

SECOND EXPOSURE DRAFT—December 2012

Appendix

Comments on the First Exposure Draft and Responses

The first exposure draft of this proposed revision of ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*, was issued in January 2012 with a comment deadline of May 31, 2012. Seventeen comment letters were received, some of which were submitted on behalf of multiple commentators, such as by firms or committees. For purposes of this appendix, the term “commentator” may refer to more than one person associated with a particular comment letter. The Pension Committee carefully considered all comments received, and the ASB reviewed (and modified, where appropriate) the proposed changes.

Summarized below are the significant issues and questions contained in the comment letters and the responses to each.

The term “reviewers” includes the Pension Committee and the ASB. Unless otherwise noted, the section numbers and titles used below refer to those in the first exposure draft.

GENERAL COMMENTS	
Comment	One commentator suggested that the title be changed to “Measuring Pension Obligations, Costs or Contributions.”
Response	The reviewers believe that the title as written is clear and made no change.
Comment	A few commentators opined that pension actuaries serve clients and not the public at large. In this view: <ul style="list-style-type: none">• Actuaries serve clients and prepare work for the client’s benefit and at the client’s behest;• No party other than the client should expect to benefit or draw any inference from the actuary’s work;• Other entities in society provide regulations that serve the public interest;• As a result of the prior bullets, the standards should not require any work or disclosure that is intended to benefit interested parties in the public at large.
Response	The reviewers considered this viewpoint but concluded the current paradigm for self-governance established by the <i>Code of Professional Conduct</i> requires the ASOPs to reflect a concern for public interest.
Comment	Many commentators opined that certain aspects of the proposed language in the first exposure draft expanded the scope of the assignment beyond the client request. Scope expansion without a corresponding client request may lead to the actuary performing work without being compensated appropriately.
Response	The reviewers understand that actuaries need to be successful commercially and are sensitive to creating burdensome practice requirements. In this second exposure draft, the Committee has balanced the proposed requirements for appropriate actuarial practice with actuaries’ concerns about expansion of work product requirements.

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SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE	
Section 1.2, Scope	
Comment	One commentator suggested that the examples in section 1.2(a) emphasized market value measures of plan obligations and should be modified.
Response	The reviewers believe that the section provides a sample of the most common projects intended to be included in the scope of this standard and made no change.
SECTION 2. DEFINITIONS	
Section 2.1, Actuarial Accrued Liability	
Comment	One commentator suggested that this definition should be changed to the accumulation of prior normal costs.
Response	The reviewers believe that the definition as written is clear and appropriate, and made no change.
Section 2.2, Actuarial Cost Method	
Comment	One commentator objected to this definition as being inconsistent with the definition in ERISA. Another suggested a change in the language from “in advance of the time benefit payments are due” to “in advance of the time benefit payments are expected to be paid.”
Response	The reviewers changed the language of this section to clarify that the pay-as-you-go method is not considered an actuarial cost method for purposes of the standard.
Section 2.7, Contribution	
Comment	Several commentators indicated that contributions should be actual contributions, not potential contributions and suggested that the standard should define potential contribution.
Response	The reviewers believe that this definition as written is useful for the purpose of the standard and is sufficiently clear, and made no change.
Section 2.8, Contribution Allocation Procedure	
Comment	One commentator suggested replacing 20-year amortization in the example with “an” amortization.
Response	The reviewers agree and made the change.
Section 2.9, Cost	
Comment	Several commentators indicated that cost measures are not simply portions of obligations and proposed alternative wording.
Response	The reviewers agree and accepted suggested alternative wording.
Section 2.10, Cost Allocation Procedure	
Comment	One commentator suggested adding the phrase “for minimum funding purposes under Section 430 of the Internal Revenue Code.” Another commentator suggested that the language be broadened by using “accounting standards” rather than referring to the standards promulgated by the Financial Accounting Standards Board.
Response	The reviewers agree with the suggestion to broaden the application to all accounting standards and changed the language, but do not agree that a reference to minimum funding standards belongs in this section.
Section 2.11, Expenses	
Comment	One commentator noted that investment expenses in mutual funds may be difficult to measure and the standard should not place undue burdens on the actuary with respect to measurement of investment expenses.
Response	The reviewers believe there is sufficient expense disclosure in the mutual fund industry to allow actuaries to reflect mutual fund expenses in accordance with the guidance in the standard.

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Section 2.12, Fully Funded and Section 2.13, Funded Status	
Comment	Several commentators expressed concerns about the requirements in the exposure draft relative to a plan that may be deemed to be “fully funded” and indicated that the language in section 2.13 was not appropriate in a definition.
Response	The reviewers agree with the concerns, modified the requirements, deleted the definition of “fully funded,” and simplified the definition of “funded status.”
Section 2.15, Measurement Date	
Comment	One commentator suggested defining “valuation date” rather than “measurement date.”
Response	The reviewers disagree with the suggestion and made no change.
SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES	
Section 3.2, General Procedures	
Comment	One commentator suggested that gathering sponsor elections known as of the measurement date should be added to the list of general procedures in section 3.2(c).
Response	The reviewers agree and made changes to sections 3.2(d), 3.6, and to the disclosure in section 4.1.
Section 3.3.1, Anticipated Needs of Intended Users	
Comment	One commentator suggested that anticipated needs of intended users be qualified as those needs that may be known.
Response	The reviewers believe that the existing language is sufficiently clear and made no change.
Section 3.3.3, Risk or Uncertainty	
Comment	One commentator expressed concern that the language in this section was too broad.
Response	The reviewers note that this language is in ASOP No. 41, <i>Actuarial Communications</i> , and do not believe that it broadens the scope of the actuary’s work.
Section 3.5, Plan Provisions	
Comment	One commentator suggested that the language be modified to apply to significant plan provisions “known to the actuary.” Another commentator suggested the addition of a new section relative to principal elections made prior to the measurement date. Another commentator suggested that there should be a definition of “significant” for this purpose.
Response	The reviewers agree with the first commentator and modified the language of this section. The reviewers do not believe that the standard needs to define significant for this purpose and note that the term is anticipated to be defined in the revised <i>Introduction to the Actuarial Standards of Practice</i> . The reviewers agree with the suggestion regarding principal elections, but decided to address it in section 3.7 rather than section 3.5.
Section 3.5.1, Adopted Plan Changes	
Comment	One commentator suggested that section 3.5.1 is too restrictive. Another commentator found the term “applicable law” to be too narrow.
Response	The reviewers agree with the suggestion to clarify the scope of applicable law and changed the language to be consistent with other sections of the standard. The reviewers do not agree that the section is too restrictive.
Section 3.5.3, Other Valuation Issues	
Comment	Several commentators suggested alternative language for this section that they believed more clearly expressed the intent.
Response	The reviewers agree and changed the language in sections 3.5.3(a), (d), and in the penultimate paragraph of this section.

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Section 3.6.2, Hypothetical Data	
Comment	One commentator suggested using the phrase “imputed data” rather than “hypothetical data.”
Response	The reviewers believe that existing guidance is clear and made no change.
Section 3.7, Types of Actuarial Present Values	
Comment	<p>Several commentators expressed concerns relative to proposed guidance in the exposure draft regarding types of present values, particularly the additional disclosure requirements. Concerns included the following:</p> <ul style="list-style-type: none">• The bifurcation of present value types on assets created many problems for commentators who pointed out that the split was not as neat as the Committee might have imagined since market measurements can be based on a reference portfolio of assets.• Many commentators pointed out that the present value type language focused primarily on discount rates and that other economic and demographic assumptions are needed to develop market measurements.• Some commentators felt inclusion of a market measurement was premature given the lack of consensus in the profession on the matter. In the same vein, other commentators felt inclusion of a market measurement was inappropriate since standards end up defining minimum practice and there is no current requirement anywhere in the profession for this type of measurement.• Some commentators felt the examples in the discussion of a market-consistent present value were too prescriptive.• Many commentators objected to the requirement that the actuary disclose implications of the present value type chosen for a measurement as well as the example given in the disclosure paragraph.
Response	After careful consideration of the comments received and the objectives for the guidance, the Committee removed nearly all of the present value type language from the proposed standard. The concept of a market-consistent present value remains in the proposed standard and is now a defined term and with some guidance in section 3.11. The market-consistent present value language now references broad economic and demographic assumptions inherent in observable market pricing of pension cash flows.
Section 3.10, Measuring the Value of Accrued or Vested Benefits	
Comment	One commentator suggested that this section be strengthened to require that, in the absence of legal or other binding authority to the contrary, or when otherwise directed, the calculations anticipated by this section be made on a market-consistent basis. Another commentator suggested that “misleading” is a better term than “not appropriate” in section 3.10(f). Another commentator noted also relative to section 3.10(f) that “severely” (as in “severely backloaded”) is not defined. Another commentator noted that the list provided in this section is equally applicable to projected benefits as well as accrued and vested benefits and suggested that the guidance in this section also apply to calculations of benefits other than accrued or vested.
Response	The reviewers agree with the suggestion regarding the use of the word “severely” and changed it to “significantly.” The reviewers believe that requiring market-consistent measurements would be too restrictive. The reviewers also believe that the rest of the section provides clear guidance and made no further changes.

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Section 3.11, Relationship Between Procedures Used for Measuring Assets and Obligations	
Comment	One commentator found this section unclear and potentially so broad that it could be interpreted as requiring market value measures of liabilities whenever a market value of assets is used in the measurement.
Response	The reviewers did not intend this section to require market-consistent measurements and clarified the language.
Section 3.12, Actuarial Cost Method	
Comment	One commentator suggested that the standard require more restrictive periods of amortization for certain plan amendments.
Response	The reviewers believe that such requirements would unnecessarily constrain practice and made no changes.
Comment	Several commentators noted that expenses for some investments (such as mutual funds) may not be known and, therefore, should not be required to be considered by the actuary. Another commentator suggested that the standard refer to expenses to be paid by the plan.
Response	The reviewers believe that the current language relative to consideration of expenses is clear and sufficient for its purpose. The reviewers also made no change as a result of the second comment, since expenses are already defined as expenses anticipated to be paid from the plan in section 2.11.
Comment	One commentator suggested that the standard define “spread-gain actuarial accrued liability” as a term distinct from the defined term “actuarial accrued liability.” The commentator also suggested that the standard require the actuary to disclose that a spread gain actuarial method is only a device for allocating pension costs and a spread gain actuarial accrued liability is not appropriate to use in measuring funded status.
Response	The reviewers believe the disclosure requirements in sections 4.1(p) and 4.1(q) provide appropriate disclosure of funded status measurements. As such, the reviewers do not believe the standard needs to delve into the distinction between spread gain actuarial liability and actuarial accrued liability.
Section 3.13, Allocation Procedure	
Comment	One commentator questioned whether the last sentence of this section belonged.
Response	The reviewers agree and removed the sentence from this section, as it is already included in section 1.2.
Section 3.13.2, Actuary Selects Contribution Allocation Procedure, and Section 3.13.3, Actuary Does Not Select Contribution Allocation Procedure	
Comment	One commentator found these headings unclear.
Response	The reviewers agree and removed the headings. In addition, the guidance contained in sections 3.13.4 and 3.13.5 was modified as discussed below and combined into one new section 3.13.2.
Comment	One commentator did not understand the meaning of “significantly inconsistent” in section 3.13.3.
Response	The reviewers believe the language of this section is sufficiently clear, particularly since “significant” is a term that is expected to be defined in the revised <i>Introduction to the Actuarial Standards of Practice</i> .

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Section 3.13.4, Assessment of Overall Implications of Contribution Allocation Procedure, and Section, 3.13.5 Contribution Set by Contract or Law	
Comment	Several commentators expressed concern about the proposed requirements of this section. They felt that the proposed language placed an impractical burden on the actuary (to perform quantitative forecasts), and that evaluation of the expected pattern of future cost, funded status, and contributions represented additional work not wanted or contracted by the principal. One commentator believed that any assessment should be long term in nature, while another commentator indicated that the assessment should be limited to a brief period of time.
Response	The reviewers agree with the concerns expressed by the commentators, but believe that the actuary should qualitatively (not necessarily quantitatively) assess the implications of the assumptions and methods selected on expected future contributions and funded status (on an expected basis). These sections were revised for this purpose.
Section 3.14, Approximations and Estimates	
Comment	One commentator suggested alternative wording for this section to make it clearer.
Response	The reviewers agree and accepted the proposed wording change.
Section 3.16.1, Prescribed Assumption or Method Set by Another Party	
Comment	One commentator raised a question regarding obligations of the actuary under Precept 8 of the <i>Code of Professional Conduct</i> .
Response	The reviewers did not address this question about the <i>Code of Professional Conduct</i> as it is beyond the scope of this ASOP.
Section 3.16.2, Evaluating Prescribed Assumption or Method	
Comment	One commentator suggested that instead of disclosing any significant conflicts, the standard should require the actuary to disclose the assessment of the assumptions in all instances.
Response	The reviewers believe the existing language is clear, appropriate, and consistent with requirements in ASOP No. 41.
SECTION 4. COMMUNICATIONS AND DISCLOSURES	
Section 4.1, Communications Requirements	
Comment	One commentator suggested replacing “where” in the first paragraph of this section with “when.” Another commentator indicated that many of the requirements of this section are burdensome “best practices” that are beyond the normal needs of principals and should be removed from the standard.
Response	The reviewers agree with the specific language suggestion and made this change. The reviewers do not agree that many of the disclosure requirements of this section should be removed.
Comment	One commentator suggested changes to expand disclosures relative to significant plan provisions included in the valuation in section 4.1(d).
Response	The reviewers agree and expanded the disclosure to include a description of changes from known provisions included in the previous valuation.
Comment	Regarding section 4.1(f), one commentator suggested that the summary of participant information include age and service distributions. Another commentator suggested that guidance be provided for acceptable disclosure of participant information.
Response	The reviewers disagree and found these suggestions too prescriptive. However, consistent with the modification of section 3.6, the reviewers added a requirement to disclose relevant principal elections.
Comment	One commentator suggested that the language in section 4.1(h) replicate the language in ASOP No. 41.
Response	The reviewers agree and made the suggested language change.

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Comment	Regarding section 4.1(i), several commentators expressed concerns about disclosing the implications of the type of actuarial present value selected.
Response	The reviewers agree and eliminated this disclosure item.
Comment	As noted above, several commentators expressed concerns about the disclosure of an expectation of declining future funded status or increased contributions as listed in sections 4.1(k) and (l).
Response	The reviewers agree but modified section 4.1(k) to require disclosure if the unfunded liability is expected to increase at any time in the future and modified section 4.1 to require disclosure of the qualitative description discussed in section 3.14.2.
Comment	One commentator suggested a slight modification of the language in section 4.1(m) for consistency.
Response	The reviewers agree and made the change. The reviewers also added a new disclosure requirement of how client-specific default risk was reflected for those communications that include market-consistent measures of accrued or vested benefits.
Comment	Several commentators expressed concerns about having to disclose funded status based on market value in addition to any funded status based on a value not equal to market value as listed in section 4.1(n).
Response	The reviewers agree and deleted this disclosure.
Comment	One commentator believed that the disclosure in section 4.1(o) was too prescriptive.
Response	The reviewers disagree and retained the language as is.
Comment	Regarding section 4.1(p), several commentators expressed concerns about requiring disclosures regarding statements relative to funded status measurements, particularly statements that a plan may be considered “fully funded.”
Response	The reviewers agree and removed the proposed disclosures regarding such statements. However, the reviewers retained and modified the language of this section applicable to measurements of funded status.
Comment	One commentator found the guidance in section 4.1(r) confusing. Another commentator suggested that the same wording be used in this section as used in section 4.1.3 of ASOP No. 27, <i>Selection of Economic Assumptions for Measuring Pension Obligations</i> , including the phrase, “the disclosure may be brief but should be pertinent to the plan circumstances.”
Response	The reviewers separated the section into two separate disclosures for clarification purposes. The reviewers considered the language change suggestion but did not make a change.
Section 4.2, Additional Disclosures	
Comment	Several commentators noted that there appeared to be a discrepancy between the disclosure requirements in this section and the general disclosure requirements in ASOP No. 41. In particular, ASOP No. 41 appears to provide that no disclosure is necessary if assumptions/methods are selected by another party and the actuary believes these assumptions/methods are reasonable.
Response	The reviewers agree with the comment, but believe the actuary should disclose the party responsible for pension plan assumption selection, if it is not the actuary, and modified the language of this section accordingly.