

THE ASPPA Journal

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Professional Communications and Documentation Post-PPA

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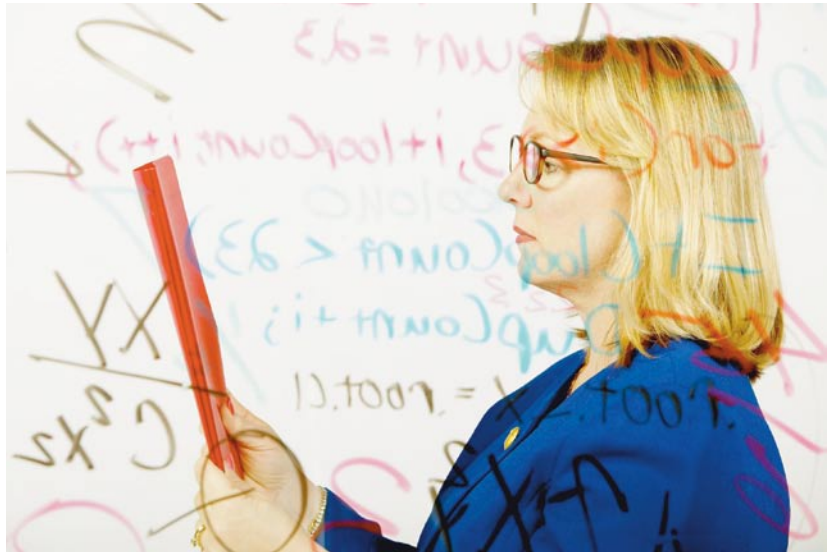
The Pension Protection Act of 2006 (PPA) has created a new set of actuarial communication opportunities for pension actuaries. The Actuarial Board for Counseling and Discipline (ABCD) reminds pension actuaries to be extremely cognizant of the elegantly related chain of Code of Conduct (Code), Actuarial Standards of Practice (ASOPs) and Qualification Standards that apply to all the actuarial services you provide, including the new post-PPA services.

Having effective professionalism standards that are understood and well observed enhance the integrity of our profession. 2008 is an ideal time to focus on enhancing our communications and educating our clients and the public.

New PPA Actuarial Communications include:

- Certifications of Adjusted Funding Target Attainment Percentage (AFTAP) & At-risk Status;
- Internal Revenue Code §436 Benefit Restrictions;
- Pure Actuarially Recommended Funding Levels;
- Minimum Funding Standards per New Internal Revenue Code §430;
- Maximum Deduction Limits per New Internal Revenue Code §404;
- Actuarially Equivalent Benefits; and
- Other Transition PPA Communications.

It is crucial to rely upon and adhere to our actuarial Code of Conduct as we modify and add to our actuarial valuations and other communications.



The Precept that tasks us with excellent communication responsibility is Precept 4.

Code of Conduct: Precept 4

- PRECEPT 4. An Actuary who issues an Actuarial Communication shall take appropriate steps to ensure that the Actuarial Communication is clear and appropriate to the circumstances and its intended audience and satisfies applicable standards of practice.

Excellent communication leads to excellent understanding—which leads to an excellently served public.

- ANNOTATION 4-1. An Actuary who issues an Actuarial Communication shall ensure that the Actuarial Communication clearly identifies the Actuary as being responsible for it.
- ANNOTATION 4-2. An Actuary who issues an Actuarial Communication should indicate the extent to which the Actuary or other sources are available to provide supplementary information and explanation.

The Precept that requires that we adhere to Actuarial Standards of Practice is Precept 3.

Standards of Practice: Precept 3

- PRECEPT 3. An Actuary shall ensure that Actuarial Services performed by or under the direction of the Actuary satisfy applicable standards of practice.
- ANNOTATION 3-1. It is the professional responsibility of an Actuary to observe applicable standards of practice that have been promulgated by a Recognized Actuarial Organization for the jurisdictions in which the Actuary renders Actuarial Services, and to keep current regarding changes in these standards.
- ANNOTATION 3-2. Where a question arises with regard to the applicability of a standard of practice, or where no applicable standard exists, an Actuary shall utilize professional judgment, taking into account generally accepted actuarial principles and practices.
- ANNOTATION 3-3. When an Actuary uses procedures that depart materially from those set forth in an applicable standard of practice, the Actuary must be prepared to justify the use of such procedures.

The current list of ASOPs that we need to refer to as we venture into this post-PPA world are:

Pension ASOPs

- **2. Recommendations for Actuarial Communications Related to Statements of Financial Accounting Standards Nos. 87 and 88** (Doc. No. 004; April 1987); www.actuarialstandardsboard.org/pdf/asops/asop002_004.pdf
- **4. Measuring Pension Obligations** (Doc. No. 107; September 2007) Note: This revised document is effective for any work performed on or after March 15, 2008. www.actuarialstandardsboard.org/pdf/asops/asop004_107.pdf

- **27. Selection of Economic Assumptions for Measuring Pension Obligations** (Doc. No. 109; September 2007) Note: This revised document is effective for any work performed on or after March 15, 2008. www.actuarialstandardsboard.org/pdf/asops/asop027_109.pdf
- **34. Actuarial Practice Concerning Retirement Plan Benefits in Domestic Relations Actions** (Doc. No. 066; October 1999); www.actuarialstandardsboard.org/pdf/asops/asop034_066.pdf
- **35. Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations** (Doc. No. 110; September 2007) Note: This revised document is effective for any work performed on or after March 15, 2008. www.actuarialstandardsboard.org/pdf/asops/asop035_110.pdf
- **44. Selection and Use of Asset Valuation Methods for Pension Valuations** (Doc. No. 108; September 2007) Note: Effective March 15, 2008. www.actuarialstandardsboard.org/pdf/asops/asop035_110.pdf

General ASOPs

- **17. Expert Testimony by Actuaries** (Doc. No. 087; March 2002); www.actuarialstandardsboard.org/pdf/asops/asop017_087.pdf
- **21. Responding to or Assisting Auditors or Examiners in Connection with Financial Statements for All Practice Areas** (Doc. No. 095; September 2004); www.actuarialstandardsboard.org/pdf/asops/asop021_095.pdf
- **23. Data Quality** (Doc. No. 097; December 2004); www.actuarialstandardsboard.org/pdf/asops/asop023_097.pdf
- **41. Actuarial Communications** (Doc. No. 086; March 2002); www.actuarialstandardsboard.org/pdf/asops/asop041_086.pdf

The Precept that requires that we also adhere to Qualification Standards is Precept 2.

Qualification Standards: Precept 2

- PRECEPT 2. An Actuary shall perform Actuarial Services only when the Actuary is qualified to do so on the basis of basic and continuing education and experience and only when the Actuary satisfies applicable qualification standards.

Following is a pertinent excerpt from new Qualification Standards effective for all actuaries in 2008:

- **“Statement of Actuarial Opinion”** is defined in the revised Qualification Standards as “an opinion expressed by the actuary in the course of performing Actuarial Services and intended by that actuary to be relied upon by the person or organization to which the opinion is addressed.”
- **“Actuarial Services”** are defined in the *Code of Professional Conduct* as “[p]rofessional services provided to a Principal (client or employer) by an individual acting in the capacity of an actuary. Such services include the rendering of advice, recommendations, findings, or opinions based upon actuarial considerations.”

- ANNOTATION 2-1. It is the professional responsibility of an Actuary to observe applicable qualification standards that have been promulgated by a Recognized Actuarial Organization for the jurisdictions in which the Actuary renders Actuarial Services and to keep current regarding changes in these standards.
- ANNOTATION 2-2. The absence of applicable qualification standards for a particular type of assignment or for the jurisdictions in which an Actuary renders Actuarial Services does not relieve the Actuary of the responsibility to perform such Actuarial Services only when qualified to do so in accordance with this Precept.

Additional Considerations

With these guidelines in mind, pension actuaries need to further refine their post-PPA actuarial reports to meaningfully and clearly identify “the data, assumptions, and methods 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 actuary’s report.” (From 3.3.3 of ASOP 41)

Additionally, deviations from ASOPs need identification and support, as does deviation from any traditional calculations or methods. For example, since there is currently confusion as to the requirement to use pre-retirement mortality in the calculation of actuarial numbers required by new Internal Revenue Code §436, it is important to state whether pre-retirement mortality was used or not. Similarly, if in the development of the recommended funding level you choose to use a pre-retirement decrement but do not add in an actuarially cost of the ancillary benefit available upon that decrement, there should be disclosure and support for that professional choice in your actuarial valuation report. In a nutshell, you should prepare any report or communication such that your pension actuarial peers could understand how the underlying calculations were done without having to ask you personally. You should also prepare your report so that your clients understand your advice and the support for that guidance.

Finally, remember to insert an Acknowledgement of Qualification on your actuarial report which satisfies the definition of a Statement of Actuarial Opinion:

I, [Name], am [Position] for [Company]. I am a member of the American Academy of Actuaries [and other organization] and I meet the Qualification Standards of the American Academy of Actuaries [and other organization] to render the actuarial opinion contained herein.

Note: A qualification acknowledgment is not required on preformatted forms, such as Schedule B (Form 5500).

When your report is complete, the last facet of your responsibility is to properly document your work. Examples of what should be in your client files and proper file handling procedures include:

- A description of what was done and why;
- Sufficiently detailed work papers for another qualified actuary to review the work for reasonableness;

- A record of what the principal was told and when (failure to warn can be a separate claim);
- Proof that open questions were asked and answered;
- Abide by your ongoing document retention policy;
- Proof that you complied with applicable law and standards, especially if unique situation;
- Rough drafts of finished documents should not be kept;
- “Back of the envelope” calculations should not be in files—keep only final calculations;
- Proper documentation that important questions are asked and answers are documented; and
- Make sure errors discovered are addressed and corrections supported/documented.

Conclusion

As we develop reports services to encompass post-PPA requirements and challenges, it is prudent to return to basics and insert the proper professionalism into our reports and other communications. Excellent communication leads to excellent understanding—which leads to an excellently served public. 🏆



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