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## EDITORIAL

# What the ASB means to the profession

by Mary Hardiman Adams

**T**he Actuarial Standards Board (ASB) plays a key role in strengthening the self-government of the actuarial profession. Since being established in 1988 as a separate entity within the American Academy of Actuaries, the ASB has been responsible for developing actuarial standards of practice, exposing and circulating them in all areas of practice, and for continuously reviewing existing standards.

As chairperson of the Pension Committee of the ASB, I have experienced, first-hand, the huge amount of time and effort spent in developing new standards and in revising current ones. However, without standards, we'd be lost. The ASB keeps the profession on track by establishing standards of practice that allow actuaries to act professionally, with integrity, and in the public's interest. Standards give the profession one set of rules and present a unified front to the public.

### How a standard is created

ASB operating committees, under the nine-person board, actually draft actuarial standards of practice and compliance guidelines. These committees research, identify, and interpret current actuarial practices to develop the standards. Six operating committees exist currently: Casualty, Health, Life, Pension, Retiree Health Care, and Specialty.

To give you an idea of what is involved in creating a new standard, I'll use the Pension Committee's recent work as an example. The Pension Committee has been putting in long hours over the past two years producing a second Exposure Draft of an Actuarial Standard of Practice, *Selection of Economic Assumptions for Measuring Pension Obligations*.

The first exposure draft was issued in July 1992. Two hearings were conducted in October 1992. Eleven formal presentations and nine informal comments were made at those hearings. By the end of the comment period deadline of December 15, 1992, we received more than 50 independent comments on the draft. All Academy members and subscribers to the *Actuarial Standards* — virtually all actively practicing actuaries — receive exposure drafts.

### The work begins

Our initial problem was deciding where to start. Even in the preliminary comment read-through, we found a "yes," "no," or "maybe" on just about every topic. We received a variety of views and statement lengths from individuals, pension or investment committees of the professional actuarial organizations, pension practice committees of consulting firms, and more.

The first step in sifting through the material was assembling the comments on a section-by-section basis, producing a nearly 200-page document, ready to be studied and analyzed.

During this long review and rewrite period, four Pension Committee members rotated off the committee and were replaced, and one more person was added. Committee member Heidi Rackley Dexter did more than double duty by stepping in when we lost our writer and document producer, Alan Kennedy, the ASB's editor and assistant director, to a heart attack. At least 10 redrafts of the standard were created, each progressively different. Because the resulting document, particularly the technical material, was a complete rewrite of the original exposure draft, we had to issue a second exposure draft.



ASB Casualty Committee Chairperson LeRoy Boison (left) and ASB Pension Committee Chairperson Mary Adams (right) discuss standards issues at an ASB meeting.



(L-R) Vice-chairperson Gary Corbett, ASB member Harper Garrett, and SOA President-Elect Bob Berin review ASB projects and address areas for new standards.

### The second draft

The basic underlying elements of the first draft have not changed. Material was added about making provision for adverse deviation (pension actuaries using the terminology of our insurance counterparts), because many comments on the first draft said we needed to acknowledge the desirability of conservatism in the selection of economic assumptions. In response to other questions and comments, material was added about when to change assumptions and on consistency among the economic assumptions. We clarified the applicability of the standard when giving advice on assumptions for SFAS Nos. 87 and 88.

Some material was deleted, including tutorial material and illustrations. We also eliminated the suggestion of

using a different inflation component in developing the investment return and the compensation scale assumptions to reflect tax-paying investors' expectations (the tax premium).

The new draft's appendix includes details of the comments received on the original draft and the committee's responses to them.

At the ASB's July 1994 meeting, it voted to expose the second draft.

Now it's time for all actuaries, especially practicing pension actuaries, to participate in finalizing the standard. The ASB invites comments on the second Exposure Draft of Actuarial Standard of Practice, *Selection of Economic Assumptions for Measuring Pension Obligations*, which will be mailed to all Academy members with the September *Actuarial Update* and to

all subscribers to the *Actuarial Standards*. Others may contact Cheryl Ayanian at the Academy for a copy. Comments must be received by December 1, 1994.

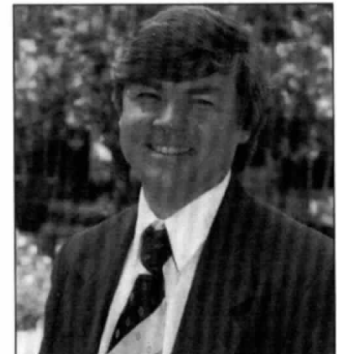
The Pension Committee expects that Practice Notes will be developed by the pension committees of the participating organizations to illustrate the practical application of the standard. We hope Practice Notes will cover diverse topics, such as the use of select and ultimate assumptions, the methodology of developing "blended rates," the use of stochastic methods in developing confidence levels, methods of developing confidence levels for plans where modeling is not possible or not practical, and other topics that the pension committees think need illustration.

## Research actuary joins SOA staff

Thomas P. Edwalds, FSA, ACAS, has joined the Research Department to manage research projects in the health benefit systems and retirement systems practice areas. He will be key staff liaison to the Health Benefit Systems Research Committee, the Retirement Systems Research Committee, the Health Benefits Systems Principles Committee, and the Health

Financial Issues Task Force and also will support the Committee on Research Coordination. Ann Berg is the research assistant working with Edwalds.

Edwalds comes to the Society after six years at Blue Cross/Blue Shield of Illinois in Chicago. He was a senior associate actuary in actuarial valuation. He has a master's degree in mathematics from the University of Illinois/Chicago.



Tom Edwalds, FSA, ACAS  
Research Actuary