

PROFESSIONALISM IN ACTION: AN UPDATE ON ASOPS AND THE APPLICABILITY GUIDELINES

Actuarial Society of New York
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AMERICAN ACADEMY *of* ACTUARIES

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Disclaimer

- **Please note:** The statements and opinions in this presentation are my own and do not necessarily represent the official statements or opinions of any boards or committees of the American Academy of Actuaries, the Actuarial Standards Board, the Actuarial Board for Counseling and Discipline, nor do they express the opinions of my employer.



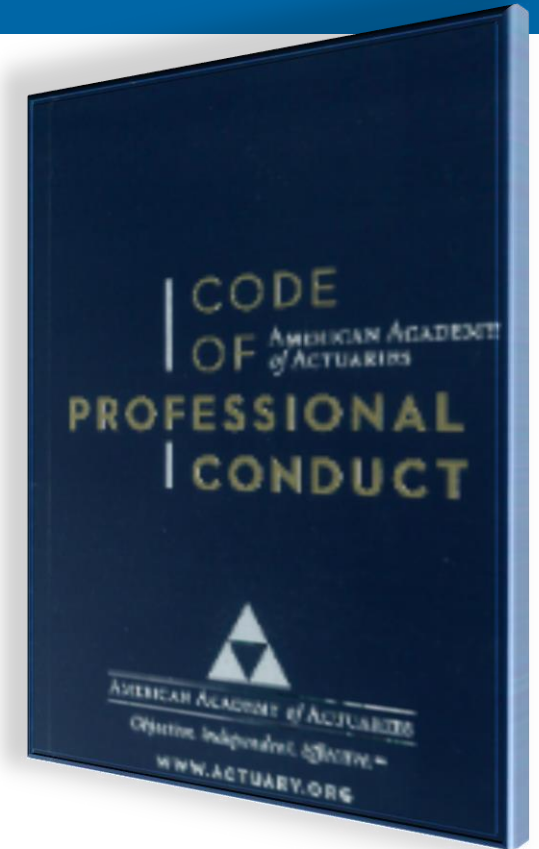
The American Academy of Actuaries

- The American Academy of Actuaries is a 19,000 member professional association whose mission is to serve the public and the U.S. actuarial profession.
- To accomplish this (among other activities), the Academy provides for the establishment, maintenance, and enforcement of high professional standards of actuarial **conduct, qualification, and practice.**
- The Academy is the home of U.S. actuarial professionalism.



It All Starts With the Code

“The *Code of Professional Conduct* sets forth what it means for an actuary to act as a professional. It identifies the responsibilities that actuaries have to the public, to their clients and employers, and to the actuarial profession.”



Web of Professionalism: Basis of Self-Regulation



- The Code of Professional Conduct
- U.S. Qualification Standards (USQS)
- Actuarial standards of practice (ASOPs)
- Counseling and discipline



Code of Professional Conduct

- The current Code was individually adopted in identical form by the five U.S.-based actuarial organizations (Academy, ASPPA, CAS, CCA, and SOA) and took effect Jan. 1, 2001.
- The Code sets forth professional/ethical standards for actuarial members of the five U.S.-based actuarial organizations.
- Actuaries who commit material violations of the Code are subject to counseling or discipline.
 - Most complaints to, and 80% of requests for guidance handled by, the ABCD in 2016 involved alleged material violations of Precepts 1, 2, and/or 3.



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Standards of Practice

Precept 3

An Actuary shall ensure that Actuarial Services performed by and under the direction of the Actuary satisfy applicable standards of practice.



ASB Purpose and Authority

Academy Bylaws Article XI

There shall be established within the Academy an entity to be known as the Actuarial Standards Board (ASB), whose purposes shall be to:

- A. (i) Expose, (ii) promulgate or adopt, and (iii) publish actuarial Standards of Practice, *within its sole discretion and pursuant to such procedures as it deems appropriate*, in all areas of actuarial practice, subject to the specific requirements of this article.
- B. Provide continuous review of existing Standards of Practice and determine whether they are in need of amendment, alteration, expansion, or elimination.
- C. Direct and manage the development of actuarial Standards of Practice by its operating committees in all areas of actuarial practice.



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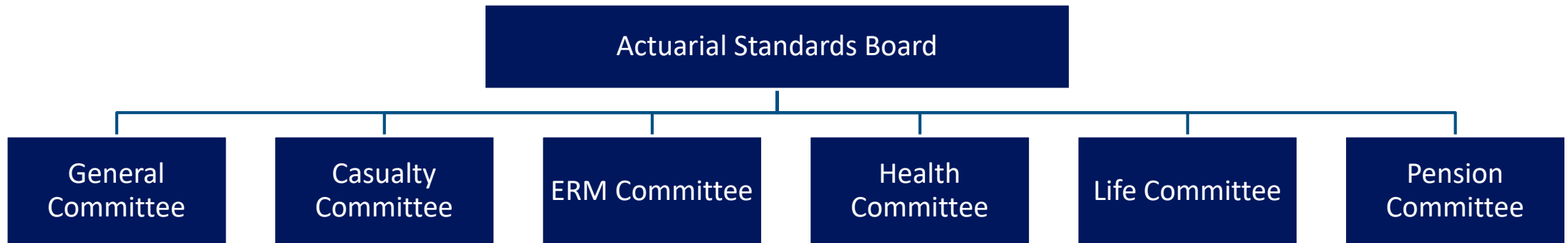
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ASB Operational Governance

- The ASB is subject to Academy policies, and is supported by Academy staff.
- It operates autonomously in its decision-making, and sets and allocates its own budget (subject to audit requirements).
- The ASB has discretion to adopt its own procedural rules, consistent with the Academy Bylaws. These rules are set out in the ASB Procedures Manual.



ASB Structure



- The ASB's 9 members broadly represent of all areas of actuarial practice.
- ASB members play a standard-setting role and serve the profession rather than any individual interest groups or coalitions.



Standards-Setting Principles

- ASOPs should provide guidance for appropriate practice, not merely codify current practice or best practice.
- ASOPs set principles to guide actuaries and users of actuarial services, but do not replace professional judgment.
- ASOPs should apply as broadly as possible.
- Disclosure is a cornerstone of compliance with standards.



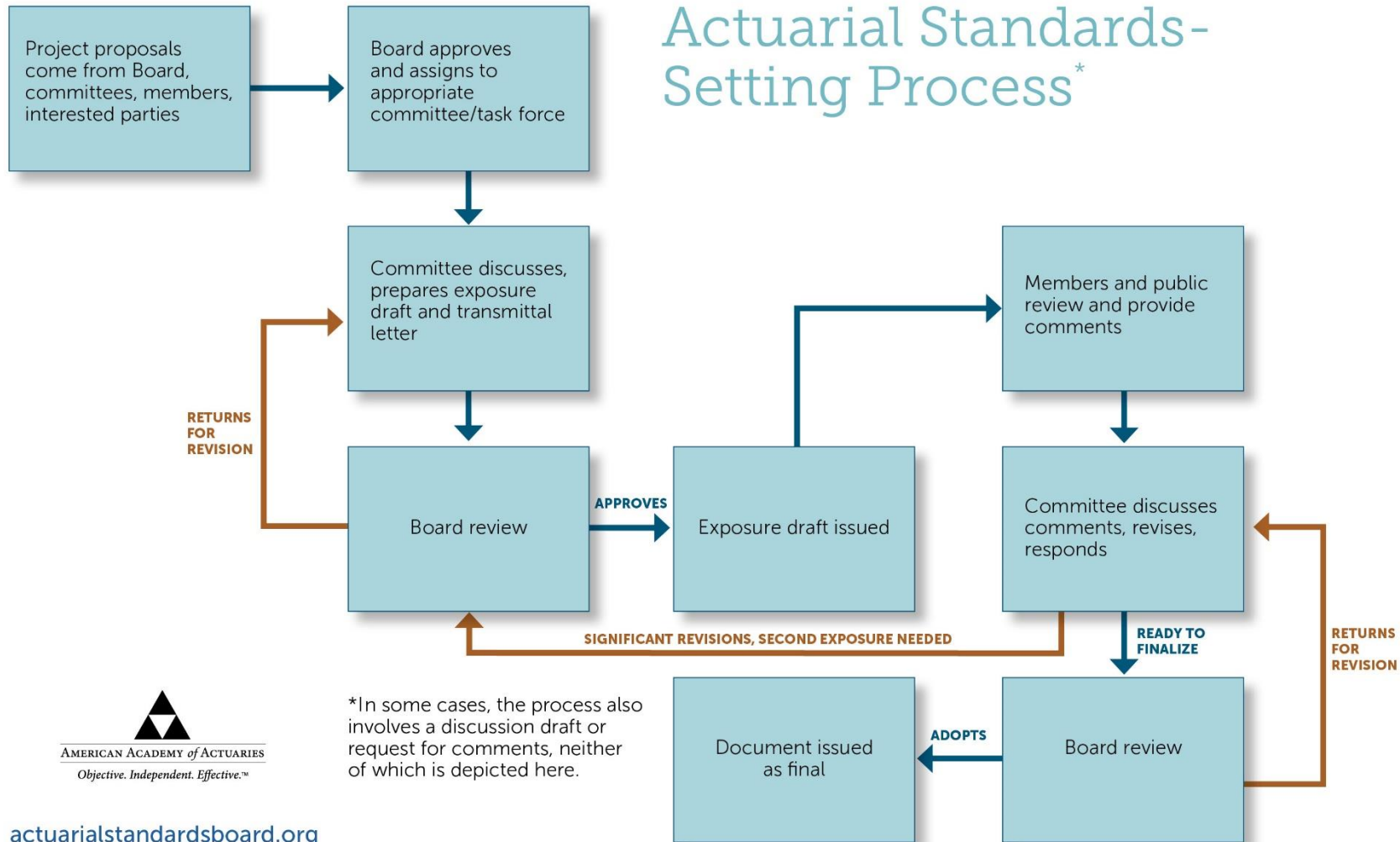
Reasons for Development of ASOPs

- Actuaries must effectively police ourselves to:
 - ▣ Protect the public
 - ▣ Protect the reputation of the profession
 - ▣ Avoid or reduce risk of external regulation
 - ▣ Provide a defense against charges of bad practice





Actuarial Standards-Setting Process*



*In some cases, the process also involves a discussion draft or request for comments, neither of which is depicted here.

Types of ASOPs

Cross-Practice ASOPs

ASOP No. 1—Introductory ASOP

ASOP No. 41—Actuarial Communications

ASOP No. 12	Risk Classification	ASOP No. 23	Data Quality
ASOP No. 17	Expert Testimony by Actuaries	ASOP No. 25	Credibility Procedures
ASOP No. 21	Responding to or Assisting...	Exposure	Modeling
ASOP No. 32	Social Insurance	Exposure	Assumptions

Practice-Specific ASOPs

Casualty

ASOP Nos. 13,
19, 20, 29, 30,
36, 38, 39, 43,
53

ERM

ASOP Nos. 46,
47

Health

ASOP Nos. 3, 5, 6,
8, 11, 18, 19, 22,
26, 28, 42, 45, 49,
50

Life

ASOP Nos. 2, 7,
10, 11, 15, 19,
22, 24, 33, 37,
40, 48, 52

Pension

ASOP Nos. 4, 6,
27, 34, 35, 44,
51



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Key Cross-Practice Standards

ASOP No. 1 Introductory ASOP



ASOP No. 1: Introductory Standard of Practice

- Establishes a roadmap for interpreting ASOPs.
- Provides important guidance for the exercise of professional judgment in applying all other ASOPs.
- Provides the analytical framework that pairs professional judgment with principles-based standards.
- Establishes common terminology.



ASOP No. 1: Introductory Standard of Practice

- Defines common terms that appear in ASOPs
 - **Must** – The actuary is unlikely to have any reasonable alternative but to follow the course of action (infrequently used).
 - **Should** – Indicates what is normally the appropriate practice for an actuary to follow when rendering actuarial services.
 - **Should Consider** – Suggests potential courses of action. If, after consideration, in the actuary's professional judgment, action is not appropriate, then it is not required.
 - **May** – The course of action is one that would be considered reasonable and appropriate in many circumstances.



Key Cross-Practice Standards

ASOP No. 41 Actuarial Communications



ASOP No. 41: Actuarial Communications

In preparing an actuarial report, the actuary should:

- Consider the needs of the intended user(s).
- State the actuarial findings, and identify the methods, procedures, assumptions, and data used by the actuary with sufficient clarity that another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary's work as presented in the actuarial report.



ASOP No. 41: Actuarial Communications

Disclosures in an actuarial report should include:

- The party responsible for each material assumption and method (and additional disclosures if the actuary disagrees).
- Any limitations on use.
- Any conflict of interest.
- Any reliance on other sources for data and other information.
- Any cautions about risk and uncertainty in any results



ASOP No. 41: Actuarial Communications

- Deviation: If actuary “has deviated materially from the guidance set forth in an applicable ASOP...the actuary can still comply with that ASOP by ...[disclosing] the nature, rationale, and effect of such deviation.” (4.4)
 - ▣ This clause does not apply to disclosures regarding certain assumptions or methods prescribed by law and disclosures regarding responsibility for assumptions and methods set by others (sections 4.2 and 4.3 of ASOP No. 41).



New Standards Taking Effect 2018

- ASOP No. 51, *Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions*
 - Takes effect for any actuarial work product with a measurement date on or after **November 1, 2018**.
- ASOP No. 52, *Principle-Based Reserves for Life Products under the NAIC Valuation Manual*
 - Takes effect for valuation dates on or after **December 31, 2017**.
- ASOP No. 53, *Estimating Future Costs for Prospective Property/Casualty Risk Transfer and Risk Retention*
 - Takes effect for work performed on or after **August 1, 2018**.



ASOPs Approved for Exposure—March 2018

□ Pension

- ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*
- ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*
- ASOP No. 35, *Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations*



ASOPs Approved as Final—March 2018

□ Health

- ASOP No. 42, *Health and Disability Actuarial Assets and Liabilities Other Than Liabilities for Incurred Claims*



ASB Review of New or Revised ASOPs–2018

- General
 - ▣ ASOP No. 17, *Expert Testimony by Actuaries*
 - ▣ ASOP No. 32, *Social Insurance*
 - ▣ *Modeling*
 - ▣ *Assumptions*
- Health
 - ▣ ASOP No. 3, *Continuing Care Retirement Communities*
- ERM
 - ▣ *Capital Adequacy Assessment*



ASB Review of New or Revised ASOPs–2018

□ Life

- *ASOP No. 2, Nonguaranteed Charges or Benefits for Life Insurance Policies and Annuity Contracts*
- *ASOP No. 11, Financial Statement Treatment of Reinsurance Transactions Involving Life or Health Insurance*
- *ASOP No. 22, Statements of Opinion Based on Asset Adequacy Analysis by Actuaries for Life or Health Insurers*
- *Pricing of Life Insurance and Annuity Products*

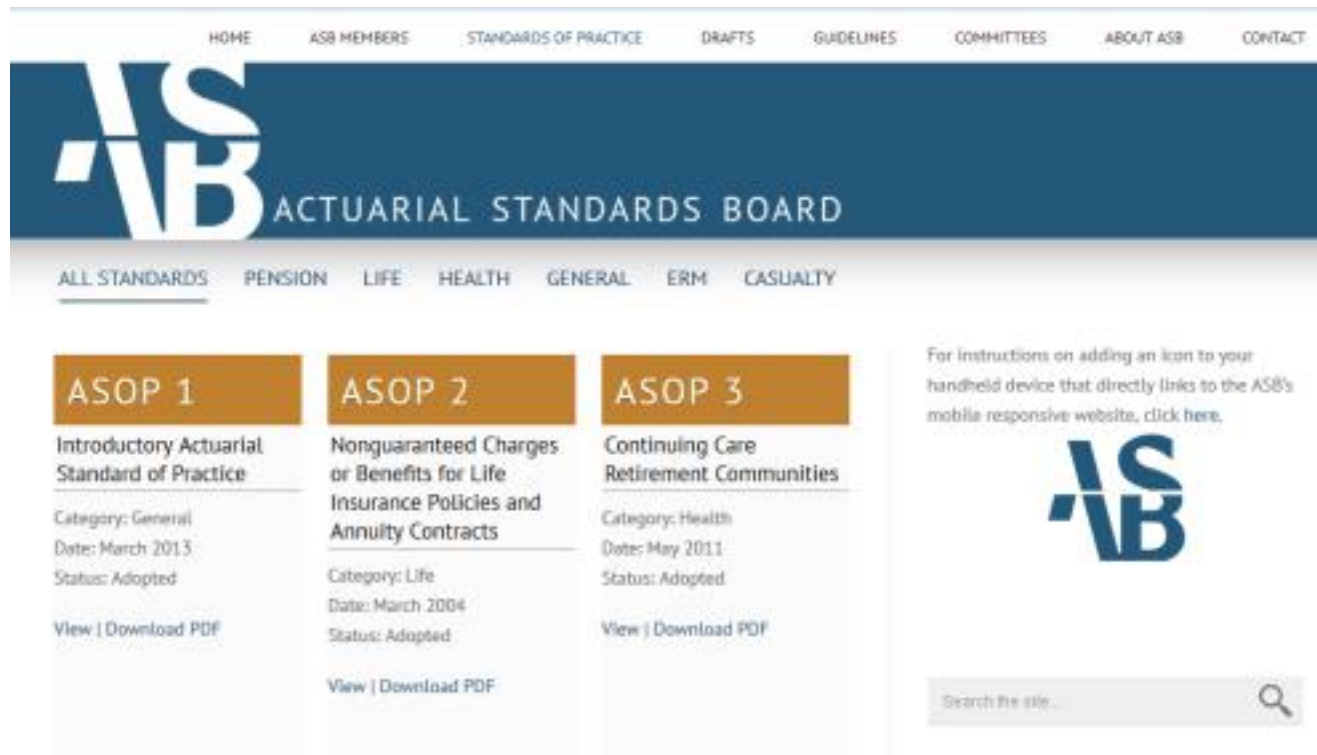


Your Comments Matter

- Stay up-to-date on ASB activities by reading *ASB Boxscore* and the ASB Annual Report.
- Be engaged – submission of comments is critical for achieving the purpose of ASOPs and supports transparency.



Actuarial Standards Board Website



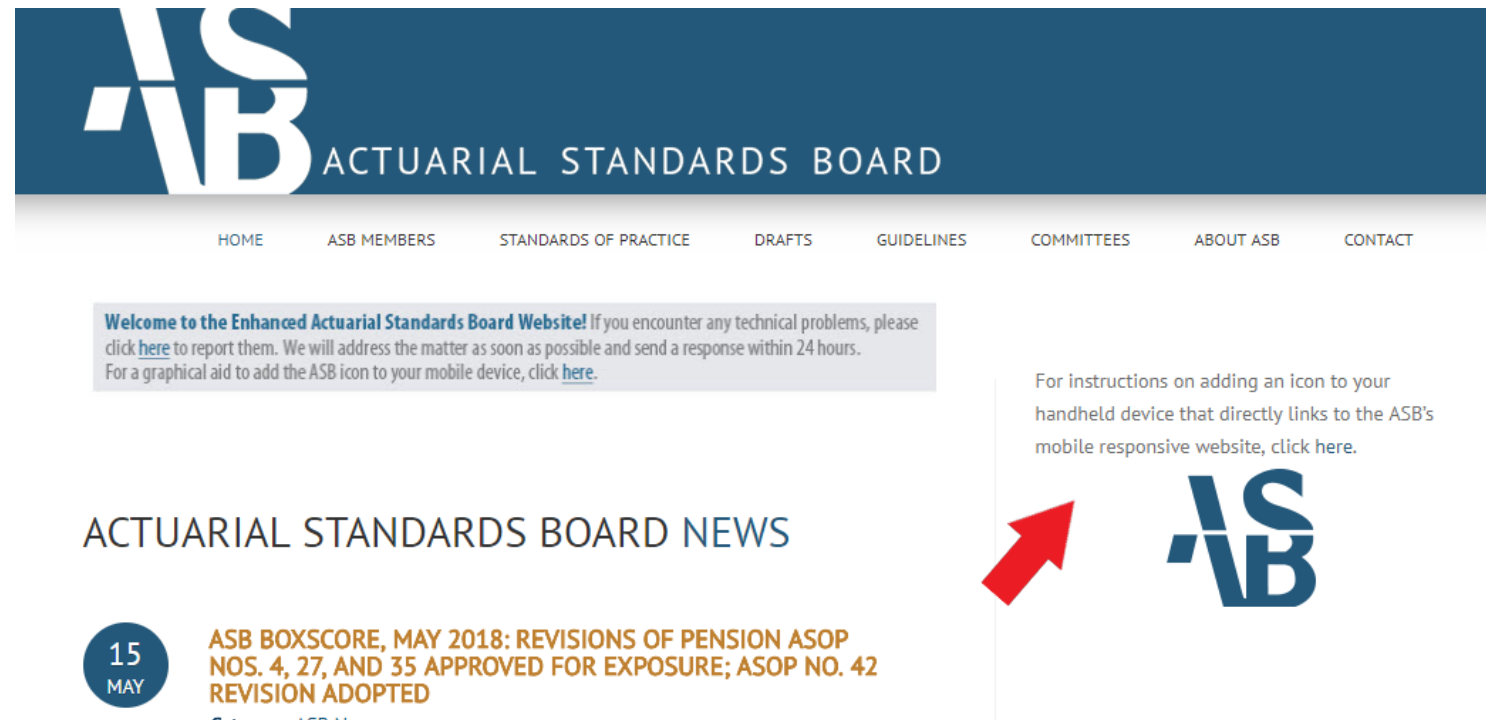
www.actuarialstandardsboard.org

- Read current standards of practice
- Comment on exposure drafts
- Sign up for *Boxscore*
- Contact the ASB



Tools for the Actuary: ASB Mobile-Friendly Website

- Add an icon to your device's home screen for quick access to the mobile site.
- Follow the instructions on the ASB home page.



Applicability Guidelines



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Applicability Guidelines

- ASOP No. 1: “Actuaries are responsible for determining which ASOPs apply to the task at hand.”
- [Applicability Guidelines](#) list the ASOPs that usually apply to common assignments.
 - ▣ Created by the Council on Professionalism– not the ASB
 - ▣ Nonbinding reference document
 - ▣ www.actuarialstandardsboard.org/applicability-guidelines/



Applicability Guidelines

The screenshot shows the website's navigation menu with 'PUBLIC POLICY' and 'PROFESSIONALISM' tabs. Under 'PROFESSIONALISM', there are links for 'ABOUT US', 'MEMBERSHIP', 'NEWSROOM', 'INTERNATIONAL', and 'PUBLIC DISCIPLINE'. The main heading is 'Applicability Guidelines For Actuarial Standards Of Practice'. Below this, there is a 'Printer-friendly version' link and a section titled 'Introduction to the Applicability Guidelines'. The text states: 'The five U.S.-based actuarial organizations have Codes of Professional Conduct that require their members to satisfy applicable actuarial standards of practice (ASOPs) when providing actuarial services. ASOPs are authoritative guidance for actuaries practicing in the U.S. and are issued by the Actuarial Standards Board (ASB)'. To the right, there are logos for the 'Actuarial Board for Counseling and Discipline' and the 'Actuarial Standards Board', and a 'QUICK LINKS' section with a 'Find an Actuary' link.

- Listed by practice area
- Access downloadable file at bottom of page




The guidelines are updated periodically. The actuary is responsible for keeping current with changes to the ASOPs and determining that professional services rendered by the actuary or under the actuary's supervision satisfy the current version of each applicable ASOP. Please send suggestions for improving these guidelines (such as additional areas of practice that might be covered) to the Council on Professionalism at ApplicabilityGuidelines@actuary.org.

- For the current Applicability Guidelines, click [here](#)



The screenshot shows a 'QUICK LINKS' section with four items: 'The Social Security Game', 'Actuarial eLearning Center', 'PAL Pension Assistance List Volunteers', and 'The Academy Celebrates 50 Years'.



	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q
1	 Applicability Guidelines for Actuarial Standards of Practice – Pension AMERICAN ACADEMY of ACTUARIES <i>Objective. Independent. Effective.™</i>				Please note that the following ASOPs apply to all assignments in all practice areas:												
2					1. Introductory Actuarial Standard of Practice												
3					23. Data Quality												
4					41. Actuarial Communications												
5					© 2018 American Academy of Actuaries. Last updated January 2018.												
6	Description of Assignment				Actuarial Standard of Practice (ASOP)												
7									4	5	6	12	17	21	25	27	32
8	1.1	Services concerning retirement plan benefits in domestic relations actions			4				17			27		34	35		
9	2.0 Expert Witness and/or Testimony								17								
10					Note that any standards relating to the subject on which the actuary is providing expert advice would also apply.												
11	3.0 Financial Analysis and Valuation Services																
12	3.1	Asset/liability studies			4			12			25	27			35	44	51
13	3.2	Determination of ASC 960 (previously known as FAS No. 35) actuarial present value of accumulated pension plan benefits			4			12		21	25	27			35		
14	3.3	Determination of ASC 965 actuarial present value of accumulated post-retirement plan benefits			4	5	6	12		21	25	27			35		
15	3.4	Determination of MEPPA withdrawal liability			4			12			25	27			35	44	
16	3.5	Determination of present value of unfunded vested benefits for PBGC variable-rate premium			4			12			25	27			35		
17	3.6	Employer accounting valuation/expense estimate/financial forecast for pension plan			4			12		21	25	27			35	44	
18	3.7	Employer accounting valuation/expense estimate/financial forecast for postemployment/preretirement benefits and postretirement benefits other than pensions			4	5	6	12		21	25	27			35	44	
19	3.8	Funding valuation/cost estimate/financial forecast for pension plan, for example: preparation of schedule MB or SB of form 5500, adjusted funding target attainment percentage (AFTAP) certification, annual funding notice, multi-employer plan endangered/critical status determination/certification			4			12		21	25	27			35	44	
20	3.9	Funding valuation/cost estimate/financial forecast for 401(h) retiree medical account or VEBA			4	5	6	12		21	25	27			35	44	
21	3.10	Governmental plan financial reporting (GAS Nos. 67, 68, 74, 75)			4	5	6	12		21	25	27			35	44	
22	3.11	Pension plan design pricings			4			12			25	27			35	44	51
23	3.12	Pension plan merger or spin-off			4			12			25	27			35	44	51
24	3.12	Pension plan merger or spin-off			4			12			25	27			35	44	51

2018 Annual Meeting and Public Policy Forum

- Nov. 1-2, 2018
Washington, D.C.
- Public policy and professionalism focus.
- Practice area tracks, cross-practice general sessions, keynote speakers, networking.
- Register at actuary.org/am2018.



Thank You

□ Questions?

