

## Comments on the Exposure Draft of the Proposed Actuarial Standard of Practice on Modeling

September 30, 2013

### The Actuarial Standards Board

The American Society of Pension Professionals & Actuaries (ASPPA) and the ASPPA College of Pension Actuaries (ACOPA) appreciates this opportunity to comment on the exposure draft of the Actuarial Standard of Practice (ASOP) on *Modeling*.

ASPPA is a national organization of more than 17,000 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. All credentialed actuarial members of ASPPA are members of ACOPA, which has primary responsibility for the content of comment letters that involve actuarial issues.

ACOPA is responding only to the following questions regarding the scope of the proposed standard:

3. The draft ASOP starts with a wide scope, but allows the actuary to use professional judgment to identify those instances (such as those involving minimal reliance by the user, or resulting in a non-material financial effect) where some guidance described in this ASOP is not appropriate or practical. Is this clear and appropriate?
4. In those instances where some guidance described in this ASOP is not appropriate or practical and the deviations from guidance are “not material,” the actuary does not need to disclose these deviations. Is this clear and appropriate?

ACOPA has serious concerns about the broad scope of the proposed standard, and finds the broad scope neither clear nor appropriate. Section 3.1.1 of the exposure draft bases the determination of whether or not full application of the guidance of the ASOP is appropriate on whether or not “intended model users rely heavily on the results and the model has a material financial effect.” The definition of a model in Section 2.9 is very broad, and arguably any actuarial work that involves inputs and outputs could be covered by this standard if users rely on the results. The statement that “Actuaries generally agree that almost all actuarial work involves modeling of some type...” supports this reading. Too broad a scope means the application of the standard is ambiguous, which does not benefit the public and is a serious problem for actuaries attempting to comply with this

and other standards. The “covered unless proven otherwise” approach to the scope of this standard will allow third parties to contradict determinations actuaries made in good faith, and encourage costly and unnecessary litigation.

The need for a narrower, well-defined scope for the standard is clear with regard to practice in the pension field. Under the exposure draft, an actuarial valuation used to determine amounts reportable under Financial Accounting Standards Board disclosure rules, or the funding target and target normal cost under the Internal Revenue Code and ERISA, might be included in the scope because the user relies completely on the results and the results generally would have a material financial effect. However, existing ASOPs already provide sufficient guidance on practice standards for the valuation of pension liabilities. ASOP 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*, is devoted to this practice. ASOP 27, *Selection of Economic Assumptions for Measuring Pension Obligations*, and ASOP 35, *Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations*, are also specifically directed toward the valuation of pension liabilities.

**ACOPA recommends** that the ASB clarify the scope of the standard, and issue another exposure draft to provide an opportunity to comment on the more restrictive scope. Furthermore, actuarial services subject to ASOP 4 should be specifically excluded from the scope. Inclusion would add an unnecessary layer to the standards of practice for the measurement of pension obligations.

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This letter was prepared by the ASOP Task Force of the ACOPA Intersocietal Committee, Richard A. Block, Chair. If you have any questions, please contact Judy Miller, Executive Director of ACOPA, at (703) 516-9300 ext. 152.

Thank you for your consideration of these comments.

Sincerely,

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