Comment #13 – 5/29/15 – 4:42 p.m.

Comment on the Exposure Draft of a Proposed ASOP titled

"Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions"

from Bob Meilander
submitted on May 29, 2015

Thank you for the opportunity to comment on this proposed standard. It's been a while since I have been on this side of the fence!

For the most part, I think this is a good standard. If I went into detail on questions 1 – 6 I think I would find that I would be suggesting that not a word be changed. I have significant concerns related to questions 7 – 9, however. In addition, I think the recent RFC on the topic of public plans raised some issues that should be considered in this standard as well. I'll start with questions 7 – 9.

7. Do you agree with the use of a threshold for requiring mandatory quantitative assessment that is based on the actuary's professional judgment? If not, what threshold do you believe should be used?

My short answer is "no" but perhaps not for the reasons you might expect. In my view, any difference in standards between small and large plans simply because of their size is inappropriate. If a given piece of guidance is appropriate for some plans the mere fact that a plan is small doesn't make it inappropriate. The risk of plan failure to a participant is no less simply because the plan is small. If the plan fails, the beneficiary will be negatively affected even if the plan is small. Therefore, if a given piece of guidance is needed to help protect a beneficiary's benefits, it is needed regardless of whether the plan is large or small.

I would also note that I cannot think of another standard that has this type of (arbitrary) limit. And I remember being involved in Academy activities where, when working with the NAIC, the Academy argued against provisions that would give a break regarding certain analyses when an entity was small. The point was generally that if the entity was taking the risk, the entity should do the analysis.

That said, it is also true that certain types of analysis are unnecessary for some plans. For example, performing a mortality study of a plan with 25 participants would be pointless. Likewise, an investment risk analysis would be unnecessary for a plan invested in Treasury securities. There are times when a detailed analysis isn't necessary and these times may be more common for small plans. However, the need for risk analysis is a function of the risks taken on, not the size of the plan.

I do not have suggested language for you as I am not that close to this area of practice. My suggestion would be that the reviewers attempt to identify those reasons why a quantitative analysis of risk is not necessary for small plans and use them as descriptors in stating when a quantitative analysis is needed. In this way the standard becomes more principles-based and less arbitrary. As I noted above, if a beneficiary stands to lose significant benefits, the additional work regarding plan risk analysis is necessary. Cost/benefit is not a reason to not do the analysis.

8. Do you believe that the term “large plan” in section 3.7 is sufficiently clear that an actuary will be able to apply it in practice? If not, what clarification would you suggest? Are there other characteristics that should be specified in determining “large plan”?

I do not believe that the term “large plan” is clear at all. As I noted above, whether the quantitative analysis is done should he a function of the risk presented, not the size of the plan. Therefore, I do not believe that any definition of “large plans” is useful.

However, if you go in this direction, I would suggest that you give more guidance on what “large” means. The only specific thing I can think of is to add “the impact of a plan failure due to a particular risk on a participant’s benefit.” It needs more than that.

9. Is every five years an appropriate period for performing a mandatory quantitative assessment for a “large plan” in the absence of significant changes, as described in section 3.7?

I have no objection to the five year period. My only concern is limiting this analysis to “large plans.”

My remaining concerns have to do with risk management aspects that could be in the proposal that are not. (And I note that most of the following items come from the recent RFC.) Frankly, I do not see how an intended user can make decisions regarding the plan without this information. A partial list includes:

- What is the risk of plan failure to plan participants.
- What is the history of actual to recommended contributions?
- What is the risk associated with continuing contributions below needed level (if that is the case currently)

If you have any questions about any of this please let me know. Thanks again for the opportunity to comment.