

ASB Reviews ASOP Nos. 4 and 27

At its December meeting, the Actuarial Standards Board reviewed a proposed exposure draft of ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*, and a proposed second exposure draft of ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*. ASOP No. 4, which was presented as a discussion draft in January 2011, is being revised to provide additional guidance on such issues as fully funded plans, spread gain actuarial cost methods, and types of actuarial present values of pension obligations. ASOP No. 27, which was also released as an exposure draft in January 2011, is being further revised in response to the twenty comment letters received on various issues such as geometric and arithmetic return, estimates and observations, and assumption rationale. Both drafts are being further revised and are scheduled to be released in early 2012.

ASB Reviews Introduction

The ASB General Committee presented edits to the *Introduction to Actuarial Standards of Practice* at the ASB's December meeting. The Introduction was updated in October 2008 to make clear that the ASB, in promulgating ASOPs, seeks to define an appropriate level of practice (rather than simply codifying current practices), to remove references to "prescribed statements of actuarial opinion" in light of revisions made to the *Qualification Standards for Actuaries Issuing Statements of Actuarial Opinions*, and to conform the provisions on deviations from the ASOPs to the deviation provisions of ASOP No. 41, *Actuarial Communications*, in accordance with the ASB's project to standardize the "deviation" provisions in all ASOPs. The ASB received a number of comments on the Introduction at the time of the 2008 revision and concluded that further review would be appropriate. The proposed revision is a result of that review and is scheduled to be released in early 2012 after additional edits.

Discussion Draft on Modeling Presented to ASB

The ASB Life Committee presented a draft to the ASB titled *Modeling in Life Insurance and Annuities*. As it increasingly appears that models will be used for life insurance company financial reporting, the Life Committee believes it is appropriate to set a standard for actuarial modeling, at least in certain high importance and reliance situations, such as where the results of the model directly enter a financial report or are relied upon by at least one party in a merger, acquisition, securitization or other financial transaction. The discussion draft will be released for comment in early 2012. The Life Committee expects to create an exposure draft, thereafter, that will draw on the ideas in this discussion draft, modified by discussions with and comments received from interested parties and unfolding events. The exposure draft will go through the normal ASOP process.

ASB AGENDA PROJECTS

December 2011

CASUALTY COMMITTEE					
Subject Area	Qtr. 2011				Comments
	1	2	3	4	
Risk transfer	D	D	D	PD	The task force has halted drafting and a discussion with the ASB on risk transfer will be held in September 2012.
ASOP No. 38, <i>Using Models Outside the Actuary's Expertise (Property and Casualty)</i>	D	D	E	E	The ASB approved an exposure draft at its September 2011 meeting. The comment deadline is January 16, 2012.
GENERAL COMMITTEE					
Subject Area	Qtr. 2011				Comments
	1	2	3	4	
Introduction to the ASOPs	R	R	R	R	The task force presented an exposure draft to the ASB in December 2011. Further edits are being made, and the draft will be released as an exposure draft in early 2012.
ASOP No. 25, <i>Credibility Procedures Applicable to Accident and Health, Group Term Life, and Property/Casualty Coverages</i>			P	P	The ASB approved a proposal to revise the ASOP for application to all practice areas. A task force is being formed.
HEALTH COMMITTEE					
Subject Area	Qtr. 2011				Comments
	1	2	3	4	
<i>The Use of Health Status Based Risk Adjustment Methodologies</i>	E	E	E	E	The ASB approved an exposure draft in March 2011 with a July 31, 2011 comment deadline. The task force is reviewing comments and plans to present a proposed final ASOP to the ASB in January 2012.
Regulatory Filings			D	D	The task force is drafting an exposure draft for presentation to the ASB in March 2012.
Medicaid Rate Setting			D	D	The task force is drafting an exposure draft for presentation to the ASB in March 2012.

Legend: **PD**—Planning/Discussion **P**—Proposal for Standard **D**—Drafting **E**—Exposure Draft **DD**—Discussion Draft
SE—Second Exposure Draft **R**—Revisions/Redrafting **F**—Final Pronouncement **DS**—Development Suspended

LIFE COMMITTEE					
Subject Area	Qtr. 2011				Comments
	1	2	3	4	
Principles-based approach to the C-3 Phase III of life insurance risk-based capital	E	E	E	E	The ASB approved an exposure draft in 2010. However, the draft will not be released until the NAIC formally approves C-3 Phase III.
Life insurance and annuity actuarial modeling	D	D	DD	DD	The ASB approved a proposal to develop an ASOP on life insurance and annuity actuarial modeling, and the task force presented a discussion draft to the ASB in December 2011. The draft will be released in early 2012.
Mortality assumptions for life settlement market			P	D	The ASB approved a proposal to develop an ASOP on mortality assumptions for the life settlement market. A task force has begun discussions and will present an exposure draft in early 2012.
PENSION COMMITTEE					
Subject Area	Qtr. 2011				Comments
	1	2	3	4	
ASOP No. 4 revision (<i>Measuring Pension Obligations</i>)	R	R	R	R	These subject areas are interrelated, in totality, and resulted in the exposure draft of ASOP No. 27 as well as proposed revisions to ASOP No. 4, and will result in a proposed new standard on risk. Revisions of ASOP Nos. 4 and 27 were presented to the ASB at its December 2011 meeting. Further edits are being made and the drafts will be released as an exposure draft and a second exposure draft, respectively, in early 2012. The discussion draft on “risk” will be presented to the ASB in March 2012.
ASOP No. 27 revision (<i>Selection of Economic Assumptions for Measuring Pension Obligations</i>)	E	E	E	R	
Economic value of pension plan assets and liabilities	D	D	D	D	
Assessment and disclosure of risk	D	D	D	D	
ASOP No. 6 revision (<i>Measuring Retiree Group Benefit Obligations</i>)	D	D	D	D	The subcommittee on retiree group benefits is drafting a revision and plans to present an exposure draft to the ASB at its March 2012 meeting.
OTHER PROJECTS					
Subject Area	Qtr. 2011				Comments
	1	2	3	4	
Enterprise risk management	DD	DD	DD	DD	The task force issued a discussion draft in March 2011 and plans to present two exposure drafts on risk evaluation and risk treatment to the ASB in January 2012.

Legend: **PD**—Planning/Discussion **P**—Proposal for Standard **D**—Drafting **E**—Exposure Draft **DD**—Discussion Draft
SE—Second Exposure Draft **R**—Revisions/Redrafting **F**—Final Pronouncement **DS**—Development Suspended

► Looking Ahead...

The ASB tentatively plans to review the following drafts during its January meeting:

- Proposed final ASOP on *The Use of Health Status Based Risk Adjustment Methodologies* (Health Committee)
- Two proposed new ASOPs on *Risk Evaluation* and *Risk Treatment* (Enterprise Risk Management Task Force)

And the following drafts at its March meeting:

- Revision of ASOP No. 6, *Measuring Retiree Group Benefit Obligations* (proposed exposure draft from the Pension Committee)
- Proposed new ASOP on Medicaid Rate Setting (Health Committee)
- Proposed new ASOP on Regulatory Filings (Health Committee)
- Proposed new ASOP on Life Settlements Mortality Assumptions (Life Committee)

► Meeting Schedule of the Actuarial Standards Board

- ***January 25-26 (Combined ASB/Planning Meeting - Sarasota, Florida)***
- ***March 5-6***
- ***June 6-7***
- ***September 19-20***

All ASB meetings are open to the public, and attendance by interested parties is encouraged. The ASB office should be notified in advance of intent to attend meetings. Unless otherwise noted, meetings take place at the American Academy of Actuaries' office in Washington, D.C.

The Actuarial Standards Board (ASB) establishes and improves standards of actuarial practice. These Actuarial Standards of Practice (ASOPs) identify what the actuary should consider, document, and disclose when performing an actuarial assignment. The ASB's goal is to set standards for appropriate practice for the U.S.

When creating or revising an ASOP the ASB

- 1. reviews and evaluates current and emerging practices;*
- 2. determines appropriate guidance;*
- 3. publishes an exposure draft to obtain input from actuaries and other interested parties;*
- 4. considers all comments received; and*
- 5. publishes a final standard or another exposure draft.*

The ASB Boxscore

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