Appendix 2

Comments on the Second Exposure Draft and Responses

The second exposure draft of this proposed actuarial standard of practice (ASOP) was issued in March 2005, with a comment deadline of October 31, 2005. Eighteen 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 to the proposed ASOP. 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 second exposure draft.

GENERAL COMMENTS	
Comment	Several commentators, responding to a specific question raised in the "Request for Comments" section of the second exposure draft, wanted the proposed standard to accommodate the principles of financial economics in appropriate situations.
Response	The reviewers agreed with these comments. While the proposed standard does not make an explicit statement that permits the actuary to apply financial economic principles, the proposed standard is not intended to preclude the actuary from applying those principles when appropriate in the actuary's professional judgment.
Comment	One commentator wrote that it was premature to take account of the principles of financial economics and suggested that the proposed standard should not accommodate those principles.
Response	The proposed standard does not make any explicit statement concerning the application of financial economic principles, nor is it intended as an endorsement of those principles.
Comment	The second exposure draft asked whether any language in the proposed standard or related standards would preclude an actuary from applying the principles of financial economics. None of the commentators identified specific problems in the proposed standard, but some identified difficulties with ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*.
Response	The Pension Committee intends to review ASOP No. 27 and will take those comments into consideration at that time.
Comment	One commentator noted that the proposed standard describes generally accepted practice and not "best" practices. The commentator expressed concern that evolving practice that represents a deviation from the proposed standard, or any ASOP, may never become generally accepted practice.
Response	The reviewers do not believe the proposed standard would preclude the application of emerging "best" practices. The reviewers note that the ASB is encouraging further dialogue on whether standards provide an appropriate level of guidance.

Comment Response	One commentator requested guidance concerning the treatment of "gain-sharing," a plan feature that provides for automatic benefit increases or extra plan distributions to retirees following favorable investment experience. Another commentator asked for guidance concerning the measurement of complex benefits such as "floor-offset" arrangements. The reviewers added section 3.9, Interrelationship Among Actuarial Assumptions, Procedures, and Plan Provisions, to address plan provisions such as gain-sharing and floor-offset arrangements that create contingent obligations that are difficult to measure using deterministic assumptions or procedures.
Comment Response	One commentator suggested that the requirement that an actuarial cost method produce no actuarial gains or losses if assumptions were exactly realized, which was included in the first exposure draft and deleted from the second, be retained. The reviewers believed that such a requirement would be overly restrictive and made no change.
Comment Response	One commentator asked that the proposed standard be simplified to advise the actuary to identify the purpose of the measurement and to follow applicable statutes, regulations, case law, and other legally binding authority. The reviewers believed that the level of guidance in the proposed standard was appropriate.
Comment Response	Several commentators suggested various editorial changes in addition to those addressed specifically below. The reviewers implemented such changes if they enhanced clarity and did not alter the intent of the section.
	SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE
Section 1.2, Scope	
Comment Response	One commentator suggested that a statement be made if the reviewers intended the list in section 1.2 to be exhaustive. While the reviewers believed the list to be comprehensive, circumstances not listed could arise in which an actuary exercising professional judgment would determine that the standard is applicable. The reviewers did not wish to preclude such a result.
Comment Response	With respect to section 1.2(b), one commentator noted that plan obligations could be assigned only through actual experience but that the value of plan obligations could be assigned in advance. The reviewers agreed and modified the wording.
Comment Response	With respect to section 1.2(c), one commentator noted that a cost allocation procedure does not determine cost; rather, it assigns cost. The reviewers considered the definitions of *cost* and *cost allocation procedure* and found that no change was needed.
Comment Response	One commentator suggested that, when compliance with applicable law would be a breach of the proposed standard, disclosure of compliance with the law should not be required. The reviewers believed it was appropriate for the proposed standard to contain such a disclosure requirement. The reviewers updated the language in sections 1.2 and 4.4 to reflect the current disclosure requirements proposed by the ASB with respect to deviations from the proposed standard.
Comment Response	With respect to the final paragraph, one commentator suggested removing the word "scheduled" and adding "to the plan" at the end of the sentence. The reviewers agreed and changed the language similarly.

Section 1.4, Effective Date	
Comment	One commentator expressed concern that an effective date of four months following adoption by the ASB was too short a time period and could result in different standards applying within one fiscal year of a plan sponsor having multiple plans with different plan years.
Response	The reviewers extended the effective date from four months to six months after adoption.
SECTION 2. DEFINITIONS	
Section 2.1, Actuarial Accrued Liability, and 2.2, Actuarial Cost Method	
Comment	One commentator suggested that the treatment of expenses in sections 2.1 and 2.2 was more appropriately discussed in section 3.10(c) (now 3.11(c)) rather than in a definition.
Response	The reviewers agreed and deleted the sentences relating to expenses in sections 2.1, 2.2, and what is now 2.13.
Section 2.3, Actuarial Present Value	
Comment	One commentator suggested adding "and the application of generally accepted actuarial procedures" to the end of the definition.
Response	The reviewers believed that such a statement was unnecessary.
Section 2.5, Amortization Approach (now 2.6, Amortization Method)	
Comment	One commentator objected to the use of the term "amortization approach" because it is not used in practice and suggested that the term "amortization" be used instead.
Response	The reviewers did not believe that the term "amortization" would capture the variety of amortization techniques used in practice. However, the reviewers changed the term to "amortization method" to be more consistent with common usage.
Section 2.6, Contribution (now 2.7)	
Comment	Several commentators pointed out that the definition was circular.
Response	The reviewers agreed and revised the definition.
Section 2.13, Participant (now 2.14)	
Comment	Several commentators stated that the phrase "or is expected to satisfy" should be deleted, noting that section 3.6.1 addresses future plan participants.
Response	The reviewers agreed and deleted the phrase.
Section 2.14, Plan Provisions (now 2.15)	
Comment	Two commentators requested that the applicability of the phrase "known to the actuary" be clarified.
Response	The reviewers divided the definition into two sections to clarify that "known to the actuary" applied only to the relevant administrative practices. In addition, the reviewers added section 3.18 to reference ASOP No. 23, *Data Quality*. The reviewers also note that the meaning of the term "known" for these purposes is clarified in section 4.5.1 of the *Introduction to the Actuarial Standards of Practice*.
SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES	
Section 3.1, Overview	
Comment	Several commentators requested a specific reference to ASOP No. 4 in the list of applicable standards.
Response	The reviewers agreed and made the change.
Comment	One commentator pointed out the section's inconsistent applicability to "cost" and "contribution" and suggested deleting two paragraphs.
Response	The reviewers agreed and deleted the paragraphs.

Section 3.2, Prescribed Assumption or Method (now Prescribed Assumption or Method Selected by the Plan Sponsor)	
Comment Response	Some commentators disagreed with the requirement for the actuary to consider whether a prescribed assumption or method was reasonable. For example, one concern was that any statement about prescribed assumptions or methods could lead to conflict with plan sponsors. However, other commentators agreed that actuaries should review prescribed assumptions or methods for reasonableness. The reviewers revised this section, as well as section 4.2, to focus on whether the prescribed assumption or method significantly conflicts with what would be appropriate in the actuary's professional judgment. The transmittal memorandum of this exposure draft contains further discussion about this issue.
Comment Response	Several commentators provided examples of situations where an actuary might not be in a position to evaluate whether a prescribed assumption or method is reasonable. The reviewers revised the wording to address this concern. The actuary may disclose that he or she is unable to evaluate the prescribed assumption or method for reasonableness or has not been provided with the information that would be needed to make such an evaluation.
Section 3.4.2, Events After the Measurement Date	
Comment Response	One commentator believed the last sentence of the section should be deleted. The reviewers believed that the final sentence provided appropriate emphasis and retained it.
Comment Response	One commentator suggested that "nor disclosed" should be added at the end of the section. The reviewers did not add such language because it could have the unintended consequence of discouraging such disclosure.
Section 3.5.1, Adopted Plan Changes, and section 3.5.2, Proposed Plan Changes	
Comment Response	The second exposure draft asked whether sections 3.5.1 and 3.5.2 provided helpful guidance consistent with generally accepted practice, or whether they could be replaced with more general guidance. One commentator suggested that the guidance could be reduced; another commentator believed there should be more guidance with respect to what was meant by "adopted" and "effective." Three commentators believed the sections were appropriate as written. The reviewers concluded the sections were appropriate and made no substantive changes.
Section 3.9, Measurements Independent of the Actuarial Cost Method (now 3.14, Measuring the Value of Accrued or Vested Benefits)	
Comment Response	Commentators expressed a variety of opinions on this section. Some commentators questioned whether the proposed standard should include this section; others wanted the proposed standard to include or allow other types of measurements or variations of these measurements; still others wanted the proposed standard to provide only general guidance to the actuary in calculating these measurements. The reviewers believed that the comments—both on their own and in combination with comments on the first exposure draft—demonstrated that there is not general consensus among the profession and that multiple approaches represent generally accepted practice. Therefore, the reviewers revised the section to provide guidance on general considerations for measuring pension obligations related to accrued or vested benefits and added section 4.1(k) requiring a description of the types of benefits regarded as vested and accrued and, to the extent the attribution pattern of accrued benefits differs from or is not described by the plan provisions, a description of the attribution pattern.
Section 3.10, Actuarial Cost Method (now 3.11)	
Comment Response	One commentator noted that participants sometimes continue to accrue benefits after their employment has ended, for example, employees who terminate due to long-term disability. The commentator asked that the proposed standard permit actuaries to assign a normal cost to such participants. The reviewers agreed and made the recommended change.

Comment Response	One commentator suggested the addition of a statement that there may be circumstances in which an actuary believes it is reasonable to assign a normal cost to inactive participants not accruing benefits. The reviewers did not believe that such a statement was appropriate.
Comment Response	One commentator suggested adding the phrase "unless the legislative/regulatory authority restricts such approach" at the end of the second sentence of section (c). The reviewers did not believe an explicit statement was necessary in this section because compliance with applicable law is always required and because section 1.2, Scope, addresses this matter. No change was made.
Section 3.11, Cost or Contribution Allocation Procedure (now 3.12)	
Comment Response	Several commentators suggested minor wording changes for increased clarity without altering the substance of this section. The reviewers implemented some of these suggestions. In addition, the reviewers added two other factors for the actuary to consider in selecting an actuarial cost method or amortization method: the timing of expected benefit payments and the nature and frequency of plan amendments.
Section 3.12, Ability to Pay Benefits When Due (now 3.13)	
Comment Response	One commentator agreed that assessing a plan's ability to pay benefits when due is a step that actuaries should be taking but that the requirement in this section does not accurately represent current practice and, therefore, should not be included in the proposed ASOP. Another commentator believed that the evaluation of the ability to pay benefits when due should be time limited, to perhaps the next five or ten years, and that a full evaluation is both burdensome and unreliable with respect to distant years. The reviewers believed that an improvement in current practice was appropriate in this area. However, the reviewers agreed that in many circumstances the assessment required in the second exposure draft would have been an impractical approach to achieving this objective. The reviewers revised this section to rely on the actuary's professional judgment in determining whether an actuarial cost method or amortization method is significantly inconsistent with the plan accumulating adequate assets to make benefit payments when due.
Comment Response	One commentator thought the two examples of inability to pay benefits when due were not helpful because they are both examples of situations where the underlying contribution allocation procedure is probably not reasonable. The reviewers believed that the two examples illustrated the intended purpose of this section. The reviewers modified the wording of one of the examples for clarity and also added a third example.
Comment Response	Several commentators believed the proposed standard should limit the evaluation of the plan's ability to pay benefits when due to situations in which the scope of the assignment explicitly included such an evaluation. Some commentators believed the section placed a burden on the actuary to define the scope of the assignment. The reviewers believed that determining the scope of the assignment would not be an undue burden for the actuary. Nevertheless, the revised section does not require the actuary to determine whether such an evaluation is within the scope of the actuary's assignment.
Comment Response	One commentator suggested changing the wording to assess "risk or uncertainty" concerning the ability to pay benefits when due, believing that the proposed standard did not intend for this evaluation to be a "yes-or-no" test. For purposes of this section, consistency between an actuarial cost method or amortization method and the timing and form of expected benefit payments is based on the assumption that all actuarial assumptions will be realized. As such, this section does not address risk or uncertainty. The reviewers addressed the broader issue of risk and uncertainty through the disclosure requirements in section 4.1(h) (now 4.1(m)) and new section 3.15 providing guidance on dealing with volatility.

Comment Response	One commentator, while agreeing that pay-as-you-go funding should be deemed to have the ability to pay benefits when due, noted that if *any* prefunding were added to such a plan, the plan might go from having to not having the ability to pay benefits when due. The new approach to this section does not require the actuary to make any distinctions among fully prefunded, partially prefunded, and pay-as-you-go plans, due to the assumption that contributions will be made when due.
Section 3.13, Adjustment of Prior Measurement (now 3.16)	
Comment Response	One commentator suggested that, because the last sentence of this section touches on matters addressed in ASOP No. 27, the phrase "pursuant to ASOP No. 27" should be added to the final paragraph. The reviewers believed that a reference to ASOP No. 27 was unnecessary.
Section 3.14, Consistency Between Assets and Obligations (now 3.10, Relationship Between Procedures Used for Measuring Assets and Obligations)	
Comment Response	One commentator asked whether the approach in section (b) could be used if only a portion of the plan's liabilities were covered by a dedicated bond portfolio (for example, the inactive participants). The reviewers believed that section (b) addresses this situation because "specific emerging benefit payments" could include all or part of a plan's obligations.
Comment Response	One commentator suggested that sections (b) and (c) both address the same concept and should be combined. The reviewers believed that sections (b) and (c) represented different ideas because section (b) deals with using a valuation interest rate equal to the internal rate of return on the *market value* of the bond portfolio while section (c) deals with using a valuation interest rate equal to the internal rate of return on the *amortized cost value* of the bond portfolio. Consequently, the reviewers did not combine sections (b) and (c), but they did revise the wording in section (b) for consistency with section (c). The reviewers deleted the part of section (b) that described valuing the bond portfolio by discounting the future bond cash flows using the benefit valuation interest rate, because such an asset valuation method would not comply with the proposed ASOP, *Selection and Use of Asset Valuation Methods for Pension Valuations*.
Comment Response	One commentator suggested that the proposed standard should state that the use of amortized cost value for bonds is discouraged by the Internal Revenue Code. The reviewers believed that the language regarding compliance with applicable law in section 1.2 of the proposed ASOP was sufficient.
Comment Response	One commentator suggested that the reference to the "plan's investment practice" be deleted from section (c) because it places a burden on the actuary to monitor the investment practice of the plan sponsor. The reviewers made no change, noting that the language in section (c) is similar to that in the proposed ASOP, *Selection and Use of Asset Valuation Methods for Pension Valuations*. with respect to the use of amortized cost value for bonds, which requires that the use of such method be accompanied by some knowledge of the plan's investment practice. The actuary may rely on information provided by the plan sponsor concerning the plan's investment practice in accordance with ASOP No. 23.

Section 3.16, Materiality (now part of 3.17, Approximations and Estimates)	
Comment	One commentator wrote that this section was unclear about how the actuary should assess "materiality." The commentator suggested that the proposed standard should recommend that the actuary discuss the level of materiality with the principal before using techniques that would produce less accuracy than the actuary could otherwise achieve.
Response	The reviewers believed that detailed guidance on materiality was beyond the scope of the proposed ASOP. The reviewers identified redundancy between sections 3.16 and 3.15, Approximations and Estimates (now 3.17). Therefore, the reviewers deleted section 3.16 and moved some of its guidance into what is now section 3.17.
SECTION 4. COMMUNICATIONS AND DISCLOSURES	
Comment	A number of comments were received about the general increase in level of disclosure and the form of these disclosures. Some of the recommended disclosures were seen as a "raising of the bar."
Response	The reviewers acknowledge that the disclosure requirements in the proposed revision are more extensive than those in the existing ASOP No. 4 but believe that these changes are appropriate and reflect the evolution of current practice.
Section 4.1, Communication Requirements	
Comment	One commentator believed that disclosure should be made affirmatively, i.e., what was done, rather than in the negative.
Response	The reviewers believed the revisions of section 4.1 address this commentator's concern.
Comment	One commentator suggested that the proposed ASOP should require the actuary to disclose the existence and treatment in the measurement of any known material event that occurs after the measurement date.
Response	The reviewers added section (c) to require disclosure of adjustments made for events after the measurement date under section 3.4.2. The reviewers did not believe that the proposed standard should require the disclosure of events that occur after the measurement date that have not been reflected in the measurement.
Comment	With respect to section (h) (now (m)), several commentators wrote that it should be evident whether an analysis of a potential range of future costs or contributions is part of an assignment and that the absence of such analysis need not be disclosed.
Response	The reviewers believed that a disclosure that future measurements may differ significantly from the current measurement, together with a disclosure that the actuary did not perform an analysis of the potential range of future measurements, were helpful disclosures for the intended users of the actuarial communication. The reviewers believed that intended users frequently do not understand these facts.
Comment	Several commentators suggested that section (h) (now (m)) implied that the actuary should always perform an analysis of the variability of future costs or contributions.
Response	The reviewers revised this section to clarify that the scope of the actuary's assignment may not have included such an analysis.

Comment	One commentator was concerned that section (j) might require an attachment to Schedule B stating that the contribution allocation procedure is not expected to accumulate assets sufficient to pay benefits when due.
Response	The reviewers believed that the disclosures required by the proposed standard could be contained in a cover letter, in an attachment to Schedule B, or in some other medium, depending on what is appropriate in the actuary's judgment. The reviewers also note that the proposed standard no longer requires the actuary to evaluate whether the contribution allocation procedure is expected to accumulate assets sufficient to pay benefits when due. The proposed standard was revised to require the actuary to disclose if, in the actuary's professional judgment, the actuarial cost method or amortization method is significantly inconsistent with the timing and form of expected benefit payments.
Comment	Several commentators wrote that most actuarial measurements include approximations and estimates and expressed concern about the disclosure requirement in section (m) (now (p)). Some commentators believed that this section was unclear and should be deleted; other commentators recommended specific editorial changes.
Response	The reviewers clarified that disclosure is required only when, in the actuary's professional judgment, the actuary's use of approximations or estimates could result in a significant margin for error.
Section 4.2, Disclosure About Prescribed Assumptions or Methods	
Comment	One commentator recommended that "plan sponsor" be changed to "principal."
Response	The reviewers disagreed and retained the term "plan sponsor" for consistency with other sections of the standard. Precept 8 of the Code of Professional Conduct covers all situations and thus obviates a comprehensive identification of all others who must be informed of the results of the actuary's measurement.