Is It "Just Business Consulting"?

IT'S THAT TIME OF YEAR AGAIN. The days are about as short as they're going to get, and, at least in Detroit, the threat of snow becomes very real. All these signs of a new year also mean that actuaries have recently finished consulting with their clients on selection of discount rates for disclosures under SFAS No. 87 and SFAS No. 106.

All pension actuaries know that assumptions used for these disclosures are the responsibility of the client; they are "prescribed assumptions" as that phrase is defined in ASOP Nos. 27 and 35. These two ASOPs allow the actuary to perform the requisite calculations with assumptions outside the actuary's personal best estimate range, as long as the actuary discloses that the client prescribed the assumptions. But what is the actuary's responsibility while the client is making the final selection of assumptions, presumably with the actuary's help?

While ASOP Nos. 27 and 35 relieve the actuary of responsibility for opining on reasonableness when using the client's assumptions, these ASOPs also govern the process of consulting with the client during the selection process. Section 1.2 of both ASOP No. 27 and ASOP No. 35 specifically states that while the ASOPs don't apply to prescribed assumptions, both ASOPs do apply to an actuary "…giving advice in selecting… assumptions…" to be used for SFAS No. 87 and SFAS No. 106.

I recently had a conversation with an actuary who parsed his personal assumption sets into three groups. He was willing to provide a professional opinion for assumption sets that were within his personal best estimate range and that he believed were in compliance with SFAS No. 87 and SFAS No. 106, calling them the "white set." He described the second "gray" set as being outside his personal best estimate range, though he would perform the disclosure calculations using these prescribed assumptions, as allowed by ASOP Nos.27 and 35.

He acknowledged advising clients while they selected these "gray" assumptions, but denied that he was advising them to select these assumptions. The actuary characterized this process as "just business consulting" and helping his client achieve a business objective—that of keeping pension expense as low as the client's auditor would accept. (I assume that during the assumption selection process, this actuary told the clients using these "gray" sets of assumptions that, if asked, he would not be able to provide an opinion that they were his best estimate and in compliance with SFAS No. 87 and SFAS No. 106.)

To his credit, he said that he would provide disclosure results using prescribed assumptions that were clearly noncompliant with SFAS No. 87 and SFAS No. 106, but would state in his report that he believed the assumptions (the "black set") were neither reasonable nor in compliance with SFAS No. 87 and SFAS No. 106.

Just as the actuary has professional responsibility while consulting during the assumption selection process, what is the actuary's responsibility after the client has made the final selection of assumptions? Suppose the auditor challenges this actuary's "gray" set of assumptions, and the actuary then provides the client with information attempting to justify the assumptions despite being outside his personal best estimate range. Would you describe these subsequent discussions with the auditor as assumption consulting subject to ASOP Nos. 27 and 35 or "just business consulting"? Is "business consulting" an actuarial communication covered by Precepts 1 and 8 of the Code of Professional Conduct? ●

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