ACTUARIAL STANDARDS BOARD

July 3, 2013

The Actuarial Standards Board (ASB), the standard-setting body for actuaries in the United States, is pleased to provide this review of the way its comments were reflected in the Final Draft of ISAP 2 – Financial Analysis of Social Security Programs for the Actuarial Standards Committee (ASC) of the International Actuarial Association.

The ASC has issued a proposed final version of ISAP 2. This new document reflects the Task Force's deliberations in response to the many comments that were received on the original exposure draft. As part of the vetting process for this document, the ASC has asked for confirmation from the commenters that the proposed final text of ISAP 2 deals appropriately with the comments received. This note is in response to that request.

We appreciate the ASC's efforts to reflect our comments. On the whole, we feel the document is much better than the ED. Many of our comments were accepted and appropriately dealt with in the final proposed ISAP 2. Noteworthy examples include:

- The scope of the revised document is improved (but we still see an issue with it – see below).
- The new language regarding the opinion on Financial Sustainability is better. Our understanding is that this language allows the actuary to use caveats about the actions of others in making their opinion. E.g. "The plan is sustainable if the government makes contributions as scheduled." If the new language allows this, we are in agreement with it.
- The new language makes clear that assumptions or methods set by law are to be treated as those set by a principal.
- The requirement to produce a "balance sheet" for the report was removed.

However, other changes that we suggested were not fully reflected in the Final Proposed ISAP 2. The concerns that we still have include:

Subsequent events – (This would require a Glossary change.) We are concerned about the way "subsequent events" is defined. In particular, we do not believe that the current definition allows for time to review a report. As we read the current definition, any material event that happens between the date a report is sent for peer review (the report date) and the date it is presented must be disclosed. We believe this is unworkable. A written actuarial report is often reviewed by several different people before it is made available to the principal. This review often takes a week or more. Getting a review done for events that happen the day before the actuary's communication is not practical.

We understand that potential "extinction level events" should be disclosed even if there has been no time to evaluate them. However, we are very concerned about the disclosure of events that may be material but don't reach that level.

We understand the concern that if a report is being presented, then the actuary could and perhaps should mention the subsequent event at the presentation. However that presentation is a separate actuarial communication with a "report date" essentially the same as the communication date, and as such one could argue in those cases no time has elapsed since the report was presented and therefore there cannot be any "subsequent" event. Our concern is for the frequent cases where a report is delivered with no presentation. In that event, updating a report for events between when it was reviewed/printed and when it was delivered is often not feasible.

Our suggestion is to change the definition to reference the "report date" instead of the "actuary's communication:"

> **2.13. Subsequent Event –** An event of which the actuary becomes aware after the valuation date (or date to which the actuarial services refer) but before the report date ~~actuary's communication on the results of these actuarial services is delivered~~.

New definition of SSP – The new definition of Social Security Program corrects a number of issues with the old one but may have created a new issue. In particular, the new definition seems to cover all public pension plans and we do not believe that is the intent. A teachers' retirement plan run by a US state is not a social security program in any real sense of the word but it seems to fall within the definition of an SSP as revised. As we see it, the issue may be the employment relationship. The standard should cover situations where the plan sponsor is a government unit and participants are eligible as a result of citizenship, residence, or employment within that government unit. We do not believe that employment by the government unit is a relevant requirement. (For example, in the US, Medicare is an example of an SSP sponsored by the US government. Employment by the US government is irrelevant to determining participation status.) Our suggestion is to change the first qualifier of the definition of Social Security Program to read:

1. Coverage is of a defined segment based on citizenship, residence, or location of employment (but not employment by a particular employer), or all, of the population, often on a compulsory or automatic basis;

We recognize that this definition would not apply to the Railroad Retirement Board coverage provided in the US, which is commonly thought of as a social security program, and we are comfortable with that. Our view is that model standards, like ISAP 2, are not intended to cover all situations and that individual standard setting bodies should be responsible for determining how to use them. We will cover RRB in our standards but an ISAP has no need to cover it.

Finally, we noted a number of other issues with the draft. All of these (with one exception) are a result of changes made in response to comments:

- Scope – (This is the one exception.) We apologize for not noting this issue before but it seems important. As written the standard applies to "actuaries who are doing" something. This means it applies to the actuary and not the work. It also seems to say that these standards apply to that actuary whether working on social insurance programs or something else and we do not think this is the intent. US standards are typically written to apply to the work, e.g. this standard "applies to actuaries when" they are doing something. We think it is best to apply to the work. Consideration of this point is important as it is precedent setting for other ISAPs to come.

- Compliance – We found the last sentence of paragraph 1.3 (which is new language) to be confusing:

    > … The actuary who complies with these paragraphs is not deviating from this ISAP, and does not fall within the scope of this paragraph 1.3.

In particular, we are not sure what it means to "not fall within the scope of this paragraph 1.3." We would suggest that the meaning is clearer if the part of the sentence after ISAP was deleted.

- Consistency with the Financing Method – It seems that there is a bad reference to a paragraph in the last part of this paragraph:

  > … The actuary should also comply with the guidance of paragraph 1.3.2 of this ISAP.

  Should the reference be to paragraph 2.6?

In conclusion, we believe that the Subsequent Events and SSP definition issues are significant and need to be changed. We do not have any other substantive issues with ISAP 2 as presented and if the two items just noted are changed we would be comfortable with its passage as a standard for those areas of the world that do not have standards. However, we feel it is important to note that ISAP 2 is not and will not become a standard for practice in the United States and its guidance is not necessarily appropriate for practice in the US. We have other standards currently in place that do cover practice in the United States and we find ISAP 2 to be materially consistent with those standards in all but the two areas noted.