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# Upcoming Changes in Actuarial Standards of Practice

By Julie Curtis

During my career as a pension actuary, I have rarely given much thought to how our standards of practice were developed and how they have evolved over the years. My main concern was that I understood them well enough to incorporate them into my practice, and when faced with a difficult issue, I used them for guidance.

This year, I moderated the Annual Meeting session on Pension ASOPs that discussed the standards, and I had the privilege of meeting three pension actuaries who participate in their development. Faisal Siddiqi is currently the chair of the Canadian Institute of Actuaries' Practice Council. Tammy Dixon is a current member of the Pension Committee for the Actuarial Standards Board, and Mitch Serota recently finished his six-year term on that committee and is currently a member of the Pension Committee for the American Academy of Actuaries.

While working with the presenters, I realized how committed the Practice Council (in Canada) and the Standards Board (in the United States) are to staying abreast of current developments and how much effort they expend to anticipate current and future needs of practitioners. It is difficult enough to describe expectations and requirements in the current environment, but accommodating possible future developments is a daunting task.

The session first described the governance of the Practice Council and the Standards Board and how they fit in the overall structure of the CIA and SOA. Then the presenters described recent and emerging standards. The new standards reflect how quickly the pension and retirement plan environment is evolving.

On the Canadian side, the council has recently released an update on how lump sums should be calculated. The standard, which is not yet final, reflects the increasing prevalence of lump sums, reflects the credit quality of the plan and addresses situations created by underfunded multiemployer plans. The Council is also working on guidance for stochastic models to accommodate the increased emphasis placed by provincial regulators: Ontario and Quebec are requiring actuaries to incorporate a provision for adverse deviations in their plan funding, while New Brunswick and Alberta/British Columbia are requiring stochastic funding to monitor the funding of their target benefit plans.

In the United States, the Pension Committee of the Standards Board is working on several standards that they plan to update soon. The committee is pledged to develop practice standards that apply to practitioners of all sizes and types of plans: private, public and multiemployer. However, Tammy and Mitch mentioned that the updates will likely focus on improving practice in the public pension plan arena. Topics currently under consideration include:

- ASOP 4, Measuring Pension Obligations and Determining Pension Plan Costs or Contributions: disclosure of a solvency or settlement value and additional guidance on amortization periods
- ASOP 27, Selection of Economic Assumptions for Measuring Pension Obligations
- ASOP 35, Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations: guidance on mortality table selection

Tammy also discussed the current Risk ASOP that was recently released as ASOP No. 51, "Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions." The standard defines risk as "The potential of actual future measurements deviating from expected future measurements resulting from actual future experience deviating from actuarially assumed experience." The deviation can be either positive for the interested parties or detrimental. The standard focuses on identifying risks, emphasizes disclosing methods and key areas where risks may emerge, and provides guidance on disclosing specific aspects of risk and placing the components into a larger framework for each plan.

When hearing an explanation of the Risk ASOP, I realized that the standard represents much about the ever-expanding requirements we all face as practitioners: better disclosure of and rationale for selecting methods, assumptions and results, and a more thorough analysis of risks inherent in the measurement of each plan's financial status. The environment we face is increasingly challenging, as are the demands upon practitioners, but the emerging standards are being developed to help us face the challenge. ■

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