Comment #1 – 2/10/11- 7:02 p.m.

First, I'd like to congratulate the committee on a job very well done. I don't think we often need to so dramatically overhaul an ASOP and the concepts and the way they are organized and explained is very well done. A number of important new ideas are included which makes this a great contribution to the profession.

Here are my comments for potential improvement:

1. (this may be as much about ASOP 4 as ASOP 27). I would like to see our methods/assumptions grouped in two separate categories - "market-consistent" (a nice term, btw) and "best estimate". The new ASOPs go a long way toward putting this framework in place. However, I think we are still missing the concept of market-consistent assumptions other than discount rates in the ASOP 4 discussion draft which only mentions discount rates related to market-consistent measurements. I would like to see at least a mention of other "market-consistent" assumptions, perhaps along the lines of "A market-consistent actuarial present value MAY/SHOULD use other assumptions observed from real markets or developed to be consistent with hypothetical markets". I think the ASOP 27 draft already has this idea, but rather than just differentiating observations and assumptions about the future, I'd like to see the two different general frameworks (market-consistent & best estimate) described as background in which the consideration for all of the assumptions for a particular measurement were considered. For example, 3.5 doesn't clearly differentiate the process for identifying a market-consistent inflation assumption from the process for identifying a best estimate inflation assumption. the idea of using inflation-linked debt is just listed as one of various data items that may be relevant. Implied inflation from TIPS is probably relevant in both frameworks, but I think the standard would be clearer if it described two different processes for identifying inflation assumptions, one of which (the market-consistent framework) would ONLY look to implied inflation from TIPS (I suppose there could be other relevant market data, but nothing I'm aware of).

2. Conservatism - I"m not sure this applies to "market-consistent" assumptions.

3. With regard to geometric returns, it may be worth pointing out that the anticipated return is not simply a weighted average of expected returns on different asset classes. I believe that the level of correlation between the asset classes and rebalancing will impact the expected return of the total portfolio.

4. It's not clear why several factors for consideration are listed in 3.6 and then another list with more explanation is presented in 3.6.3. Factors for consideration with regard to investment return assumptions should probably include "current valuations".

5. Another consideration for the investment return assumption is that the effect of investment returns will be dollar-weighted. We usually think about investment return assumptions on a time-weighted basis, but, of course, the real world impact is on a dollar-weighted basis. The current level of funding, whether the plan is growing or shrinking and whether a select and ultimate investment return structure is used could have an impact.

Thank you for your important work on these standards and for consideration of my thoughts.

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