Via Electronic Mail

May 29, 2015

Assessment and Disclosure of Risk
Actuarial Standards Board
1850 M Street, NW, Suite 300
Washington, DC 20036

To Members of the Actuarial Standards Board:

On behalf of Cheiron, Inc. the following is our response to the request for comments concerning the exposure draft on the proposed Actuarial Standards of Practice (ASOP) entitled Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions. We enthusiastically applaud the ASB for developing this draft ASOP addressing the assessment and disclosure of risk associated with the funding of pension plans.

Cheiron consultants' have a long history of promoting and utilizing enhanced disclosures of inherent risks in defined benefit pension plans. In our opinion it is insufficient to provide pension plan sponsors and trustees with annual actuarial valuations which are limited to comparing valuation results for the current year to the prior year, regurgitating asset information and membership statistical information found in other internal or external advisor reports. Given the advancements in computer technologies available to actuaries today "what if" stress testing and stochastic analysis can be done without undue financial burdens for pension plan sponsors. Such analysis should be required for all plans at least annually. That is a practice Cheiron's actuaries have employed since our inception in 2002 and our pricing structure has remained competitive throughout that period.

Accordingly, we strongly support the issuance of a standard of practice that would require the assessment and disclosure of risk with respect to the funding of a pension plan and funding valuations. We have a few additional comments and clarifications that are addressed below.

One risk that should be assessed is the failure of the plan sponsor to actually make the contributions to a plan that are determined by the plan actuary under an actuarial cost method. The failure to actually make contributions poses long-term risks to the viability of the plan. Accordingly, we suggest that section 3.2 be modified to include "contribution risk (i.e., the risk posed by failure of the plan sponsor to make the contributions determined by the plan actuary under the actuarial cost method to fund the benefits provided by the plan)."

We note that section 3.2 does not include any reference to demographic risks. Plans may be at risk if demographic assumptions are not as expected. For example, a multiemployer plan may be at risk if the hours worked declines, which results in a reduction in the contributions being made. As another example, if the demographics of new entrants are different than expected, the projections made of a plan's funding status may well be different than what was expected. We

suggest that "demographic risk (i.e. the risk that projected demographic expectations will be different than expected)" be added to the list of risks the actuary may include.

We suggest that section 3.3 be modified to clarify that it is acceptable to illustrate outcomes that are more severe. For example, the 10-year history of market investment performance from 2000 to 2009 would include two years of severe losses. A risk analysis that assumes a similar repeat should be contemplated by the standard.

In section 3.4, we suggest that the methods explicitly recognize that the assessment of risk includes projections of a plan's funding status and funding results for future years under alternative scenarios. The wording of section 3.4 in the exposure draft can be read as only applying to the changes in the current year's measurements.

Lastly, we note that the wording of the exposure draft suggests that each risk should be assessed individually. We believe it would be appropriate to clarify that it is also appropriate for the actuary to assess the overall risk reflecting multiple factors.

Our responses to the specific questions posed in the request for comments are below.

1. The discussion draft that preceded this proposed ASOP indicated that a risk assessment should be performed for substantially all pension assignments. The exposure draft has limited the assessment to funding valuations, as defined in section 2.1. Do you believe this limitation is appropriate? Why or why not? If not, what other types of valuations should include risk assessments?

   Yes, we believe that the limitation to funding valuations is appropriate. Other valuations, such as those used for certain accounting purposes, have a different purpose and are often expected to vary from year to year.[1] We suggest, however, that the final ASOP clarify that funding valuations include measurements of the impact of changes in the terms of a plan on the plan contributions.

2. Does the language in the exposure draft provide sufficient guidance to actuaries performing risk assessment work? If not, what additional guidance should be provided?

   Yes, with suggested changes noted elsewhere.

3. Is the language in the exposure draft sufficiently flexible to allow for new developments in this area of actuarial practice?

   Yes.

[1] The variance is clearly there for private sector plans but may be less so for public plans that follow the Government Accounting Standards Board (GASB) rules for disclosure.

4. Do you agree that the guidance in section 3.3 regarding assumptions used for the assessment of risk should include moderately adverse but plausible outcomes? If no, what guidance would you propose?

   Yes, however, the actual wording "should reflect" is too limiting and appears to preclude less plausible outcomes. We suggest the wording state "should include moderately adverse but plausible outcomes." In addition, we believe that one of the primary benefits of stochastic analysis is to examine the likelihood of catastrophic (i.e. "tail") events which by definition are more than moderately adverse. As such section 3.3 should call for an assessment of catastrophic events.

5. As discussed in section 3.5, for a funding valuation of a plan, the actuary should perform a risk assessment, which may be quantitative, qualitative, or both. Should the guidance require the actuary to use professional judgment in choosing which type of assessment (quantitative, qualitative, or both) to use? For example, if an actuary believes a quantitative assessment should be performed, do you believe providing a qualitative assessment instead of a quantitative assessment should be considered appropriate actuarial practice?

   Yes, not all situations require a quantitative risk assessment. Professional judgement in choosing the type of assessment is appropriate. However, we want to reiterate our belief that every funding valuation should include an assessment and disclosure of risk.

6. Plan maturity measures have been included as a potential disclosure item to assist intended users in understanding the risks associated with the plan. Are there additional measures that may be disclosed that are significant to understanding the risks of the plan? If yes, what measures would you recommend as a disclosure item?

   We believe the current list is sufficient for the ASOP, and note that it does not preclude other measures of plan maturity.

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?

   We believe that the ASOP should not set a threshold for requiring mandatory quantitative assessment. If anything, the ASOP should require some type of quantitative assessment of risk in every funding valuation. We see no reason to have a difference between "large" and "small" plans. However, we recognize that in some situations (e.g., a pension plan covering one person) a quantitative assessment may not be warranted and a qualitative assessment and disclosure may suffice.

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"?

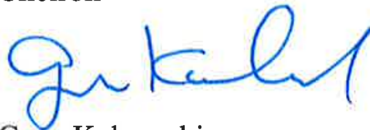
   We believe that the definition of large plan in section 3.7 is not needed. The standard should require the disclosure of risk in all situations. There should not be a bright line for the quantitative disclosure of risk, but it should be clear that such a disclosure is always appropriate.

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?

   No, we believe that a quantitative assessment of risk is appropriate for every funding valuation for a large plan, and for small plans as well (however, as previously noted, there may be situations where a quantitative disclosure may not be warranted). The technology available today is such that the additional cost should be minimal.

We thank the ASB for requesting comments, and are available to provide further information or respond to any questions that you might have.

Sincerely,
Cheiron



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