

May 29, 2015

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

RE: Response to Proposed ASOP Assessment and Disclosure of Risk Questions

As the administrator and fiduciary of the pension plans for public school teachers and administrators of California, the California State Teachers' Retirement System (CalSTRS) thanks the Actuarial Standard Board (ASB) for the opportunity to respond to questions concerning risk assessment and disclosure.

This letter provides our comments on the proposed ASOP on risk assessment and disclosure. In general, CalSTRS believes ASOPs should be principles based and should leave the details to the professional judgment of the actuary. CalSTRS believes that the details of the manner and communicate of risk should also be left to the professional judgment of the actuary.

Question 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?

Answer to Question 1

CalSTRS does not believe that this limit is appropriate. Plan sponsors have a need to understand that the result of an actuary's work is not certain and that other results and outcomes are possible. This need applies to much of the actuary's work that is not funding valuations. Therefore this ASOP should apply to a broad range of actuarial work. Other areas such as plan benefit structure changes, asset/liability studies, health care funding and studies, risk/reward analysis and regulatory analysis should be included in this ASOP.

Question 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?

Answer to Question 2

Yes, we believe it does provide sufficient guidance with regards to those assumptions listed, but some additional guidance and comments would be helpful. However, this ASOP gives guidance related only to actuarial assumptions. We believe that similar guidance should be given for other areas of actuarial work, such as funding policy, and risk/reward analysis. In addition, the structure and layout (but not the actual wording) of Section 3.2 indicates that the listed assumptions are the *only important* areas to be assessed and other areas of assumptions are not important or do not need to be identified.

Question 3

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

Answer to Question 3

Yes, we believe that the language in the exposure draft is sufficiently flexible. The language of the ASOP is principled based, which we believe is the most appropriate approach to standard setting for pension actuarial work.

Question 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?

Answer to Question 4

Yes, we agree that the guidance in section 3.3 is appropriate for work that would present only one possible outcome. For other kinds of actuarial work, we believe the actuary should be allowed to use their professional judgement to determine whether additional non-plausible outcomes should be included. It would be helpful if the ASOP did include this in its guidance.

Question 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?

Answer to Question 5

Yes, we believe the ASOP should allow the actuary to use professional judgment in determining the type of risk assessment that should be performed for the plan. We also believe that it should be left to the actuary's professional judgment on how to best

communicate risk. There are many varied situations and conditions concerning a funding valuation that prescribed guidance on how to best communicate risk would be counter-productive.

Question 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?

Answer to Question 6

We believe that any additional measures should be left to the professional judgment of the actuary. Although there may be additional measures that may be disclosed, those measures should depend on the nature of the plan and the information needed.

Question 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?

Answer to Question 7

Yes, we agree that the use of a threshold for requiring mandatory quantitative assessments should be based on the actuary's professional judgment.

Question 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"?

Answer to Question 8

We believe that whether a plan is considered a large plan for purposes of a risk assessment should be left to the actuary's professional judgment. We strongly believe that the type of risk assessment and the communication of risk should be left to the actuary's professional judgment. We also do not believe that the size of a plan is necessarily an appropriate criteria as to the type of risk assessment that should be performed.

Question 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?

Answer to Question 9

We believe that section 3.7 should not include any specific time period over which a risk assessment should be produced and also should not dictate the frequency of such assessments. We believe this should be left to the professional judgment of the actuary.

Conclusion

CalSTRS supports appropriate risk assessment and its proper communication of risk for actuarial work for all pension plans. We welcome improvement to ASOPs for all pension plans that are subject to an actuary's work. Because of the wide variety of plans and circumstances, ASOP guidance is most useful when it is principles based and leaves the details to the actuary's professional judgment.

Sincerely,

Rick Reed
System Actuary
California State Teachers' Retirement System