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Comment #1 - April 26, 2012 - 10:19 a.m.

ASB Comments
American Academy of Actuaries
1850 M Street NW, Suite 300
Washington, DC 20036

RE: ASOP 4 Exposure Draft

To the Members of the Actuarial Standards Board:

Cavanaugh Macdonald Consulting, LLC (CMC) thanks the Actuarial Standards Board for this opportunity to comment on the Exposure Draft of the Proposed Revision of Actuarial Standard of Practice No. 4 (*Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*). As a leader in providing actuarial consulting services to state and local government pension plans, we have perhaps a somewhat different perspective from many other practitioners regarding the topic of measuring pension obligations.

We are generally pleased with the proposed revisions and believe the changes are appropriate. We do, however, have concerns with some of the wording in Section 4.1(i) regarding disclosure of the type of actuarial present value being presented in the work product. Certainly it is appropriate to disclose the type of present value being presented. Our concern is with disclosing the implications of this decision. We note that the implications of the cost method selection, for example, are not required, even though this is an equally important issue. While describing the implications of this choice seems to be useful, we want to note two issues:

First, we note that typical corporate pension plans are required to perform minimum funding calculations and prepare accounting disclosure information using present values not based on assets. While there may be implications of this selection, the implication of calculating present values based on plan assets is that the calculations would not satisfy applicable laws and accounting standards. Since there really isn't any discretion, we don't see any value in describing the benefits of following the rules or what could be done if current laws and accounting standards were changed.

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Second, both of the wording examples presented in 4.1(i) describe a negative implication of the method used. Since actuaries should be selecting the best method available, why should we then say what isn't good about that choice rather than the strengths of the selection? For example, to say that we have used an asset based method because it best reflects how the plan funding mechanism will work through time to provide the contributions needed to match the benefit payments provides a rationale for its use. To say this may cause a selection of riskier investments instantly calls into question why the method was selected (and ignores that the assumed return was based on the investment risk profile, not the other way around). If disclosure of the implications is retained, we suggest that the examples reflect a positive implication of the decision, rather than a negative implication. This approach would better reflect that actuaries are striving to make the right selections rather than justifying something that they didn't really like but felt trapped into doing.

In closing, we thank the ASB for this opportunity to comment on the proposed changes. If you have questions regarding this letter, please do not hesitate to contact us.

Sincerely,

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