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Our Reference

Dear Mr Pelletier

**IAA – Exposure draft of an international standard of actuarial practice (ISAP)
on the valuation of social security programs**

I am responding to your Transmittal Letter dated 12 October 2012 concerning the above. I am a director of Callund Consulting Limited, but am responding in my own capacity as a practitioner. I am a Fellow of the Institute of Actuaries (UK) having qualified in 1995, and have been working on valuation and reform of social security systems for approximately 10 years. In that time I have worked on systems in over 20 countries.

In answer to your questions, I feel that the guidance is clear and unambiguous, and is the right level of detail, and I would like to congratulate you on putting together a most lucid standard.

However, I do have a couple of specific points:

1.2a: In many less developed countries, for example in Africa, the formal economy is often a small percentage of the overall economy. Hence the SSP might only cover a small proportion of the population; "broad" might imply these are excluded.

3.2: Another data item could be expense history of SSP.

3.2/3.3: over a long projection period such as 75 years, a country's economy could change significantly. Some potential future changes might already be known (for example if there has been a large discovery of oil reserves). These two sections do not really capture this; maybe another data source being credible economic projections and economically significant events?

3.4: I think this is too prescriptive: there could be a fully funded SSP where it is also appropriate to model new entrants

4.1.4d (and general): In many countries that this draft will cover will be subject to a lot of future economic uncertainty. Unlike, say, UK, there may not be a long history of relatively stable economic data which is relevant to what might happen in the future. Therefore, even though the ambition is to use "best estimate assumptions", it may not be possible for the actuary to be as confident in his "best estimate" in, for example, a rapidly developing country, or a new country, or a post-conflict country,

then he would be in a stable Western democracy. Therefore producing one scenario and sensitivity around this scenario, might give the impression of over confidence in what the future will bring. A more appropriate approach in this case might be to model a number of contrasting but internally consistent scenarios, all of which could be considered realistic.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Nick Silver", with a decorative flourish underneath.

Nick Silver