

Let's Be Perfectly Clear

THE REVISED ACTUARIAL STANDARD OF PRACTICE (ASOP) No. 41, *Actuarial Communications*, was adopted in December 2010 with an effective date of May 1, 2011. Because the revision has been the subject of numerous articles, webinars, and sessions at various actuarial meetings, I'm not going to review all the major changes from the earlier version (these are summarized expertly in an introductory memo that accompanies the standard). Instead, I'm going to discuss certain aspects of the revised standard that—from the perspective of one member of the Actuarial Board for Counseling and Discipline (ABCD)—could lead to disciplinary action if improperly handled.

It's important to remember that ASOP No. 41 doesn't exist in a vacuum. Communication is central to what actuaries do, and guidance on proper professional actuarial communication runs through many of the other standards as well as through the Code of Professional

Conduct. All of these materials are applicable to each other and should be consulted together when questions arise about actuarial communications.

Responsibility and Reliance

Section 3.1.4 of ASOP No. 41 focuses on the authorship of actuarial communications. The standard states that actuaries must list individual names and credentials, not simply the name of an organization or a consulting firm. They shouldn't attribute their work solely to an employer. Most important, they take full overall responsibility for a particular work product when they communicate and sign it as a credentialed actuary. Through this process, actuaries should feel a sense of accountability and ownership—that what is being communicated reflects upon them personally.

That said, actuaries certainly can rely on other sources of data and information as long as they're disclosed properly. Section 3.4.3 discusses this in some detail, referring readers to ASOP No. 23, *Data Quality*, which in its third section further defines

acceptable practices concerning reliance. Reliance on others doesn't absolve an actuary of the responsibility to perform proper checks for reasonableness and reliability. But actuaries aren't expected to audit fully the data provided (unless they believe it's appropriate to do so).

Let's look at an example. You're responsible for the annual small-employer certification for group medical coverage written by an insurer in a particular state. You ask the underwriter to provide certain basic information on the 500 cases written in that state that are in force at some point during the year. While the specifics of that state's small-group law will dictate the type and depth of testing you'll need to perform, most likely at a minimum you'll be examining the magnitude of rate increases made during the year.

The underwriter gives you a listing of each case containing anniversary date and percentage rate increase. The first step you might take (through the magic of spreadsheet software) is to produce a dispersion of percentage increases by magnitude and timing of those increases. The tests you could perform include questioning any outliers, comparing average increases by quarter against bloc manual rate changes made during the year to see if they are consistent, and checking a small sampling against the actual source case files.

If after a thorough review you're satisfied that your company is in compliance, you write a certification letter that discloses the fact that you relied on data provided by the underwriter. You then discuss the tests that you used to determine the reasonableness of the data. You also should document the particulars of your testing and retain all pertinent work papers and computer files should problems with your information subsequently come to light. Section 3.8 of ASOP No. 41 touches on the need to retain supporting information, particularly what isn't





included explicitly in your final communication. But you can't avoid responsibility simply by stating that you relied upon someone else for something material. You need to conduct your own review for reasonableness and consistency.

Disclose, Disclose, Disclose

In preparing written reports or other communications, actuaries need to disclose fully and clearly. This theme runs throughout ASOP No. 41 as well as various precepts within the Code of Professional Conduct. The last sentence in Section 3.2 summarizes things nicely—actuaries should state results and identify all material methods, procedures, assumptions, and data in a clear and complete manner so that another qualified actuary could evaluate the reasonableness of their work product.

So what happens when an actuary is asked or required by a principal to use assumptions with which he or she doesn't agree? Sections 3.4.4, 4.2, and 4.3 all point out possible ways to handle such a situation. Let's take another example, one that's perhaps a little extreme, to illustrate the point.

Your client is municipality XYZ, specifically the board of directors of its municipal pension plan. The board has hit upon an ingenious way to solve its underfunding problem and resultant budget crisis—it directs you to use the Northampton Table for your mortality assumption (just Google it). Perhaps the board even enacts an ordinance specifying this and other major assumptions to be used.

You understandably believe this isn't an appropriate assumption for a 2012 plan year valuation for this particular population. Assuming you don't simply decline the assignment, sections 4.2 and 4.3 outline what you should include in your report—at a minimum—to properly apprise its readers of the actions you've taken while providing your client with requested actuarial services.

Webinar on Requesting Guidance

The Academy, in conjunction with the American Society of Pension Professionals and Actuaries, the Casualty Actuarial Society, the Conference of Consulting Actuaries, and the Society of Actuaries, hosted a June 25 webinar in which Curtis Huntington and Kathy Riley of the Actuarial Board for Counseling and Discipline discussed the guidance process. To access slides and audio of the webinar, go to <http://www.actuary.org/content/professionalism-webinar-abcd-requests-guidance%E2%80%94insight-and-case-studies>.

This example touches upon two other aspects to consider. There are clearly other stakeholders in this situation, including municipal workers and retirees in the plan and the good citizens of XYZ. Section 3.7 focuses on the actuary's responsibility to other possible users of the report. In addition, Precept 8 of the Code of Professional Conduct discusses how to handle potential misuse and control of an actuary's work product.

Once again, it comes down to the clarity of an actuary's communication and appropriate disclosure of his or her views concerning the assumptions used. One possible approach here—in addition to stating prominently (not burying it in a footnote to a supporting exhibit in the report) that use of this mortality table is unreasonable—would be to assert in writing that the report should be provided to others only in its entirety. In this manner, when journalists from the local XYZ *Tribune* look at the actuarial report, they will be able to recognize why liabilities suddenly have decreased by 50 percent, why the plan actuary used a particular table, and why that actuary considers its use to be inappropriate.

Section 4.1.3 of ASOP No. 41 contains a useful (though not all-inclusive)

checklist of items that should be disclosed. It's also important to check to see if other ASOPs that are applicable to a particular assignment have further disclosure requirements. For instance, ASOP No. 3, *Practices Relating to Continuing Care Retirement Communities*, lists additional items—occupancy and withdrawal rates and depreciation methods—that likely should be disclosed when performing work in that area.

Defending Deviation

Section 4.4 of ASOP No. 41 discusses the most current language on deviation. It indicates that actuaries still can be in compliance with an ASOP, even if they have materially deviated from its guidance, as long as they provide an appropriate statement in their actuarial communication about the nature, rationale, and effect of their deviation. All other ASOPs were modified in May 2011 to incorporate this language. In addition to including such a statement, actuaries must be prepared to defend their approach by assembling and retaining appropriate supporting materials.

ASOP No. 41 and other applicable standards are all excellent resources for actuaries with questions about effective communications, particularly in unusual situations. Discussing these matters with peers is often useful as well. Any individual member of the ABCD also can provide informal guidance in a confidential manner for actuaries who don't feel comfortable with a particular situation. There is a page on the ABCD's website, <http://www.abcdboard.org/guidance/>, that provides information about contacting members of the ABCD for guidance. □

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