

Statement of Intent to issue an ISAP: “Valuation of Social Security Programs” Submitted by the IASSC Social Security Task Force 18 July 2011 Draft 1

Introduction

In accordance with the International Actuarial Association (IAA) due process, the Social Security Task Force and the Interim Actuarial Standards Subcommittee recommend that the IAA Council approves this Statement of Intent to develop an International Standard of Actuarial Practice (ISAP) on valuation of Social Security Programs (SSPs).

Justification for a New ISAP

Section 3 of IAA Due Process is titled “First Stage – Should the IAA Consider Issuing an IASP on a particular topic?” The Social Security Task Force believes that five of the six conditions specified in the due process will be satisfied by the proposed ISAP, as follows.

1. Response to Development of Related Professional Standard

This proposal to develop an ISAP is not in response to a Related Professional Standard.

2. Clearly Demonstrable Need

This proposal is meant to update the existing IASP on Social Security Valuation that has existed for many years which has the status of a Guidance note. There is a clear need for a standard especially for actuaries in less-developed countries. Since the actuarial work in social security is often exposed to political pressures in one way or another, actuaries practicing in this field need the support of this ISAP in order to:

- maintain their objectivity,
- work with scientific rigor, and
- pay attention to all relevant features of the SSP.

3. General Consensus that ISAP is Needed

Representatives to the IAA Social Security Committee from several of the smaller FMAs have expressed the need for such a standard.

4. No Conflict with the Principle of Subsidiarity

The proposed ISAP is a model standard as laid out in the Due Process document. Member associations may adopt it or not as they consider appropriate to their needs. Thus it does not conflict with the principle of subsidiarity.

Further, very few FMAs have any written Standards or Guidelines for SSPs.

5. Clearly Defined Scope

The proposed ISAP will apply to all actuarial work for the valuation of SSPs (including relevant modelling and forecasting). It will address the following topics, but will not overlap with the material covered in ISAP 1 on General Actuarial Practice, which is currently being exposed:

- A. Scope:
 - 1. Type of program
 - 2. Type of actuarial work
- B. Desirable Characteristics of Actuarial Practice:
 - 1. Objectivity
 - 2. Scientific rigour and reliance on the work of experts from other professions

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- 3. Reflection of all relevant features of the SSP

C. Information Included in Actuarial Reports

- 1. Description of applied provisions of the SSP concerned
- 2. Data
- 3. Assumptions
- 4. Methodology
- 5. Results
 - a. Sections on data, assumptions and methodology
 - b. Section on cash flow financial projections
- 6. Analysis of projection results
- 7. Conclusions and Recommendations
- 8. Attestations and reliances
- 9. Actuary’s name, signature, position held and date

D. Peer Review

6. Expectation of IAA Member Associations

We expect that many IAA member associations which do not currently have standards will adopt the ISAP. In line with the IAA’s Strategic Objective to promote the global convergence of actuarial standards, we will seek the active involvement of representatives of those associations with robust actuarial standards on this subject to attempt to arrive at an ISAP which would largely achieve consistency with those standards. An IAA member association with robust national actuarial standards in place may choose not to adopt the ISAP for its use (but may, of course, choose to modify its existing standards to achieve greater consistency with the ISAP).

ISAP on General Actuarial Practice

As stated above, we will take note of the work done by the IAASC General Task Force working on ISAP 1 - General Actuarial Practice, and shall attempt to avoid duplication between the two documents.

Submission

We believe this ISAP on valuation of SSPs is clearly needed and request that Council approve this Statement of Intent.