



SOCIETY OF ACTUARIES

Article from:

# The Financial Reporter

September 2011 – Issue 86

# IAA Discount Rate Project Update

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**A** long time ago, when financial reporting actuaries had discovered how to project cash flows but had not yet encountered phenomena such as deferred acquisition cost (DAC) assets and contra-liabilities, a question arose as to whether and how to reflect the time value of money in their calculations. That is, how might one go about discounting those future cash flows to arrive at useful actuarial present values? Foundational writings such as Kellison's *The Theory of Interest* certainly helped with the requisite algebra. But determining an appropriate rate of discount posed a challenge back then and—fair to say—remains the case for some actuaries even today.

There is, however, good news to relate regarding this long-standing issue. The International Actuarial Association (IAA) has recently undertaken the preparation of a monograph addressing both the conceptual framework for determining discount rates, and practical techniques for their measurement from a financial reporting perspective.

The monograph will span various areas of actuarial practice—life, non-life and pension financial reporting—aiming to contrast and compare different approaches. The document will have three main sections: a conceptual framework describing methods; practical examples in the form of case studies; and references to relevant technical papers. The current estimated length of the monograph is approximately 300 pages. The monograph's audience is intended to primarily be practicing financial reporting actuaries who have a basic statistical background, and also actuarial students seeking a greater understanding of the topic.

The Discount Rate Project's (DRP's) objective is well within the IAA's strategic mandate: "Facilitating and providing educational material that is accessible to all actuaries everywhere" and, in particular, "(To) facilitate the use and expansion of the scientific knowledge and skills of the actuarial profession ... to help enhance the scope, availability, and quality of actuarial services offered by individual members of its member associations."

Financial support for the DRP has been provided by The Actuarial Foundation, the Actuarial Profession

of the United Kingdom, the Australian Institute of Actuaries, the Canadian Institute of Actuaries, the Casualty Actuarial Society and the Society of Actuaries (SOA) Financial Reporting Section.

The project is managed under the auspices of IAA's Insurance Accounting Committee (Sam Gutterman, chairperson) and the Actuarial Standards Subcommittee (David Congram and Francis Ruygt, co-chairpersons). Congram is leading an Ad-Hoc Project Oversight Group (APOG) comprised of 15 actuaries, with IAA staff support. All of the DRP's financial sponsors are represented on the APOG, as are the IAA Pensions & Employee Benefits, Social Security, and Enterprise and Financial Risk Committees. The monograph's author team was determined by a Request for Proposals (RFP) process in early autumn 2010, and is Milliman.

A two-month public exposure period is scheduled to begin early in fall 2011. Readers are referred to the IAA website for more information about this process (e.g., the draft document and response details).

The DRP's deliverable, a comprehensive discount rate monograph, is a follow-up to the successful stochastic modeling monograph published by the IAA in spring 2010. (Our section co-sponsored this prior project too.) The IAA extends its thanks to all members of the SOA Financial Reporting Section for their ongoing support of these actuarial education initiatives.

The IAA has been working together with the International Accounting Standards Board's (IASB's) staff on the basic issue of how to incorporate the time value of money into their standards. Hence, the DRP represents an important opportunity for our profession to provide fundamental educational materials for possible application to financial reporting practice on the global stage. Just one more reason for section members to take a close look—once beach blankets are put away and the languid dog days of summer conclude—at the forthcoming discount rate monograph's exposure draft, and by extension the development of financial reporting standards over the horizon. ■



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