

Appendix 2

Comments on the Third Exposure Draft and Responses

The third exposure draft of this proposed ASOP was issued in August 2006 with a comment deadline of March 1, 2007. Seven 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 third exposure draft.

GENERAL COMMENTS	
Comment	Several commentators suggested various editorial changes in addition to those addressed specifically below.
Response	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 1.4, Effective Date	
Comment	One commentator believed the effective date should be extended until regulations are issued under the Pension Protection Act of 2006.
Response	The reviewers disagree and made no change. Section 1.2 addresses how to reconcile any discrepancies between applicable law and this standard.
SECTION 2. DEFINITIONS	
Section 2.1, Actuarial Accrued Liability, and 2.13, Normal Cost	
Comment	One commentator pointed out that the definition of normal cost was misleading for actuarial cost methods in which the normal cost varies with the funded status of the plan.
Response	The reviewers agree and revised the definition to indicate that under certain actuarial cost methods, the normal cost depends upon the actuarial value of plan assets. The reviewers made a corresponding change to the definition of actuarial accrued liability.

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SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES	
Section 3.2, Prescribed Assumption or Method Selected by the Plan Sponsor	
Comment	<p>Two commentators opposed the requirement that the actuary consider whether a prescribed assumption or method selected by the plan sponsor significantly conflicts with what, in the actuary’s professional judgment, would be reasonable for the purpose of the measurement. They felt that the section represented an inappropriate expansion of the role of the actuary.</p> <p>Two commentators supported the general requirement of this section.</p>
Response	The reviewers believe that this guidance is appropriate, but edited the section for clarity.
Comment	<p>Three commentators wrote that instead of requiring the actuary to evaluate a prescribed assumption or method, the standard should require disclosure concerning the actuary’s role regarding those prescribed assumptions or methods.</p> <p>Two commentators suggested that the actuary be required to disclose the actuary’s role, if any, in selecting the prescribed assumptions or methods. The third commentator recommended that the actuary be required to disclose, when appropriate, that the actuary did not review the prescribed assumptions or methods and expresses no opinion concerning their reasonableness.</p>
Response	The reviewers believe these concerns have been addressed with the revision of section 3.2.2, Inability to Evaluate Prescribed Assumption or Method.
Section 3.2.2, Inability to Evaluate Prescribed Assumption or Method	
Comment	Two commentators expressed concern that exempting an actuary from evaluating a prescribed assumption or method if the actuary does not possess the necessary expertise might lead some plan sponsors to seek less-qualified actuaries and punish actuaries who develop additional expertise. One commentator wrote that this section would create different requirements for different actuaries, depending on their skills, for performing the same assignment.
Response	The reviewers agree and revised this section. Instead of considering the actuary’s expertise, the section exempts an actuary from evaluating a prescribed assumption or method if the actuary is unable to do so without performing a substantial amount of additional work beyond the scope of the assignment. Consistent with the changes in this section, the reviewers removed from section 4.2 the requirement that the actuary disclose the reason for any inability to evaluate a prescribed assumption or method selected by the plan sponsor.
Comment	One commentator suggested that the standard exempt an actuary from evaluating a prescribed assumption or method if the actuary relies on the work of another expert retained by the plan sponsor to select the assumption or method, so long as the actuary makes appropriate disclosure.
Response	With the revision of this section, the reviewers do not believe such an exemption is necessary.
Section 3.5.1, Adopted Plan Changes	
Comment	One commentator wrote that the phrase “adopted plan provisions” was not clear.
Response	<p>The reviewers believe that the actuary should exercise professional judgment when considering which plan provisions are appropriate to take into account for the purpose and nature of the measurement and made no change.</p> <p>However, while reviewing this section the reviewers learned that its guidance was inconsistent with generally accepted practice among actuaries who practice in the public-plan sector. As a result, the reviewers revised this section to describe practice among actuaries in both the private and public sectors.</p>

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Section 3.9, Interrelationship Among Procedures, Assumptions, and Plan Provisions	
Comment	One commentator believed this section was overly broad and suggested that it can be argued that all pension provisions create contingent pension obligations that are difficult to measure using deterministic assumptions. The commentator also noted that the term “deterministic assumptions” is not defined.
Response	The reviewers revised this section to clarify the intent.
Section 3.13, Ability to Pay Benefits When Due (now Consistency Between Contribution Allocation Procedure and the Payment of Benefits)	
Comment	One commentator expressed concern that this section placed the responsibility for a plan’s solvency on the actuary and would require actuaries to perform cash flow testing. The commentator recommended that the section be deleted; if it was retained, the commentator suggested that it be limited to assignments in which the scope explicitly included an assessment of future solvency.
Response	The reviewers believe that this section neither places the responsibility for a plan’s solvency on the actuary nor requires the actuary to perform cash flow testing. However, the reviewers renamed the section to be more consistent with its content, and re-arranged the text to clarify its intent.
Section 3.15, Volatility	
Comment	One commentator, concerned about the possibility of after-the-fact litigation, suggested adding a statement that the standard does not presume that the scope of actuarial services includes considerations of volatility unless specifically included in the actuary’s assignment.
Response	The reviewers believe the section as written is sufficiently clear that analyses about volatility depend upon the scope of the assignment and made no change.
SECTION 4. COMMUNICATIONS AND DISCLOSURES	
Section 4.1, Communication Requirements	
Comment	One commentator wrote that the phrase “funded in whole or in part on a pay-as-you-go basis” in paragraph (k) was not clear.
Response	The reviewers revised the phrase and added a clarifying parenthetical comment. The reviewers also moved this disclosure requirement to paragraph (i), where they believe it is more appropriate.
Comment	One commentator suggested that the disclosure regarding variability of future measurements in paragraph (m) (now paragraph (l)) could apply to all areas of actuarial practice and might be more appropriate in ASOP No. 41, <i>Actuarial Communications</i> , than in a pension standard.
Response	The reviewers believe it is appropriate for ASOP No. 4, which ties together the other pension standards, to require this disclosure and made no change. The comment has been passed on to the General Committee for its review of ASOP No. 41.
Comment	One commentator wrote that the disclosure in paragraph (m) (now paragraph (l)) might not be necessary in all circumstances and suggested that the actuary should consider the audience in determining whether such disclosure is necessary.
Response	The reviewers agree and changed the wording accordingly.