November 14, 2014

Sent via e-mail to comments@actuary.org

Actuarial Standards Board
1850 M Street, NW, Suite 300
Washington, DC 20036-4601

Re: ASOPs – Public Pension Plan Funding Request for Comments

To the Members of the Actuarial Standards Board,

I am writing on behalf of the Principal Financial Group® (The Principal®), regarding the request for comments on the application of ASOPs for actuarial valuations of public pension and post-retirement benefit plans. We sincerely appreciate this opportunity to provide our thoughts on this very important topic.

The areas currently covered by ASOPs (selection of economic and demographic assumptions, funding and asset valuation methods, data quality, communication) have the same relevance and application to both public and private sector plans. The standards should be binding whether or not a plan's funding is governed by statute. It would be unnecessary, and perhaps misleading, to have a different set of Actuarial Standards for public versus private plans.

However, we believe that our Actuarial Standards should, in fact, be strengthened in order for us to better educate and advise all of the decision-makers and stakeholders that we serve. In particular, we believe that the key recommendations of the Society of Actuaries' Blue Ribbon Panel on Public Pension Plan Funding have direct application to all employee benefit plans, regardless of plan sponsor, and many of these suggested changes can and should originate from the actuarial community.

As the Panel describes in detail, two key areas where the Actuarial Standards could be re-evaluated relate to 1) Funding Principles (selection of reasonable and appropriate methods and assumptions) and 2) Enhanced Disclosure of Risk Measures.

Of these two areas, we believe that the most critical need is for disclosure of quantified risk measures. Following only the current ASOPs and regulatory requirements – i.e., valuing ***the*** liability and recommended contribution for the current year, based solely on one set of "best estimate" assumptions – is insufficient, and may lead stakeholders to incorrect conclusions about the potential plan costs and risks. Currently, the ASOPs require nothing more than "a statement, appropriate for the intended users, indicating that future measurements… may differ significantly from the current measurement."

The nature and magnitude of pension risk is not particularly intuitive, and often key decision makers are not educated in this field. For this reason, the plan sponsor may not realize the value of performing any type of risk analysis before they see the results. On the other hand, actuaries (as risk experts) know that this analysis would help plan sponsors and key decision makers to make better policy decisions, which will protect both the employee and those who ultimately finance the plan. Actuarial Standards that require some ***quantification*** of risk speaks much more of the importance of this analysis than a requirement to include a simple disclaimer.

To this end, additional risk measures that could or should be ***standard*** deliverables in actuarial reporting (alongside "best estimate" measures) are:

1. Disclosure of the value of the plan liability and normal cost at a current "risk-free" interest rate. This measure would serve several purposes:
    - It represents the full fair value of the employee benefit (since the employee theoretically has no investment risk related to this benefit), and could be referenced whenever a plan sponsor or board considers benefit increases;
    - It also represents the cost to the employer if no risk is taken on the plan investments. This allows the reported funding liability to be understood as this full fair value, reduced by the savings that the plan sponsor is ***assuming in advance*** to achieve over the life of the plan, due to investment risk taken (the risk premium embedded in the assumed return);
    - It establishes a guidepost to estimate the financial impact of the average investment performance falling short of assumed, even by a smaller margin, over the life of the plan.

2. Stress testing -- i.e., a multi-year projection -- of the plan's funding status and policy contributions under different circumstances. In particular, these projections would consider periods when market returns are significantly below the assumed return.

There is a cost to providing these additional measures, but as a profession we must communicate clearly that an actuarial valuation is not a single point measurement. Our clients are relying on the actuary to evaluate the financial implications of their plan. Without some quantification of the risk, there is a very good chance that they will not fully understand those implications.

We commend the ASB for seeking this input. As a profession, we can make a valuable difference to the public on this issue that impacts so many.

Sincerely,

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