for your consideration of these comments.

Sincerely,

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