February 29, 2016

Report of the Pension Task Force of the Actuarial Standards Board

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This report is the product of the Pension Task Force (PTF) – a group appointed by the Actuarial Standards Board (ASB) to consider the standards implications of many proposals for change related to public pension plans that the ASB has received over the past few years. (The actual charge from the ASB to the PTF is presented in this report.) The PTF's goal for this report is to give the ASB the benefit of its thinking and deliberation regarding those proposals. This report was not written for other audiences but the PTF would be comfortable with additional dissemination, should the ASB decide to do so.

It should be noted that the statements, representations, and expressions of opinions or views in this report are attributable only to PTF members and should not be construed as representing the views of their employers or the Actuarial Standards Board.

This report makes a number of suggestions for change in pension standards for ASB consideration. The PTF uses the term "suggestions" here deliberately, recognizing that what the ASB chooses to do with this report is entirely up to them. The PTF understands that the ASB may not accept all of its suggestions.

During its review, the PTF observed many proposals in the PTF background material related to risk and risk disclosure. The ASB Pension Committee has been working on developing an actuarial standard of practice (ASOP) on risk, and has been aware of many of the concepts suggested. Given the ongoing work by the Pension Committee to develop a new, initial standard on risk assessment and disclosure, and given the volume of other very important issues raised in the background material, the PTF decided not to focus on risk assessment and disclosure for this report, with the concurrence of the ASB. (Although the PTF believes that some of its suggestions would be helpful from a risk assessment and disclosure standpoint in addition to addressing other concerns). Despite that scoping decision, the PTF wishes to make clear that it views the development of a standard on the assessment and disclosure of risk as critically important.

The major emphasis for the PTF was on pension valuations done for funding purposes. The PTF notes that accounting standards for pension accounting are set by accountants. Actuarial standards may provide guidance on how an actuary should work within those accounting standards, but they do not change those accounting standards. Valuation measures used for pension funding are the purview of actuaries.

Executive Summary

The PTF reviewed many proposals for change in standards from a variety of sources including: Responses to the 2014 ASB Request for Comments (RFC) on the ASOPs and Public Pension Plan Funding and Accounting, the 2015 ASB public hearing on public pension issues, and many other sources (see Appendix 2). Based on its review, the PTF suggests the following potential changes for consideration by the ASB. The PTF suggests that these potential changes apply to all defined benefit pension plans, both public sector and private sector, with two exceptions noted below.

Suggestions affecting all pension work:

- Calculation and disclosure of a solvency value.
- Improved management of assumptions:

- Disclosure of the basis of each significant assumption (e.g., experience study or other) and, if study-based, the date of the study.
  - That the actuary should consider whether techniques such as experience studies or gain/loss analysis are warranted when setting demographic assumptions.
  - Determination and disclosure of the length of time since a significant assumption was last analyzed and the availability of credible data.
  - Calculation and disclosure of a partial gain and loss analysis.
- Clarification of existing guidance regarding assumptions:
  - Clarification that the requirement to "disclose the information and analysis used in selecting" each assumption[1] includes disclosing why the actuary thinks the assumption is reasonable.
  - Clarification that phase-in of assumptions is only allowed if the assumption actually used is itself reasonable.
- Additional guidance regarding methods:
  - That the actuary consider benefit security, intergenerational equity, and contribution stability and predictability – and the balance among these three – when selecting a contribution allocation procedure.[2]
  - Specific reference to direct rate smoothing with general guidance that is consistent with that for asset smoothing.
  - Extension of the concept to disclose the information and analysis used in selecting each assumption[3] to the selection of aspects of the method that have a significant effect on the measurement.

Suggestions affecting pension work that does not include federally mandated assumptions or methods:

- Calculation and disclosure of contribution requirements and funded status associated with a reasonable (to be defined in standard) actuarially determined contribution. Such reasonable actuarially determined contribution defined as meeting the following requirements:
  - meeting the existing requirements of ASOP Nos. 4, 27, and 35;
  - that if an actuarial cost method is used, each member's normal cost must be based on the benefit structure applicable to that member;
  - that amortization payments must either be greater than the nominal interest on the unfunded liability, or pay off the unfunded liability within a reasonable time period (with the determination of reasonability taking specified considerations into account).
- That the actuary provide an opinion statement about the reasonableness and consistency of significant individual assumptions, the assumptions in the aggregate, and the combination of the assumptions and methods, including the interaction of any smoothing techniques used, taken together.

Suggestions that are applicable only in certain situations:

- Disclosure of the justification for using pension mortality tables (or variations on such tables) that substantially pre-date more recent published pension mortality tables.

[1] Section 4.1.2 in both ASOP No. 27 and ASOP No. 35
[2] Addition to factors for consideration in ASOP No. 4, section 3.14
[3] Section 4.1.2 in both ASOP No. 27 and ASOP No. 35

- Extension of the requirement to disclose situations where current funding policy/practice is expected to result in plan exhaustion[4] to require a qualitative estimate of when assets will be exhausted.
- Disclosure of the implicit amortization period in fixed-rate contribution situations under the current funding policy.
- Disclosure of any situation where the contribution requirement is less than the normal cost plus interest on the unfunded accrued liability calculated using the market value of assets, and how long before the contribution requirement is expected to exceed that amount.
- Disclosure of a historical scorecard comparing actual contributions to recommended contributions if this information is available to the actuary and there is a history of significant underfunding.

Background

The genesis of this project goes back a number of years to concerns about financing and measurement issues associated with public pension plans. These concerns led the American Academy of Actuaries ("Academy") Board to ask its Public Interest Committee (PIC), in 2008, to consider the matter. The PIC concluded "that it is in the public interest for retirement plans to disclose consistent measures of the economic value of plan liabilities and assets," and that the Academy Board should ask "the Actuarial Standards Board to take expedited action to consider, develop and adopt appropriate standards of actuarial practice to address this issue. The PIC does not recommend a public statement by the [Academy] Board at this time supporting the disclosure of the market value of assets and liabilities by public pension plans." The Academy Board made such a request shortly after the PIC delivered its report.

At the time the ASB, through its Pension Committee, was already very active in the pension area but this request added additional emphasis. The Pension Committee debated the PIC's recommendation, but concluded not to recommend such a disclosure requirement to the ASB.

Many changes have been made to pension standards over the past half-decade or more that strengthened the guidance applicable to work done by pension actuaries. The list below is indicative of the volume of effort and activity that has gone into strengthening these standards:

- ASOP No. 4, Measuring Pension Obligations and Determining Pension Plan Costs or Contributions
    - First Exposure Draft – December 2002
    - Second Exposure Draft – March 2005
    - Third Exposure Draft – August 2006
    - Revision adopted – September 2007

- ASOP No. 4, Measuring Pension Obligations and Determining Pension Plan Costs or Contributions
    - First Exposure Draft – January 2012

[4] ASOP No. 4, section 3.14.1

    - Second Exposure Draft – December 2012
    - Revision adopted – December 2013

- ASOP No. 6, Measuring Retiree Group Benefits Obligations and Determining Retiree Group Benefits Program Periodic Costs or Actuarially Determined Contributions
    - First Exposure Draft – April 2012
    - Second Exposure Draft – March 2013
    - Revision adopted – May 2014

- ASOP No. 27, Selection of Economic Assumptions for Measuring Pension Obligations
    - Request for Comments – March 2008
    - First Exposure Draft – January 2011
    - Second Exposure Draft – January 2012
    - Revision adopted – September 2013

- ASOP No. 35, Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations
    - Exposure Draft – December 2009
    - Revision adopted – September 2010

- ASOP No. 35, Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations
    - Exposure Draft – September 2013
    - Revision adopted – December 2014

- ASOP No. 44, Selection and Use of Asset Valuation Methods for Pension Valuations
    - First Exposure Draft – December 2001
    - Second Exposure Draft – October 2003
    - Third Exposure Draft – September 2005
    - Fourth Exposure Draft – August 2006
    - New standard adopted – September 2007
    - Clarified – September 2009

- Proposed Risk ASOP, Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions
    - Discussion Draft – June 2012
    - Exposure Draft – December 2014

In spite of these changes, a feeling persists among many that there is more to do. For example, in 2014, both the Conference of Consulting Actuaries and a Blue Ribbon Panel created by the Society of Actuaries (SOA) issued reports (see Appendix 2), this time specifically focused on public pension plans. Both of these reports offered suggestions as to how to address actuarial issues concerning these plans. The Blue Ribbon Panel Report offered a number of specific proposals for ASB action as well.

In response to this and other activity, the ASB, through its Pension Committee, developed a Request for Comments on the topic of *ASOPs and Public Pension Plan Funding and Accounting*, which the ASB issued in July of 2014. This RFC was intended to elicit comments on a number of topics related to public pension plans. Over 50 comment letters were received covering a wide variety of potential ASB actions. In order to address the volume of proposals received, the ASB approved the formation of the PTF in December of 2014, and in March of 2015 approved the PTF's membership and the PTF's charge.

Charge

The charge given to the PTF from the ASB was:

> Review public pension input from specific sources, including the responses to the ASB's Request for Comments on ASOPs and Public Pension Plan Funding and Accounting, and other relevant reports and input to develop recommendations for ASB next steps. Next steps should include rationale for areas where the task force is recommending action as well as areas where the task force is recommending no action.

Task Force Membership

When the task force was being established, the ASB leadership wanted a group that included the requisite expertise in the subject matter and in writing standards, was balanced in viewpoints, would be able to complete the project on a timely basis, and would be able to take a fresh look at things. At the same time, it wanted at least one member who could provide some perspective on the development of the existing standards. The ASB appointed the following members to the task force:

- Bob Meilander (Chair)
- Mita Drazilov
- Alan Milligan
- Frank Todisco

Background information on the PTF members is available in Appendix 1.

PTF Activity

The PTF began deliberations immediately after its formation. While the RFC responses and the Report of the Blue Ribbon Panel – and later the commentary from the public hearing – formed the starting point for PTF discussions, several other key documents were discussed that the group felt should inform its judgment. The PTF's first task was to identify these and familiarize itself with them. Particular sources of data that were considered are identified in Appendix 2.

While reviewing the material in the data sources, the PTF noted that several key, high level issues seemed to have particular importance and that these issues needed to be addressed early in the process. As a result, the PTF considered these high level issues first. While the PTF did not develop final views on these issues at that time, the discussion did lead to a consistency of views on these topics over the course of this project. These high level issues and PTF considerations are covered in the Key Issues section of this report.

The next step was to provide input to the ASB as to whether a public hearing might help the PTF and the ASB in its work and to advise the ASB on the potential merits and drawbacks of devoting ASB resources to conducting a public hearing. The PTF presented considerations on a public hearing to the ASB at its March, 2015 Board meeting. At the conclusion of that discussion, the ASB voted to hold a public hearing. The ASB subsequently began work on developing the public hearing, which took place in Washington, D.C. on July 9, 2015. While the hearing was entirely under the control of the ASB, the PTF members had key roles in participating in the public hearing, particularly in the questioning of witnesses. The ASB accepted both written and oral comments at the hearing and about 20 individuals commented. This commentary provided significant additional input to the PTF.

Identifying and evaluating the proposals in the various data sources came next. In this stage of the project the PTF identified both proposals that it felt merited consideration for changes in standards and those that it felt could not or should not be done. These proposals were then evaluated for usefulness to the ASB and a rationale for the PTF view was developed for each. Note that this was done for both items that the PTF believed should be considered for change and those that should not be so considered. The PTF felt it was important to express the rationale for its views either way.

At this point the PTF developed and fleshed out the proposals for change that it wanted to suggest to the ASB. The degree of "fleshing out" varies from topic to topic. In some cases only a concept is given, while in others language that is approaching standards language is given. It was the intent of the PTF to provide enough information in its report so that what it is suggesting is clear. The PTF resisted the urge to "punt" on tough issues (which often included important details) as much as it could.

Production of this report was the final task of this project. One interesting aspect of the drafting is that when this project was started, it was the intent of the PTF to allow for minority opinions from members who did not agree with certain majority viewpoints. As the report was drafted, a version of this option was only used in one situation, where the PTF had a split opinion. This does not mean to suggest unanimity in all respects for all the other issues; rather it means that members who had concerns about particular issues did not feel that those concerns were significant enough to require a minority opinion.

Key Issues

Early in its work, the PTF concluded that consensus was needed on certain key issues before it began discussion of more specific ideas. These key issues are discussed in this section.

1. ***Should standards require information for the benefit of users other than intended users?***
2. ***Where should pension standards fall on the principles-based/prescriptive spectrum?***
3. ***Should additional guidance for public plans be provided? Should any additional guidance apply to non-public plans as well?***
4. ***Should disclosure of some kind of market-based value of liabilities be required?***
5. ***Can/should the actuarial profession step in and provide stronger guidance if regulation is deemed to be insufficient?***

Should standards require information for the benefit of users other than intended users?

This was question 6 of the RFC[5] and it received about 50 responses. Key points raised in those responses in favor of providing such information are noted below:

- Some felt that the definition of intended users should be expanded, noting that actuarial reports are often available to the public and, therefore, the public is an intended user. Others implied the same thing, noting that the actuarial definition of a principal is inconsistent with the economic definition and suggesting that in a public pension plan, the real principals are taxpayers, plan participants, the users of government services and bond holders.
- A variation of this view held that the actuary's report should reflect the needs of all stakeholders in the plan. In this view, information valuable to this broader group of stakeholders should be included in the reports. Some went so far as to suggest that the actuary should make the actuary's report available to those stakeholders even if the principal did not. There were numerous suggestions as to whom this group might include.
- One commentator stated that "While actuarial standards cannot be a replacement or a proxy for accounting standards and legislation, they can go a good ways to protect the public" and implied that additional information should be provided for that purpose.
- Others felt that additional information should be provided for the benefit of those who are not intended users, without expansion of the intended user group, because it is needed to allow them to make informed decisions. Some of these commentators felt that the difference in regulation between private and public plans created a need for more disclosure. Still others thought that such additional information should be provided as part of the profession's responsibility to the public.

Other commentators felt that additional information for the benefit of users other than intended users should not be required, for a variety of reasons:

- Some noted that what is included in the report and how it is made available is a matter for the actuary and the actuary's client. They felt that only the principal has the authority to define the purpose of any actuarial work, and so only the principal should determine when it is appropriate to provide actuarial information to individuals who are not intended users. Furthermore, some noted that requiring the actuary to provide information to individuals who are not the intended users could lead to a breach of confidentiality.
- Others noted that the public sector may be the area where there is the least need to have the ASOPs require actuaries to disclose information for the benefit of non-intended users as a process already exists for users to present their information needs. These commentators stated that to the extent someone who is not an intended user wants additional information, such as the plan's accrued liability calculated on a market value basis, he or she should ask the plan sponsor for it and/or hire an actuary to calculate it for him.
- Others were concerned about the practicality and cost of requiring the calculation and disclosure of additional information for the benefit of non-intended users. Some noted that the variety of individuals or groups who are not intended users and the variety of actuarial

[5] Question 6 of the RFC reads: *"The current definition of an "intended user" of an actuarial communication is "any person who the actuary identifies as able to rely on the actuarial findings" (ASOP No. 41, Actuarial Communications, section 2.7). Should the ASOPs require the actuary for public pension plans to perform additional, significant work (which would be incorporated in the guidance provided in the ASOPs) that is not requested by the principal if that work provides useful information to individuals who are not intended users? Why or why not? If so, should this requirement be extended to all pension practice areas? Why or why not?"*

information they could find useful for a variety of purposes would be overwhelming, placing an impossible burden on the actuary. Others felt that imposing such a requirement would result in pension trusts paying for information that is not for the benefit of the beneficiaries of the trusts, which they said would be a violation of trust principles.

- Still others commented on the kind of information that might be requested by non-intended users. Some noted that if actuarial communications provide all the information that the principals need to make informed decisions, these communications would provide useful information to individuals who are not intended users. Some wondered how useful any additional information can be if it is not requested by the principal and is not required for the operation of the plan or needed to satisfy any of the disclosure requirements for public plans.

PTF view: The PTF believes that the actuary should not be required to provide information merely because it might be useful to someone who is not an intended user. That said, the PTF believes that the demands of appropriate actuarial practice dictate that the actuary disclose information that the intended user needs to make an appropriate decision given the purpose of the actuary's work, or that the actuary feels should be disclosed when doing appropriate work, regardless of whether the intended user asks for it or wants it. Furthermore, as required by ASOP No. 41, this information should be stated "with sufficient clarity that another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary's work as presented in the actuarial report."[6] Inclusion of this material in sufficient clarity will help "ensure that such services are not used to mislead other parties."[7]

For ASOPs in general (i.e., across pension plan sectors and actuarial practice areas), the PTF recognizes that there can be legitimate concerns with requiring additional information merely because it would be of interest to non-intended users. In some cases, requiring such disclosure could require disclosure of confidential information, which would be a violation of Precept 9 of the Code of Professional Conduct (the Code). It also may require disclosing things that the principal does not want to disclose. To the extent others want additional information beyond what is needed for the intended user to make an appropriate decision, one potential way to get it is to ask the principal for it, not to require the actuary to disclose it against the principal's will.

In addition, the PTF notes that, in the specific case of pension trusts, requiring actuaries to disclose additional information solely for the benefit of non-intended users – i.e., beyond the information that is needed to make an appropriate decision – would result in pension trusts paying for information that may not be for the benefit of the beneficiaries of the trusts, which could potentially be a violation of trust principles.

That said, the PTF believes that in the specific case of pension plans, for the most part the information that the intended user needs to make an appropriate decision (which may include information that current ASOPs do not require to be disclosed) will include much of the information that others would reasonably request. To the extent additional information is desired, the person requesting it can request it from the intended user (plan sponsor) and, if necessary, hire an actuary to further develop or analyze that information. If the intended user won't provide the information, it should not be the responsibility of the actuary to do so.

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[6] ASOP No. 41, Actuarial Communications, Section 3.2
[7] Code of Conduct, Precept 8

Furthermore, as a general matter, the PTF does not believe the definition of intended user should be changed (i.e., it should be left to the professional judgment of the actuary). The PTF notes that the intended user is defined in ASOP No. 41, Actuarial Communications, as "any person who the actuary identifies as able to rely on the actuarial findings."[8] ASOP No. 41 also requires the actuary to disclose who the intended user is in any actuarial report.[9] Examples of the description included in public pension plan actuarial reports include "The Board of Trustees" and "The Board of Trustees and other interested parties." This allows the actuary to select an appropriate intended user given the purpose of the report and to tailor the report to that user. This helps the actuary maintain control of the work product and minimize the possibility that the work will be misused.

At the same time, the PTF notes that the actuary has a responsibility to "take reasonable steps to ensure that such services are not used to mislead other parties." (Code, Precept 8) This is expanded in ASOP No. 41, section 3.7:

> "<u>Responsibility to Other Users</u>—An actuarial document may be used in a way that may influence persons who are not intended users. The actuary should recognize the risks of misquotation, misinterpretation, or other misuse of such a document and should take reasonable steps to ensure that the actuarial document is clear and presented fairly. To help prevent misuse, the actuary may include language in the actuarial document that limits its distribution to other users (for example, by stating that it may only be provided to such parties in its entirety or only with the actuary's consent).
>
> Nothing in this standard creates an obligation for the actuary to communicate with any person other than the intended users."

Finally, in considering this position, the PTF noted that the ASB's mission statement includes acknowledgment of the "public interest" as a consideration for the ASB. To quote from the ASB web page: "Standards of practice also serve to further assure regulatory authorities that they can depend on the actuarial profession to act effectively in the public interest. Written standards of practice, coupled with written provisions for disciplining members, show that a profession governs itself and takes an active interest in protecting the public."

The PTF believes that the actuary is performing work in the public interest when he or she is doing work that will help the client make an appropriate decision.

Where should pension standards fall on the principles-based/prescriptive spectrum?

This is a variant of question 4 from the RFC,[10] which received about 35 responses. Given PTF's charge, the group was interested in any perceived boundaries regarding how any additional pension guidance might be constructed.

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[8] ASOP No. 41, Actuarial Communications, Section 2.7

[9] *Ibid*, Section 4.1.3.a

[10] Question 4 of the RFC reads: "*In general, the ASOPs are principles based and not rules based. As a result, the ASOPs are generally not highly prescriptive. Should the ASOPs related to public plan actuarial valuations be more prescriptive? If so, in what areas?"*

The overwhelming majority of the responses to the RFC supported the current principles-based approach to writing standards. Among the stated reasons for doing so:

- The decision to make ASOPs principles-based has long standing within the ASB. It seems that this approach has served the profession well.
- A complex and changing environment is best addressed with principles-based guidance. ASOPs that are more prescriptive may limit an actuary's ability to tailor the actuary's work for a particular client. It was noted that this may be particularly important in the public pension arena given that each public pension plan exists in a unique regulatory, political and societal environment and each jurisdiction has developed its own funding practices and measurement focus that reflect the jurisdiction's unique priorities.
- The current standards are generally principles-based and are grounded in professionalism rather than other considerations. As such, they have substantial moral authority. This makes both actuaries and others who have the authority to set actuarial assumptions or to require actuarial methods very reluctant to go outside of the bounds prescribed by the ASOPs. If the ASOPs were instead viewed as being based on rules and selecting specific methods or assumptions based on criteria unrelated to professionalism, they would lose much of their moral authority. If that were to happen, it may become acceptable to plan sponsors or others to prescribe assumptions that require an actuary to qualify their report.
- It is better if any prescriptive impact follows from the ASOP principles, thereby allowing the ASOPs to let specific practices vary within those principles.

Those arguing for more prescriptive guidance made the following comments:

- Within a principles-based system, certain practices can be determined a priori to be inconsistent with the principles. Using assumptions and methods outside those boundaries should be permitted only if fully supported by strong arguments by the actuary.
- In the absence of strong third-party regulation such as that provided by the FASB and the Congress in the corporate area, much may need to be somewhat prescriptive if it is to achieve the desired impact. If it is to be effective, a Public Plans ASOP will need to contain provisions that appear (and may actually be) compulsory, effectively substituting for non-existent laws or regulations. "While this may be at complete odds with the historical role played by actuaries, someone has to take responsibility to make clear the financial situation so that those who do govern either follow the advice of the actuaries or deal with consequences of the public fishbowl."
- It may be appropriate to be more prescriptive in the area of disclosures.

Finally, many commentators said, in effect, that the standards should be principles-based except when they need to be prescriptive.

PTF view: The PTF believes that principles-based standards should be the goal for pension standards (as well as all other actuarial standards) but the PTF does not necessarily feel limited by this view.

In coming to this conclusion the PTF was guided by ASOP No. 1, section 3.1.4, which states:

> "The ASOPs are principles-based and do not attempt to dictate every step and decision in an actuarial assignment. Generally, ASOPs are not narrowly prescriptive and neither dictate a single approach nor mandate a particular outcome. Rather, ASOPs provide the actuary with an

analytical framework for exercising professional judgment, and identify factors that the actuary typically should consider when rendering a particular type of actuarial service. The ASOPs allow for the actuary to use professional judgment when selecting methods and assumptions, conducting an analysis, and reaching a conclusion, and recognize that actuaries can reasonably reach different conclusions when faced with the same facts."

The PTF feels that it is important to give the actuary room to exercise professional judgment in tailoring work to fit the needs of a particular situation and that principles-based standards best fit this need.

On the other hand, the PTF feels that standards can apply prescriptive limits to practice, where necessary. The PTF notes that there are numerous limits in current standards, including pension standards.[11] The Task Force believes that limits work best when they can be expressed in principles-based terms, but becoming more prescriptive is acceptable if appropriate to the situation. It was noted that disclosures can be and often are a bit more prescriptive in nature.

Should additional guidance for public plans be provided? Should any additional guidance apply to non-public plans as well?

The first of these is question 1 from the RFC and it generated about 45 responses. The second is question 5 and it generated about 30 responses. In reviewing these responses the PTF noted that many, if not most, of those who responded to the RFC addressed both of these questions together. As a result, the PTF considered them together as well.

Those arguing that no additional guidance is needed for public plans made the following comments:

- The biggest issue with respect to public plans is not an actuarial issue but rather a legal and political issue with whether or not to make the full contributions. Proponents of this view tend to feel that "What might be of greater benefit would be appropriate rules that carry the force of law and to which public entities would also be accountable."
- Public plans are subject to regulation already. "While the applicable rules are not uniform across the country, there is no shortage of rules."
- The existing standards provide sufficient guidance, especially given the revisions and strengthening of the key pension standards in the last few years.

Those arguing that additional guidance is needed for public plans in particular made the following comments:

- There is a lack of independent, uniform regulation of public plans. "In the absence of strong independent and objective regulation and oversight, we believe that the actuarial profession must provide more specific guidance to assure that funding calculations more fully support funding objectives."

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[11] For example, see ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*, Section 3.13(a): "The period over which normal costs are allocated for a participant should begin no earlier than the date of employment and should not extend beyond the last assumed retirement age."

- “Probably the most compelling reason for a separate standard of practice for public plans is the circumstance that the sponsor of a public plan is often the same entity that regulates the plan.”
- There is a misperception that ASOPs are de facto regulation governing public sector plan funding. Perhaps the ASOPs should require actuaries to disclose that ASOPs do not act to regulate the funding of plans.
- “The profession, via the ASB, must be the bad guy, the adult in the room.”
- The range of stakeholders and the potential consequences to the public are such that there should be improvements to the standards.

Those arguing that additional guidance is needed but that it should be applicable to all pension practice made many of the same points as those arguing that improvements are needed but point out the similarities between public plan practice and practice in other areas.

- “We believe that any additional guidance should apply to all pension plans: public, church, endowment, multiemployer, non-qualified and corporate. All plans and all actuaries should have guidance that assists sponsors in making good decisions.”

In reviewing the responses to the RFC, it appears that many commentators were unaware of the differences between the regulation of qualified single-employer private sector plans and other types of private sector pension plans. The funding requirements of ERISA applicable to single-employer private sector plans do not apply to multi-employer plans and church plans. In this way, these latter plans are similar to public sector plans. Non-qualified supplemental plans are effectively excluded from all pension regulation.

PTF view: The PTF believes that additional pension practice guidance is needed. Numerous proposals for change were made in our source documents that the PTF believes are necessary to meet the demands of appropriate actuarial practice. The PTF believes change is especially necessary with respect to the disclosure of risk. As discussed earlier, the ASB Pension Committee has been actively working on the risk issue for some time. The Committee is, at the time of this writing, assimilating comments received regarding an exposure draft titled *Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions*.

There was general agreement among the PTF members that, to the extent practical, any additional guidance should apply to all pension plans. In coming to this conclusion, the PTF noted that the ASB generally prefers standards that have broad application. In addition, the PTF believes that perhaps the most prominent reason offered for separate standards for public plans – the lack of independent, uniform regulation of these plans – is not a good reason for differing standards. As noted below, the PTF believes that standards cannot substitute for regulation. Therefore, the need for standards is somewhat independent of the regulatory environment. As a result, absent strong evidence to the contrary, PTF suggestions for improvement would be expected to be equally applicable to all pension plans as they are simply expressions of appropriate actuarial practice.

Should disclosure of some kind of market-based value of liabilities be required?

This was not among the questions asked in the RFC but there were many responses that touched on it. In addition, it was a significant topic at the public hearing. Notably, the announcement of the public hearing included the following language:

> “A number of comments and other publications have suggested the calculation, and disclosure in the actuarial report, of alternative liability (and sometimes associated normal cost) measurements for public pension plans. Suggested alternative liability measurements included: (1) a “solvency” or “settlement” liability based on the estimated costs of transferring all risk, including investment and mortality risk, to an insurance company; (2) a liability based on a Treasury yield curve, to approximate the cost of eliminating almost all investment risk; (3) a liability based on discount rates commensurate with the level of risk of the underlying benefit promise; and (4) a liability based on a high quality corporate yield curve, for comparability to the discount rate basis used by private sector plan sponsors.”

In addition, there are a number of other places in the background material the PTF reviewed that covered the topic.

Those arguing for required disclosure of an alternative liability measurement made the following comments:

- The value of the plan liability and normal cost at a current “default-free” interest rate represents the cost to the employer if no risk is taken on plan investments, allowing 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 also 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.
- A market-based liability measure could provide a measure of the cost of settling the obligation with an insurance company. It is important to know how much money it would take to secure the obligation, because of the possibility of future financial difficulties for the plan sponsor or plan. Such information should help inform the funding policy.
- The expected-return model (i.e., basing the liability and normal cost on an expected rate of return on plan assets) can encourage increasing the allocation of assets to risky asset classes because this will decrease liabilities and costs. As a result, it is important to also provide a measure of the liability that does not vary with the plan’s asset allocation.
- The expected-return model can provide an incentive to make overly optimistic or aggressive investment return assumptions because a more optimistic assumption lowers the liability and allows for lower contributions or higher benefits. As a result, it is important to also provide a measure of the liability that is based on observations of external market data rather than subjective judgments about future returns.
- The value of a liability depends on characteristics of the liability, not on how the liability is going to be financed. Related to this is the “law of one price.” Two identical benefit promises should not have different values merely because of differing asset allocations being used by the sponsor.
- For certain purposes, using an expected-return liability may pass an uncompensated risk to future generations, because the cost of the risk is not included in an expected-return measure.
- However imperfectly, markets provide the most objective measure of value.
- We cannot afford to be an insular profession, and need to incorporate other worthy, serious scientific thought, such as some of the contributions from financial economics, when it has merit and would add value to what we do.

Those arguing against required disclosure of an alternative liability measurement made the following comments:

- A market-based measure is not directly needed for implementing funding policy.
- A market-based measure would overstate costs for current generations by charging them more than the expected-value cost.
- Existing actuarial standards of practice recognize that measurements of plan liabilities may be made on a market consistent basis, but the appropriate basis to measure liabilities depends on the purpose of the measurement. (The measurement should not be mandated by a standard.)
- Requiring significant additional disclosures that the principal does not value requires that either the actuary do the work without being compensated or that the principal be compelled to pay for work that is of no value to it. To compel public plan actuaries to perform work so that other interested parties can reap the benefits of such analysis does not seem appropriate.
- If someone who is not an intended user wants the plan's accrued liability calculated on a market value basis, he should ask the plan sponsor for it or hire an actuary to calculate it for him.
- A market-based measure will be mis-used politically to attack and destroy DB plans. As a result, providing such a measure could be a violation of Precept 8 of the Code of Conduct, which requires that "An Actuary who performs Actuarial Services shall take reasonable steps to ensure that such services are not used to mislead other parties."
- A market-based measure would lead to the demise of public sector DB plans because of the volatility of such measures. Some proponents of this argument believe that the economic properties of such measures led to the sharp decline in private sector DB plans, and that the same would happen in the public sector.
- All that's really needed is additional risk disclosure (but not using a market-based liability measure as a required risk metric).

PTF view: PTF believes that a market-based alternative liability measurement should be calculated and disclosed for all valuations of pension plans for funding purposes. The PTF evaluated a number of reasons for doing so and found the following to be compelling:

> **It may be misleading to show traditional values by themselves**. – The disclosure of the traditional model actuarial accrued liability, in the absence of any other liability measure, provides an incomplete picture of the obligations of the retirement system. The PTF recognizes that the financing of a retirement system using assets that are mismatched with the underlying liability in either timing or level of risk is a decision for the intended user, not the actuary. However, the disclosure of a market-based alternative liability provides a reasonable measure of the cost to a retirement system of reducing the risk that the traditional actuarial liability measurement will be insufficient collateral for the underlying obligation, and this is valuable information that the plan sponsor needs to make appropriate decisions about the financing of the plan. While this additional information may be misused by some parties, relying on just the traditional measure may give an incomplete picture of financing of the plan.
>
> **The disclosure of an alternative liability measurement provides important information about risk and may encourage better decisions regarding the financing of the plan.** – The PTF is concerned about the incentives for risk taking without adequate understanding of the risk that is inherent in more traditional valuations. The disclosure of an alternative liability value provides a measure of liability that is independent of the plan's asset allocation. Relying solely on a measure that can be changed by changing the plan's asset allocation, absent any additional

information, may lead to inappropriate risk taking on the part of the plan sponsor. Over time this additional information may help plan sponsors make better decisions.

The disclosure of a market-based liability value will help advance the actuarial profession. – The actuarial profession cannot be an insular profession. Actuarial science needs to advance where appropriate, which includes incorporating widely accepted and intellectually compelling arguments from other professions. In suggesting that disclosure of such a market-based liability measure should be required, the PTF is not implying that such a measure is "the one true answer"; rather, the PTF believes that such a measure would show an important alternative view of pension finance that provides important information for those making decisions about plan funding, investment, and benefit design, in conjunction with more traditional actuarial measures.

The PTF believes that a market-based alternative liability measurement is important in helping plan sponsors and trustees – of both public and private sector DB plans – fully understand the funded status of their plans. The PTF notes that concern about the funding of public plans is well documented;[12] however, the PTF also notes that in the private sector, solvency liability measures (e.g., on a PBGC basis) often exceed accounting and funding liability measures, sometimes resulting in lost benefits upon plan termination for plans that were "fully funded" according to accounting or ERISA funding measurements.

Can/should the actuarial profession step in and provide stronger guidance if regulation is deemed to be insufficient?[13]

This question was implicit in many of the responses to question 1 of the RFC regarding the need for additional guidance for public plans. Note that because of how the RFC questions were structured, the issue of substituting for regulation was not directly addressed. However, there were a number of closely related comments.

Some commentators felt that there is a need for stronger guidance for public plans because there is less uniform regulation, stating that:

- The profession, via the ASB, must be the bad guy, the adult in the room.
- In the absence of strong, independent and objective regulation and oversight, the actuarial profession must provide more specific guidance to assure that funding calculations more fully support funding objectives.
- The failure to make sufficient contributions while ignoring the advice of the actuary can be mitigated by a greater degree of prescription in the standards.

Those who felt there is no need for stronger guidance as a substitute for regulation stated that:

- Regulation of public plans is outside the purview of the ASB and the Code of Professional Conduct.
- Regulations are different from professional standards and what is appropriate for a regulation may not be appropriate as a professional standard.

[12] See *Report of the Blue Ribbon Panel on Public Pension Plan Funding*, Appendix 2, for example.

[13] Note that this question seems to imply that regulation of public pension plans is insufficient. While some commentators felt that it is, others felt that, while it is different, it is not weak. In any event, the degree of the problems and concerns regarding public pension funding indicate that there may be an issue.

- If there is in fact a public perception that public pension plans are not subject to sufficient regulation, the responsibility to address that would lie with the citizens of state and local jurisdictions and not with the ASB.
- Applying uniform regulation to plans established under vastly different priorities, state constitutions, laws and regulations will likely result in unintended consequences.

PTF view: The PTF believes that actuarial guidance in standards should not be a substitute for regulation. Regulation has the imprimatur of law while actuarial standards do not. Furthermore, actuarial standards apply only to the work of the actuary. For the most part, those who seek a more regulatory view from ASOPs are really seeking to regulate those who sponsor and make decisions regarding these plans. Since ASOPs do not apply to these individuals, they would be ineffective in these situations.

Pension Task Force Suggestions

Many specific proposals were made in the source materials regarding potential improvements to standards. The PTF identified those proposals and then evaluated them to determine which were items it could suggest and which were items it could not suggest.

The PTF has a number of suggestions for inclusion in standards. Some suggestions are quite detailed, even to the point of providing potential standards language. Others are more general.

Solvency Value

As noted earlier, the PTF believes that a market-based alternative liability measurement should be calculated and disclosed for all valuations of pension plans for funding purposes. However, the PTF believes that if an additional alternative liability measure is to be required, not more than one such measure should be required, as an appropriate balance between costs and benefits. There were many different proposals regarding the provision of liability measures other than traditional measures. As a result, the PTF discussed this concept and possible alternatives at length.

The PTF suggests that an alternative liability measure based on "solvency value" be calculated and disclosed for all valuations of pension plans done for funding purposes. This solvency value should represent an estimate of the cost, as of the valuation date, to defease all liabilities accrued under the plan in the marketplace, based upon the presumption that capacity is available. An acceptable proxy for this measurement would be to calculate the present value of future benefits accrued to date using:

- the unit credit method,
- U.S. Treasury rates, and
- other assumptions determined according to ASOP Nos. 27 and 35.

The PTF believes this is information that intended users (generally plan sponsors or trustees) need to make good decisions about the plan. As noted earlier, the PTF believes that the demands of appropriate actuarial practice require that actuarial information that meets this description be calculated and disclosed.

The PTF saw particular conceptual and practical value in the calculation of a "solvency" or "settlement" liability. This value would be calculated based on the estimated costs to defease the liability, such as by transferring all risk, including investment and mortality risk, to an insurance company. The PTF notes that providing this value:

- Gives intended users an understanding of how much the plan sponsor would need in assets to secure the promises made to members of the plan.
- Gives intended users an understanding of the risk to members' benefits if the plan were to be wound up and the sponsor were unable to make up any shortfall.
- Provides information about the amount of investment risk being taken by the plan. In particular, it can show the amount of investment income in excess of that provided by low-risk investments that the principal expects to receive associated with the way the plan's assets are invested, especially if it can be compared to a traditional (expected-return) measure based on the unit credit method.[14]

On the other hand, the PTF was concerned that estimation of a solvency value may be problematic. In many cases it will be impossible to attain an accurate marketplace value, as market participants will not be interested in making a true market quote in situations where there is no likelihood that the quote will lead to business. In addition, some plans are so large that the capacity to sell them in the marketplace may not exist. Fortunately, in its consideration of alternatives, the PTF noted that some commentators view a liability using Treasury rates as a reasonable proxy for a solvency liability, especially given the measurement difficulties in estimating the latter. As a result, the PTF decided to suggest requiring the calculation and disclosure of a solvency value, allowing the measure based on Treasury rates to be used as an optional proxy.

The PTF is aware that the calculation of a solvency value will require some amount of additional work but notes that solvency values have been calculated in Canada for decades. Canadian pension regulations require such a calculation and the regulation is supported by Canadian actuarial standards.

In the course of its work, the PTF discussed several other alternative calculations, as noted below, but after evaluating each, it felt, on balance, that a solvency value was the most useful alternative measure. The other alternative measures considered included:

A liability based on discount rates commensurate with the level of risk of the underlying benefit promise – The intent of this type of measure would be to approximate the economic value of the benefit promise to the participant. The PTF had mixed opinions on the additional value to the plan sponsor that would be provided by this measure and also noted particular practical difficulties in making such an estimate. Some members of the PTF were also concerned about the potential for this value to mislead.

A liability based on a high quality corporate yield curve – One version of this type of measure would provide a value to compare to a liability required to be calculated by private sector single-employer plan sponsors for their financial reporting. An advantage of that particular type of

[14] The PTF notes that there can be many differences between a solvency valuation and a traditional valuation that will make a comparison of the two problematic. For example, the solvency valuation will not include the value of future benefits due to salary increases while the traditional value sometimes will. Assumptions other than discount rates may differ as well.

liability disclosure is that it would not result in an additional disclosure requirement for private sector single-employer plan sponsors. However, the PTF saw limited potential value in providing such a measure to plan sponsors not otherwise required to calculate a liability in this manner solely so that it could be compared to a current private sector single-employer accounting measure. In addition, the PTF viewed a solvency liability measure as a better measure of the collateral needed today to cover the obligation than a measure based on corporate bonds that are subject to default risk.

A liability based on ERISA rules for single-employer plans – This measure would have some similar advantages and disadvantages to the measure just discussed. For example, it would provide a value to compare to a liability required to be calculated by private sector single-employer plan sponsors, this time for funding requirements under ERISA. This means that this type of liability disclosure would not result in an additional disclosure requirement for private sector single-employer plan sponsors. However, the PTF again saw limited potential value in providing such a measure to plan sponsors not required to calculate a liability in this manner solely so that it could be compared to a current private sector single-employer measure, in this case a funding measure. In addition, the PTF was concerned about the conceptual justification for such a measure. ERISA rules are set in a political environment (e.g., with discount rates currently based on a historical average of high quality corporate yield curves) and may not be consistent with appropriate actuarial practice.

Sensitivity of the liability to a one percent change in the discount rate – This calculation can provide useful information, but the PTF felt that merely disclosing the sensitivity of the traditional liability to a change in the discount rate did not go far enough in providing plan sponsors and trustees the information necessary to make good decisions about the plan. In addition, while such a measure provides sensitivity information and can be useful as an additional risk disclosure, the magnitude of the discount rate change is arbitrary and not tied to any specific measurement purpose.

The PTF also suggests avoiding the term "market value of liabilities," as this term can mean different things to different commentators, including some of the measures that are discussed above.

Statement of Opinion

The PTF believes that it is in the public interest for the actuary to take ownership of the methods and assumptions used in the valuation, or to disclaim them, with a positive statement. Therefore, the PTF suggests the addition of a requirement that the actuary provide an opinion statement about the reasonableness and consistency of significant individual assumptions, the assumptions in the aggregate, and the combination of the assumptions and methods, including the interaction of any smoothing techniques used, taken together.

Current standards require that the actuary should disclose his or her concerns about any assumption not prescribed by law that in the actuary's opinion is not reasonable.[15] The PTF's suggested requirement

[15] ASOP No. 4, section 2.21. Note that in this case, "an assumption or method set by a governmental entity for a plan that such governmental entity or a political subdivision of that entity directly or indirectly sponsors is not deemed to be a prescribed assumption or method set by law" – meaning that such assumptions or methods for

would go further and require the actuary to make a positive statement about those assumptions. In addition, this requirement will ask the actuary to consider not only the assumptions but the combination of assumptions and methods, taken together. Including this statement will increase confidence that the professional involved in the calculation, the actuary, believes that the work product is a reasonable result.

The PTF was split on whether this new requirement should apply to assumptions and methods that are prescribed by the federal government. Some PTF members noted that current standards do not require the actuary to form an opinion about these items and that no other practice areas require an opinion about federally mandated items. They also noted that this was a significant discussion point during an earlier iteration of revisions of ASOP No. 4 and that it was decided at that time that *only assumptions set by law where the entity setting the law had a sponsor-like interest in the plan being valued* would fall under the opinion requirement. These PTF members felt this was not the right time to extend the opinion requirements to federally mandated items.

On the other hand, some PTF members felt that the opinion requirement should be extended to items set by federal law. They noted that the intent of this requirement is to aid in adequate funding and that if the funding of a pension plan is inadequate it doesn't matter whether the assumptions were set by federal law or by any other method. Of course, this only matters if the items set by federal law lead to inadequate funding. There are a variety of opinions on this topic.

In the end the PTF decided to suggest that federally mandated items be exempted from the statement of opinion requirement, unless the federal government is, either directly or indirectly, the plan sponsor, but to note that the view within the PTF was split. It is noteworthy that some PTF members said that their view on the topic might be different if the solvency value requirement was not included in the list of suggestions. In other words, the exemption would be less palatable if the solvency value suggestion is not adopted.

Reasonable Actuarially Determined Contribution

A number of commentators proposed that the standards should delineate certain conditions that would have to be met for an Actuarially Determined Contribution[16] (ADC) to be considered to be reasonable. In their view, this would help a user understand how much contributions would have to change if it were desired to contribute on a reasonable ADC basis (if the current contributions are not being made on that basis). Specific proposals that were made as to what to require in order for a contribution requirement to be a reasonable ADC included that if the contribution requirement is based on an actuarial cost method then each member's normal cost must be based on the benefit structure applicable to that member,[17] and that the amortization payments must either be greater than the nominal interest on the unfunded liability or pay off all of the unfunded liability in a fixed (finite) time period.[18]

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plans covering federal, state or local government employees are generally subject to the disclosure requirement if not reasonable.

[16] Actuarially Determined Contribution is defined in ASOP No. 4, section 2.6, as "A potential payment to the plan as determined by the actuary using a contribution allocation procedure. It may or may not be the amount actually paid by the plan sponsor or other contributing entity."

[17] This would effectively preclude the use of the Ultimate Entry Age Normal method.

[18] This would preclude the use of perpetual negative amortization.

It was also proposed that for all plans, a contribution allocation procedure be specified that would produce a reasonable ADC and that the associated contribution requirements and funded status on that basis be disclosed whenever a funding valuation is performed. It was also proposed that a historical comparison of actual contributions to the ADC be required.

The PTF believes that the concept of a reasonable ADC is a good one. Toward this end, the PTF suggests that standards language be developed and added that states that an ADC can be considered to be a reasonable ADC if it meets the following requirements:[19]

- It meets the existing requirements of ASOP No. 4.
- It uses reasonable assumptions established in accordance with ASOP Nos. 27 and 35.
- If an actuarial cost method is used, each member's normal cost must be based on the benefit structure applicable to that member.
- The amortization payments must either be greater than the nominal interest on the unfunded liability or pay off all of the unfunded liability in a reasonable fixed (finite) time period. In determining whether the amortization period is reasonable, the actuary should consider factors such as the employee average remaining service lifetime and the length of time until amortization payments exceed the interest on the unfunded actuarial accrued liability.

The PTF further suggests that the contribution requirements and funded status associated with a reasonable ADC be calculated and disclosed whenever a funding valuation is performed.

The PTF believes that these requirements will provide useful information to the intended user that can be compared to any ADC that is determined in a different manner. For public pension plans, the PTF further believes that requiring the calculation and disclosure of this contribution amount, and the related funded status, may be effective in influencing funding practice because the accounting requirements for public plans require the disclosure of an actuarially determined contribution if one is calculated, even if it is not the basis on which contributions will be made. The PTF believes that users will come to see a reasonable ADC as being stronger and more appropriate than a contribution requirement which does not meet the criteria of a reasonable ADC.

In fixed rate plans and other plans where the contribution rate is statutorily determined or determined by collective bargaining, requiring the disclosure of a reasonable ADC would assist users in understanding the appropriateness of the current contribution levels.

The PTF notes that the rationale for the exemption of federally mandated assumptions and methods regarding the statement of opinion also applies to the reasonable ADC suggestion. As a result, calculation and disclosure of a reasonable ADC will not be required if any of the assumptions or methods used in the valuation are mandated by the federal government. The PTF notes that a statement that an ADC is reasonable requires an opinion about assumptions and methods used in setting the ADC. Since that opinion is not required for federally mandated items, it follows that an opinion as to the reasonableness of the ADC would also not be required in these situations.

[19] The PTF recognizes that this description may be over-simplistic and that many details would be left to the drafters of the resulting revisions to the standards. This list is intended to express the concepts that the PTF had in mind.

Assumptions

There were a number of proposals for change regarding assumptions that the PTF found useful, including both new requirements and clarifications of existing requirements. PTF suggestions in this area include:

- Clarification that the requirement to "disclose the information and analysis used in selecting" each assumption (the "rationale" requirement, section 4.1.2 in both ASOP Nos. 27 and 35) includes disclosing why the actuary thinks the assumption is reasonable. Anecdotal evidence indicates that some practitioners may be interpreting this requirement as only requiring a list of information sources.

- Clarification that phase-in of assumptions is only allowed by ASOP Nos. 27 and 35 if the assumption actually used is itself reasonable, perhaps in the discussion of the characteristics of a reasonable assumption. This is the PTF's understanding of the original intent of these standards. Anecdotal evidence indicates that some practitioners may be phasing in assumption changes over a period of years and PTF believes that guidance is needed in this situation.

- Several new requirements related to significant assumptions:

    - That, for demographic assumptions, the actuary should consider whether techniques such as experience studies or gain / loss analysis are warranted. (Section 3.3.2 of ASOP No. 35 cites experience studies and analyses of gains or losses by source as possible sources of information relevant to many demographic assumptions.)
    - That the actuary should determine and disclose the length of time since the assumption was last analyzed and the availability of credible data.
    - That the actuary should disclose the basis of each assumption (e.g., experience study or other) and, if study-based, the date of the study.

  These requirements may help assure that assumptions are reasonable and may help the intended user understand them.

- A requirement that when the actuary uses pension mortality tables (or variations on such tables) that substantially pre-date more recent published pension mortality tables, the actuary should disclose justification for the use of the table. This will help assure that mortality assumptions are set based on reasonably current experience unless an assumption based on an older study is appropriate to the situation.

General Guidance

Suggestions in this area include:

- A requirement that the valuation include a partial gain and loss analysis – in particular, separating out the total gain or loss into investment gain or loss and other gain or loss (the latter will be largely equal to the liability gain or loss). This is a very simple and inexpensive calculation, and provides some basic initial insight into the sources of the prior year's gain or loss. Such an analysis will provide a view to how well assumptions have been realized, which may lead to better assumptions.

- A requirement, possibly in ASOP No. 4, section 3.14, that in selecting a contribution allocation procedure, the actuary consider the following three goals, and the balance among them:
    - Benefit security (with regard to both solvency – i.e., that future contributions and current plan assets should be sufficient to provide for all benefits expected to be paid to members and their beneficiaries when due – and funded status – i.e., that a low funded status, or the risk of a low funded status, can also be a risk to benefit security).
    - Intergenerational equity (in the case of public plans, the goal of having each generation of taxpayers pay for the compensation of the public employees who provide services to those taxpayers).
    - Contribution stability and predictability.

- Specific reference to direct rate smoothing with general guidance that is consistent, where appropriate, with that for asset smoothing. While there is guidance in the standards on asset smoothing, there is no guidance on direct rate smoothing.

- Extension of the concept to "disclose the information and analysis used in selecting each … assumption that has a significant effect on the measurement" to the selection of aspects of the method that have a significant effect on the measurement. Current standards require the disclosure of the rationale for assumptions[20] and for known changes in assumptions and methods[21] and changes in cost or contribution allocation procedure[22] but do not require disclosure of the rationale for methods in the absence of changes. This requirement will help the intended user understand why the chosen methods were chosen.

Additional Conditional Disclosures

There are situations involving the use of certain methods or practices where additional disclosures are necessary to inform the intended user of the impact of these methods. The PTF suggests the following additional conditional disclosures:

- Disclosure of a qualitative estimate of when assets are expected to be exhausted prior to the final benefit payment if current funding policy/practice is expected to result in plan exhaustion.[23] This addition would give the intended user a sense of how soon this bad outcome would occur if assumptions are met. (It could occur even sooner if experience is unfavorable.) This may help the intended user better understand the impact of the current funding policy in these situations.

- In fixed-rate contribution situations (or any situation where the contributions under the current funding policy are not determined in a manner that will cause a plan's assets to be at least equal

[20] ASOP No. 27, section 4.1.2 and ASOP No. 35, section 4.1.2
[21] ASOP No. 4, section 4.1(s)
[22] *Ibid*, section 4.1(t)
[23] This likely fits best as an extension to ASOP No. 4, sections 3.14.1 and 4.1(l), which already require the actuary to disclose when "a contribution allocation procedure is significantly inconsistent with the plan accumulating adequate assets to make benefit payments when due, assuming that all actuarial assumptions will be realized and that the plan sponsor or other contributing entity will make actuarially determined contributions when due."

to the actuarial liability within some finite time), disclosure of the implicit amortization period (whether finite or infinite) under the current funding policy. This will provide decision-useful information about the rate of amortization of the plan's unfunded liability.

- Disclosure of any situation where the contribution requirement is less than the normal cost plus interest on the unfunded accrued liability calculated using the market value of assets, and of how long before the current funding policy is expected to result in contribution requirements that exceed such amounts. This may help the intended user better understand the amortization method being used.

- Disclosure of a historical scorecard comparing actual contributions to recommended contributions if this information is available to the actuary and there is a history of significant underfunding. This information may provide additional insight into the results caused by significant underfunding.

Applicability of PTF Suggestions to both Public and Private Pension Plans

Once the PTF had developed its list of suggestions, it reviewed the list to determine if its suggestions should be applicable to all pension plans and not just public pension plans. In making this judgment, the PTF noted that it is generally true that the ASB prefers standards that have broad application.

When the PTF did its review, it concluded that the demands of appropriate actuarial practice suggest that all of the PTF suggestions, with two exceptions, should be applicable to *all* pension plans, public and private (including single employer, multiemployer, and church plans). In short, the PTF saw no good reason for not applying most of these suggestions to all plans.

The two exceptions involve the actuary's opinion regarding assumptions and methods set by the federal government when the federal government is not the plan sponsor, either directly or indirectly. As noted earlier, current standards do not require the actuary to form an opinion about these items and no other practice areas require an opinion about federally mandated items. In a split view, the PTF decided that this was not the right time to extend the opinion requirements to federally mandated items. As a result, the statement of opinion will not apply to federally mandated items. In addition, because the determination of a reasonable ADC involves an opinion about the assumptions and methods used, a reasonable ADC will not be required when some of those methods or assumptions are set by federal mandate.

Items the Pension Task Force Considered but Does Not Suggest

The PTF source materials included a great many proposals and alternatives to consider. Those that the PTF felt it could suggest are included in the preceding section. There were many others that the PTF felt it could not suggest, for a variety of reasons. This section provides information, in general terms, on the reasons the PTF is not suggesting them. Note that even when a suggestion could not be supported as written, that suggestion did influence the thinking of the PTF and may have resulted in a similar or related suggestion. For a more specific listing of the proposals and the PTF disposition of them, see Appendix 3.

As a starting point, the PTF notes that its view on the key issues listed earlier provides a basis for the evaluation of many of the alternatives considered – and the reasoning behind the PTF's decision not to suggest them.

- ***Should standards require information for the benefit of users other than intended users?*** – The PTF view on this key issue was that, in general, the demands of appropriate actuarial practice dictate that the actuary disclose information that the intended user needs to make an appropriate decision given the purpose of the actuary's work. This view formed the PTF's decision not to suggest the disclosure of items such as cash flows associated with a plan as the PTF did not see the value of this information to the intended user. There were a number of other proposals for disclosure that also failed on this measure.

- ***Where should pension standards fall on the principles-based/prescriptive spectrum?*** – On this issue, the PTF came to the view that principles-based standards are to be preferred over prescriptive standards. As a result, where a specific proposal appeared to be too prescriptive, the PTF looked for a principles-based way to accomplish the same thing. For example, one commentator proposed that standards ban the use of certain specific older mortality tables. While the PTF did not feel that an outright ban of specific tables was appropriate in a principles-based standard, it did feel that there was something to the suggestion. In the end, the PTF embraced the more principles-based idea that when an older table is used, and a more recent version is available, the actuary should provide additional documentation as to why the older table was appropriate.

- ***Should disclosure of some kind of market-based value of liabilities be required?*** – The PTF took the view that at least one disclosure of this type would be appropriate. After much consideration, the PTF decided to suggest that a solvency value be calculated and disclosed. The PTF came to the view that an additional liability measure beyond the suggested solvency value would not be required by the intended user to make an appropriate decision.

- ***Can/should the actuarial profession step in and provide stronger guidance if regulation is weak?*** – The PTF view on this question – that the actuarial guidance in standards cannot substitute for regulation – provided the reason why a number of proposals were not adopted. The PTF notes that standards apply to actuaries and cannot be used to regulate the behavior of plan sponsors. Thus, for example, a proposal that the public pension community use the life insurance asset adequacy memorandum as a paradigm for appropriate regulation of public plans was rejected as it would attempt to regulate the plan sponsor.

The PTF noted that many of the proposals for change embodied ideas that are already in standards. In some cases, the proposal indicated that language in existing standards is not clear. In these cases, PTF suggested clarifying language. In others, the PTF did not agree with the reason for change and so the proposal was not included in the list of suggestions. An example of this kind of proposal was a commentator's suggestion to require a greater-than-zero mortality improvement assumption. Recent changes to ASOP No. 35 fall just short of a requirement like this and anecdotal evidence seems to suggest that those changes are having the desired effect. As a result, the PTF did not see a reason to make an additional change.

The PTF also considered the amount of work associated with each proposal. In some cases, the PTF felt that the value provided by the work was sufficient to suggest the proposal. In others, the PTF felt that the value to the intended user did not justify the amount of additional work.

The PTF also took the view that standards should respect the relationship between the client and the actuary. In other words, they should recognize that it is the client that hires the actuary and determines the scope of the engagement. Standards should not require the actuary to do things because some feel that the client should be doing them, if they are not both actuarial in nature and important to the client for making good decisions. In addition, standards shouldn't require the actuary to substitute his or her judgment for that of the plan sponsor on matters that are not actuarial. For example, standards shouldn't require the actuary to try to determine if the sponsor can afford the plan.

Other proposals were rejected for reasons that are more specific to the particular proposal and are not discussed here. As noted earlier, a complete listing of the proposals and the PTF disposition of them is included in Appendix 3.

Ideas to Pass on to Others

In a number of situations proposals were made that the PTF felt had merit but didn't specifically belong in pension standards. The PTF believes that these should be given additional consideration by other groups. These ideas are listed below:

Additional Information on Specific Pension Topics – The PTF considered a number of proposals that standards provide additional guidance on various pension topics:

- determination of funding policy, in particular, the relationship between contribution policy and intergenerational equity and the relationship between asset allocation and contribution stability
- addressing unique and/or hard to value benefits,
- actuarial cost methods,
- amortization methods and periods,
- asset smoothing, and
- explanation of the role and function of pension actuaries.

These proposals generally were not specific as to what that guidance might be.

The PTF believes that there may be a need for additional *educational* material on these topics; however, such information probably does not belong in a standard. While that means this is out of the PTF's scope of effort, the Academy may wish to consider whether providing practice notes on any of these topics, likely through its Pension Practice Council, would be of value.

Glossary of Pension Terms – One commentator proposed that the ASB develop a glossary of pension terms to help readers of pension reports understand what they are reading. The PTF believes this is a good idea but does not believe that educational material such as this belongs in a standard. Therefore, we suggest that the Academy may wish to consider whether developing a model glossary, likely through its Pension Practice Council, would be of value.

Limits of ASOPs – More than one commentator proposed that the ASOPs require a disclosure about the limitations of ASOPs vis-a-vis regulations. The PTF thinks this suggestion may have merit but believes it goes well beyond pension practice. As a result, the PTF does not suggest it here. However, the PTF does suggest that the ASB consider this concept in a broader context in due course.

Final Thoughts

The members of the PTF appreciate the confidence the ASB placed in them by giving them this assignment. They enjoyed the opportunity to work together on such an important piece of work. Along the way, each learned a few new ideas and concepts that will help in other work.

The PTF would like to thank the ASB's Pension Committee for all its fine work over many years. This group has been working on updating pension standards for over a decade and has sponsored many improvements in pension standards. In particular, the PTF applauds the efforts of the Pension Committee for anticipating and commencing the development of a standard on the crucial topic of the assessment and disclosure of risk. The Pension Committee has already published a draft standard in this area. The PTF's work is intended to provide suggestions for ways to extend the Pension Committee's very fine work across the body of pension standards.

The PTF would also like to thank the many people who commented as a result of the RFC, the public hearing, and in other ways. The PTF read all of the comments and found many thoughtful proposals for improvement in pension standards. Each was carefully considered. While many proposals were not adopted as suggestions by the PTF, each entered into the thought process that led to the list of suggestions in this report.

The PTF believes that the suggestions in this report would result in necessary improvement in pension practice. We present them to the ASB for their consideration.

List of Appendices

Appendix 1 – Pension Task Force Members
Appendix 2 – PTF Background Materials
Appendix 3 – Listing of Proposals and PTF Disposition of Each

Appendix 1 – Pension Task Force Members

Bob Meilander (Chair) was a member of the ASB from 2007 to 2015. He served as the ASB's chair in 2012 and 2013. Prior to that he served as a member of the ASB's Life Committee from 2001 to 2006. He has been a frequent speaker at actuarial meetings on the topic of actuarial standards of practice.

Mr. Meilander has been an active member of the American Academy of Actuaries and the Society of Actuaries having served on the American Academy of Actuaries Life Practice Council and Life Capital Adequacy Subcommittee. As a volunteer for the Academy, Mr. Meilander made significant contributions in the development of the 2001 Commissioners Standard Ordinary (CSO) Mortality Table and to a project to recommend new capital standards for interest rate risk associated with life insurance products.

Mr. Meilander retired from his position as vice president and corporate actuary for Northwestern Mutual in Milwaukee in 2012 after 37 years of service. In that role he was responsible for the valuation of liabilities, testing reserves, and actuarial aspects of corporate modeling, surplus management, and financial reporting. He was the company's appointed actuary from 2008 to 2011. Prior to that he was the lead actuary for Northwestern Mutual's disability income line for over 20 years.

Mr. Meilander is a Member of the American Academy of Actuaries (MAAA) and a Fellow of the Society of Actuaries (FSA). He earned his bachelor's degree from Drake University in 1973.

Mita Drazilov has been a member of the ASB Pension Committee since 2007. He served as Vice-Chairperson of the Committee in 2010-2013 and as Chairperson since 2014. He has been a frequent speaker at actuarial meetings on the topic of actuarial standards of practice.

Mr. Drazilov is a Senior Consultant for Gabriel Roeder Smith & Company (GRS), working out of GRS' Southfield, Michigan office. He has more than 20 years of experience providing actuarial and benefits consulting services to the public sector. He is an experienced consultant for statewide systems, large agent-multiple employer plans, and local government plans covering general members, teachers and public safety members. Mr. Drazilov has presented material to a wide range of audiences, including Boards of Trustees, employee groups and legislative bodies. He was a presenter in the Society of Actuaries webcast *What Every Actuary Can Learn About Public Pension Plans*. He has also co-authored an article entitled "Financial Economics and Public Sector Retirement Systems" for the Michigan Association of Public Employee Retirement Systems publication *PensionScope*.

Mr. Drazilov is a Member of the American Academy of Actuaries (MAAA), an Associate of the Society of Actuaries (ASA) and a Fellow of the Conference of Consulting Actuaries (FCA). He has a Bachelor of Mathematics, Honors Actuarial Science with a minor in Economics from the University of Waterloo.

Alan Milligan has just joined the ASB Pension Committee in 2016. He has been a frequent speaker at actuarial meetings on public plan issues.

Mr. Milligan is the Chief Actuary of the California Public Employees' Retirement System, responsible for all aspects of actuarial practice at the largest defined benefit pension system in the country.

Mr. Milligan has been a director of the CCA since 2011. He is a member of the Pension Practice Council and the Public Plans Subcommittee of the American Academy of Actuaries (Academy) and an active member of the Public Plan Community of the Conference of Consulting Actuaries. He served as a panelist on the California Actuarial Advisory Panel from its first meeting in 2010 through 2014 and was its chair through 2013. He participated on the Public Plans Practices Task Force of the Academy which developed the paper "Risk Management and Public Plan Retirement Systems" and on the Public Plans Reputational Risk Task Force of the Society of Actuaries.

Mr. Milligan is a Member of the American Academy of Actuaries (MAAA), a Fellow of the Society of Actuaries (FSA), a Fellow of the Conference of Consulting Actuaries (FCA), and a Fellow of the Canadian Institute of Actuaries (FCIA). He has a bachelor's degree in mathematics from the University of British Columbia.

Frank Todisco has been a member of the ASB since January 2015 and will serve as a Vice Chair of the ASB in 2016. He served on the ASB Pension Committee from 2004-2011, including as Chair of the Committee in 2009-2010. He has been a frequent speaker at actuarial meetings on the topic of actuarial standards of practice. He is also the author of "A Reevaluation of ASOP No. 27, Post-Enron: Is It an Adequate Standard of Professionalism" (*The Pension Forum*, January 2005).

Mr. Todisco has been Chief Actuary of the U.S. Government Accountability Office (GAO) since 2011, where he serves as an expert advisor to GAO mission teams and the Congress on actuarial issues of national interest, including those related to retirement security and pension plans. Prior to that, he was the Senior Pension Fellow at the American Academy of Actuaries, where he served as the actuarial profession's chief policy liaison and media spokesperson on pension, Social Security, and other retirement security issues. Prior to his service at the Academy, Mr. Todisco was a principal for Mercer Human Resource Consulting in New York, where he was one of the firm's leading actuaries on retirement security issues.

Mr. Todisco is a Member of the American Academy of Actuaries (MAAA), a Fellow of the Society of Actuaries (FSA), a Fellow of the Conference of Consulting Actuaries (FCA), and an Enrolled Actuary (EA). He has a bachelor's degree in economics from Princeton University and a master's degree (MA) in economics from The New School for Social Research.

Appendix 2 – PTF Background Materials

In doing its work, the PTF reviewed a number of documents. The PTF attempted to consider all of the concepts noted in these documents. However, PTF makes no guarantees that all items were considered. The PTF also notes that it did not limit its thoughts to items discussed in these documents. In the following list, a link is given for those documents that are available online.

- *ASB Request for Comments (RFC) on ASOPs and Public Pension Plan Funding and Accounting,* dated July, 2014 http://www.actuarialstandardsboard.org/asops/asops-and-public-pension-plan-funding-and-accounting-request-for-comments/
    - The 60 comments received in response to the RFC. 55 were received by the comment deadline of November 15, 2014. Five more were received after the deadline. All were considered. Only those received before the deadline are available online. http://actuarialstandardsboard.org/comments/ASOPs_and_Public_Pension_Plan_Funding_Comments.asp
- *Objectives and Principles for Funding Public Sector Pension Plans,* by The Public Plans Subcommittee of The American Academy of Actuaries, dated February 2014. http://www.actuary.org/files/Public-Plans_IB-Funding-Policy_02-18-2014.pdf
- *Report of the Blue Ribbon Panel on Public Pension Plan Funding,* by An Independent Panel Commissioned by the Society of Actuaries, dated February 2014. https://www.soa.org/blueribbonpanel/
- *Core Elements of a Funding Policy,* issued by the Government Finance Officers Association (GFOA), dated March 2013. http://www.gfoa.org/core-elements-funding-policy
- *Actuarial Funding Policies and Practices for Public Pension Plans*, a white paper from the Conference of Consulting Actuaries Public Plans Community, dated October 2014. http://www.ccactuaries.org/publications/news/CCA-PPC-White-Paper-on-Public-Pension-Funding-Policy.pdf
    - *Model Disclosure Elements for Actuarial Valuation Reports on Public Retirement Systems in California (Applicable to Pension and Other Post-Employment Benefits),* by the California Actuarial Advisory Panel, dated December 9, 2011. http://www.sco.ca.gov/Files-EO/CAAP_Model_Disclosure_Elements.pdf
- *Strengthening the Security of Public Sector Defined Benefit Plans* (aka the Blinken Report), by Donald J. Boyd and Peter J. Kiernan, dated January 2014 http://www.rockinst.org/pdf/government_finance/2014-01-Blinken_Report_One.pdf
- *Pension Plan Valuation: Views on Using Multiple Measures to Offer a More Complete Financial Picture,* by the Government Accountability Office, dated September 2014 http://www.gao.gov/assets/670/666287.pdf
- Actuarial Standards Board Hearing on Public Pension Issues http://www.actuarialstandardsboard.org/actuarial-standards-board-hearing-on-public-pension-issues/
    - Written Comments from the ASB Hearing on Public Pension Issues http://www.actuarialstandardsboard.org/actuarial-standards-board-hearing-on-public-pension-issues-comments/
- Pension Actuarial Standards from other countries

- *Standards of Practice, 3000 – Pensions,* published by the Actuarial Standards Board (Canada) http://www.cia-ica.ca/docs/default-source/standards/sp060915e.pdf?sfvrsn=0
- *Pensions Technical Actuarial Standard* published by the Financial Reporting Council (United Kingdom) https://www.frc.org.uk/Our-Work/Publications/Actuarial-Policy-Team/Pensions-Technical-Actuarial-Standard.pdf

Appendix 3 - List of Specific Suggestions with PTF Comments

The PTF considered a great number of proposals for change from various different sources. Disposition of those proposals is discussed in general terms in the report. This Appendix is intended to provide the reader with a more specific understanding of why a proposal was either adopted or not adopted by the PTF. The reader will note that there are some statements in this Appendix that are set off by quote marks. For the most part, the statement of each proposal is nearly a quote from the source. However, because some paraphrasing was done, they are not always quotes. The presence of quote marks indicates a direct quote from the source. However, the lack of quote marks does not necessarily indicate that the remark is not a direct quote.

The PTF attempted to categorize these proposals by topic. However, many proposals covered more than one topic or didn't fall neatly into a category. There are sections on each of the following topics:

External Proposal	PTF View
Funding Policy	
Add guidance regarding the relationship between asset allocation and contribution stability.	The PTF does not believe that standards should provide guidance on this subject at this time. However, the PTF feels that additional educational material on this topic may be appropriate and suggests that this topic be referred to the Pension Practice Council.
Guidance as to what constitutes an actuarially sound funding policy. We recommend that such guidance be principle-based (e.g., achieve X) rather than prescriptive (e.g., doing X not Y). For example, a potential principle might be that the funding methodology would be expected to achieve full funding over the average remaining working lifetime of the active participants.	The PTF suggests that a reasonable actuarially determined contribution (ADC) be disclosed whenever a funding valuation is performed. The PTF also suggests requirements that an ADC needs to meet to be called reasonable, including considerations regarding an appropriate amortization period.
Actuaries should avoid providing advice regarding funding policy that is in effect political commentary or behavioral science insight - politicians have better sources. However, showing the financial implications over a period of many years of particular funding strategies, and reflecting explicit scenarios regarding the employed and retired populations and regarding investment return, is squarely within the actuary's expertise and would seem to be an indicated or necessary part of a complete annual work for a large public plan sponsor. And if current policies will lead to insolvency, it's appropriate to scream about it, as was recently done by actuaries for a large Illinois plan. Of course, the earlier the warning the better.	The PTF supports the work of the ASB Pension Committee in developing a standard regarding pension risks. The PTF also suggests that the actuary express an opinion about the methods and assumptions, taken together. The PTF also notes that ASOP No. 4 requires the actuary to disclose if the contribution allocation procedure is significantly inconsistent with the plan accumulating adequate assets to make benefit payments when due, and to describe the implications of the contribution allocation procedure or the plan sponsor's funding policy on future expected plan contributions and funded status. The PTF does not believe it is the role of ASOPs to require an actuary to comment on the funding policy beyond commentary in the actuarial report.
Actuaries should disclose the projected funding status under the financing formulas contemplated by the sponsor.	The PTF notes that ASOP No. 4 requires the actuary to describe the implications of the contribution allocation procedure or the plan sponsor's funding policy on future expected plan contributions and funded status. The PTF suggests the disclosure of a qualitative estimate of when assets are expected to be exhausted prior to the final benefit payment if current funding policy/practice is expected to result in plan exhaustion. The PTF considered suggesting that projections of this type be required in other situations but decided not to do so because of the work required relative to the value of the

External Proposal	PTF View
	information to the intended user.
Additional disclosure guidance could be appropriate with respect to contribution policy. For example, the impact when a plan sponsor does not fund or has historically not funded the actuarially determined contribution.	The PTF notes that ASOP No. 4 requires the actuary to describe the implications of the contribution allocation procedure or the plan sponsor's funding policy on future expected plan contributions and funded status. The PTF suggests the disclosure of a qualitative estimate of when assets are expected to be exhausted prior to the final benefit payment if current funding policy/practice is expected to result in plan exhaustion.
The needed guidance will identify the issues actuaries should discuss with their principals regarding funding policy in view of the present and projected circumstances of the plan and its contributing entities. It will illustrate how actuaries should work with their principals to prioritize their funding policy objectives: namely, funding adequacy, intergenerational equity, and stability of contributions. Representatives of the contributing entities should establish their system's priorities with input from their actuaries. Actuaries should not set these priorities because they do not make contributions to the plans. In their specialized consulting role, actuaries focus only on the pension plan and do not have to make the difficult decisions regarding whether scarce resources should go to the pension plan or to other equally worthy projects. Actuaries will naturally be biased in favor of generous funding for the pension plans that represent their sole responsibility.	The PTF suggests that the actuary should provide sufficient information so that the intended user can make an appropriate decision. To this end, the actuarial information needed to have a conversation about funding policy should be available. However, the PTF also believes that some of the proposals in this comment go beyond actuarial standards and get into the business relationship between the client and the actuary. The PTF does not believe this is an appropriate area for standards.
Additional disclosure guidance could be appropriate with respect to contribution policy. For example the actuary could comment on the relationship between contribution policy and intergenerational equity, or on the relationship between asset allocation and contribution stability.	The PTF suggests that the actuary consider the principles of benefit security, intergenerational equity, and stability and predictability of contributions in doing this work.
One important principle that is absent from the ASOPs is the relationship between contribution policy and intergenerational equity for all types of plans.	The PTF suggests that the actuary consider the principles of benefit security, intergenerational equity, and stability and predictability of contributions in doing this work.
Disclose projected exhaustion date if funding policy is expected to result in plan exhaustion.	The PTF suggests the disclosure of a qualitative estimate of when assets are expected to be exhausted prior to the final benefit payment if

External Proposal	PTF View
	current funding policy/practice is expected to result in plan exhaustion.

External Proposal	PTF View
Cost Allocation Procedures	
Funding and values should be based on actual benefit structure.	The PTF suggests that a reasonable actuarially determined contribution be calculated and disclosed whenever a funding valuation is performed. To be considered reasonable, an ADC must meet certain conditions. One of these conditions is that the benefits used in the calculation must be based on the actual benefit provisions for each participant.
Additional disclosures should be required when the normal cost for an individual is not based on that individual's benefits. Required disclosures may include a description of how the use of this method affects the plan's normal cost, UAAL, and recommended contribution. For fixed rate plans it may also include how the use of this cost method affects the implicit amortization period.	The PTF suggests that a reasonable actuarially determined contribution be calculated and disclosed whenever a funding valuation is performed. To be considered reasonable, an ADC must meet certain conditions. One of these conditions is that the benefits used in the calculation must be based on the actual benefit provisions for each participant.
Additional guidance excluding use of ultimate Entry Age would be helpful.	The PTF suggests that a reasonable actuarially determined contribution be calculated and disclosed whenever a funding valuation is performed. To be considered reasonable, an ADC must meet certain conditions. One of these conditions is that the benefits used in the calculation must be based on the actual benefit provisions for each participant.
If rules imposed by principals prevent the use of reasonable methods, there should be a professional duty to disclose such restrictions and qualify the valuation results accordingly. All this is essential for the continued reputation and relevance of actuaries.	The PTF suggests that a reasonable actuarially determined contribution be provided whenever a funding valuation is performed, calculated according to certain principles.
More specific guidance that limits the practice of public sector plans to practices more akin to where private sector plans are today, or were under previous regulation. The ASB could reference specific private sector plan practices (e.g. asset smoothing periods no longer than 5 years, which was the ERISA standard before PPA). For more principle-based approaches, the ASB could, for example, provide guidance on amortization methods that amortization of any unfunded amounts should not be less than interest on the unfunded (i.e. no negative amortization); separate bases should be established annually for gain/loss, assumption/method changes and plan changes; and/or shorter amortization periods should be	While the PTF believes that actuarial guidance in standards should not be a substitute for regulation, it is suggesting several changes to the standards to provide more specific guidance. The PTF suggests that a reasonable actuarially determined contribution be disclosed whenever a funding valuation is performed. The PTF also suggests requirements that an ADC needs to meet to be called reasonable. The PTF suggests that these requirements apply to both private and public pensions.

External Proposal	PTF View
used for changes affecting retired populations as opposed to active populations.	
There should be clear statement of principles providing a defined targeted outcome for funding calculations. Given the complexity of these calculations, we believe that it would be valuable to establish the priority of goals for the funding program being developed. The key priorities are i) adequacy of funding, and ii) maintenance of intergenerational equity. While stable and predictable costs are important, the BRP Report noted that there was a "limited degree to which risky investments can be combined with the goal of stable contributions." (p. 20). Key to a statement of principles should be the recognition of the uncertainties facing plans.	The PTF suggests that the actuary consider the goals of benefit security, intergenerational equity, and stability and predictability of contributions in selecting a contribution allocation procedure. However, the PTF believes that the priority of these three items is a matter for the plan sponsor to decide, not the actuary. Finally, the PTF feels that additional educational material on the topic of funding policy may be appropriate and suggests that this topic be referred to the Pension Practice Council.
More guidance is needed regarding cost methods – some methods do not result in funding programs that meet most observers' view of appropriate funding principles, e.g., maintenance of intergenerational equity. The range of acceptable methods should be narrowed so that likely outcomes will be consistent with reasonable funding objectives.	The PTF suggests that the actuary consider the goals of benefit security, intergenerational equity, and stability and predictability of contributions in selecting a contribution allocation procedure. The PTF also suggests that a reasonable actuarially determined contribution be provided whenever a funding valuation is performed, calculated according to certain principles. However, the PTF believes that the choice of methods and assumptions should be left to the professional judgment of the actuary and that prescriptive prohibitions regarding these items are neither necessary nor appropriate. Finally, the PTF feels that additional educational material on the topic of funding policy may be appropriate and suggests that this topic be referred to the Pension Practice Council.
A more prescriptive approach to selecting actuarial cost methods and amortization methods for funding calculations could greatly assist in plan governance.	The PTF notes that several of its specific suggestions address the selection of cost methods and amortization methods. However, these suggestions remain principles-based.
Guidance should provide additional educational materials on actuarial cost methods	The PTF suggests that this be referred to the Pension Practice Council.
Require consistency between different aspects of method.	The PTF suggests that the actuary provide an opinion statement about the reasonableness and consistency of significant individual assumptions, the assumptions in the aggregate, and the combinations of the assumptions and methods, including the interaction of any smoothing techniques used, taken together.

External Proposal	PTF View
Amortization Methods	
I think that it is in the public interest to limit the permitted amortization period to no more than 30 years. An alternative would be to permit longer amortization periods but require the employer to report the difference between the actual contributions and those that would be required with 30 year amortization.	The PTF does not believe that a "bright line" test, such as 30 years, is necessary for appropriate practice. However, the PTF suggests that for an actuarially determined contribution to be reasonable, it must meet certain conditions. One of those conditions is that the amortization payments must either be greater than the nominal interest on the unfunded liability or pay off all of the unfunded liability in a reasonable fixed (finite) time period. In determining whether the amortization period is reasonable, the actuary should consider the employee average remaining service lifetime and the length of time until amortization payments exceed the interest on the UAAL.
Stronger guidance regarding amortization periods is needed, including achieving the intergenerational equity goal. This will improve funding and avoid a major bias for underfunding.	The PTF believes that the choice of methods and assumptions should be left to the professional judgment of the actuary and that prescriptive prohibitions regarding these items are neither necessary nor appropriate. However, the PTF suggests that a reasonable actuarially determined calculation be calculated and disclosed for each funding valuation. To be considered reasonable, an ADC must meet certain conditions, one of which is that the amortization payments must either be greater than the nominal interest on the unfunded liability or pay off all of the unfunded liability in a reasonable fixed (finite) time period. In determining whether the amortization period is reasonable the actuary should consider the employee average remaining service lifetime and the length of time until amortization payments exceed the interest on the UAAL.
Boundaries should be clearly established prohibiting the use of amortization periods that extend well beyond current employee remaining service lives. Using assumptions and methods outside those boundaries should be permitted only if fully supported by strong arguments by the actuary.	The PTF believes that the choice of methods and assumptions should be left to the professional judgment of the actuary and that prescriptive prohibitions regarding these items are neither necessary nor appropriate. However, the PTF suggests that a reasonable actuarially determined calculation be calculated and disclosed for each funding valuation. To be considered reasonable, an ADC must meet certain conditions, one of which is that the amortization payments must

External Proposal	PTF View
	either be greater than the nominal interest on the unfunded liability or pay off all of the unfunded liability in a reasonable fixed (finite) time period. In determining whether the amortization period is reasonable the actuary should consider the employee average remaining service lifetime and the length of time until amortization payments exceed the interest on the UAAL.
Limit amortization period to average working lifetime.	The PTF does not believe that a "bright line" test, such as 30 years, is necessary for appropriate practice. However, the PTF suggests that for an actuarially determined contribution to be reasonable, it must meet certain conditions. One of those conditions is that the amortization payments must either be greater than the nominal interest on the unfunded liability or pay off all of the unfunded liability in a reasonable fixed (finite) time period. In determining whether the amortization period is reasonable the actuary should consider the employee average remaining service lifetime and the length of time until amortization payments exceed the interest on the UAAL.
Disclose the amortization period and EARSL.	Section 4.1.k of ASOP No. 4 requires “a description of amortization methods” and disclosure of “the remaining amortization period for each amortization base.” In addition, the PTF suggests that the actuary consider EARSL in determining the amortization period. The PTF does not believe disclosure of EARSL is something the intended user needs.
When negative amortization occurs, particularly when used with a rolling amortization period, special quantitative disclosures should be required. These disclosures could include the number of years until the negative amortization is eliminated, or a projection of the UAAL over the amortization period.	The PTF believes that an amortization method that results in negative amortization can be acceptable as long as it eliminates the balance over a reasonable period of time. Therefore, a method that does not even pay interest on the UAAL is acceptable if it is not an open amortization method and the amortization period is not too long. However, The PTF suggests disclosure of any situation where the contribution requirement is less than the normal cost plus interest on the UAL calculated using the market value of assets and how long before the current funding policy will result in amortization payments that are greater than the interest on the UAL on that basis.
Occasions where plans are experiencing negative	The PTF believes that an amortization method that

External Proposal	PTF View
amortization, particularly plans where negative amortization is by design, must be explicitly identified and the implications described in detail.	results in negative amortization can be acceptable as long as it eliminates the balance over a reasonable period of time. Therefore, a method that does not even pay interest on the UAAL is acceptable if it is not an open amortization method and the amortization period is not too long. However, The PTF suggests disclosure of any situation where the contribution requirement is less than the normal cost plus interest on the UAL calculated using the market value of assets and how long before the current funding policy will result in amortization payments that are greater than the interest on the UAL on that basis.
The actuary should comment on the implications of the amortization method.	ASOP No. 4, section 4.1.k requires considerable information about the amortization period or periods used, including a "disclosure if the unfunded actuarial accrued liability is not expected to be fully amortized." The PTF suggests extending this to include disclosure of a qualitative estimate of the projected exhaustion date (i.e., when assets are expected to be exhausted prior to the final benefit payment) in the funding valuation, if current funding policy/practice is expected to result in plan exhaustion. The PTF also notes that ASOP No. 4 already requires the actuary to disclose the implications of the plan's contribution allocation procedure or funding policy.
Disclose any negative amortization situation and how long before the current funding policy will result in positive amortization payments.	The PTF suggests the disclosure of any negative amortization situation (i.e., the contribution requirement is less than the normal cost plus interest on the UAL calculated using MVA) and how long before the current funding policy will result in positive amortization payments.
Acceptable amortization will cover interest in all years.	The PTF believes that an amortization method that results in negative amortization can be acceptable as long as it eliminates the balance over a reasonable period of time. Therefore, a method that does not even pay interest on the UAAL is acceptable if it is not an open amortization method and the amortization period is not too long. The PTF suggests that a reasonable actuarially determined contribution be calculated and disclosed whenever a funding valuation is performed. To be considered reasonable, an ADC must meet certain conditions, one of which is that the amortization payments must either be greater

External Proposal	PTF View
	than the nominal interest on the unfunded liability or pay off all of the unfunded liability in a reasonable fixed (finite) time period. In addition, the PTF suggests disclosure of any situation where the contribution requirement is less than the normal cost plus interest on the UAL calculated using the market value of assets and how long before the current funding policy will result in amortization payments that are greater than the interest on the UAL on that basis.
Guidance regarding the existence of negative and/or rolling amortization with impact on unfunded liability if assumptions are met could be appropriate.	The PTF believes that an amortization method that results in negative amortization can be acceptable as long as it eliminates the balance over a reasonable period of time. The PTF suggests that a reasonable actuarially determined contribution be calculated and disclosed whenever a funding valuation is performed. To be considered reasonable, an ADC must meet certain conditions, one of which is that the amortization payments must either be greater than the nominal interest on the unfunded liability or pay off all of the unfunded liability in a reasonable fixed (finite) time period. (Note that rolling amortization combined with negative amortization would not satisfy the requirement for a reasonable ADC.) In addition, the PTF suggests disclosure of any situation where the contribution requirement is less than the normal cost plus interest on the UAL calculated using the market value of assets and how long before the current funding policy will result in amortization payments that are greater than the interest on the UAL on that basis.
If the amortization method is not anticipated to reduce the unfunded liability (i.e., the unfunded liability is expected to increase because contributions are less than normal cost plus interest on the unfunded liability), OR the unfunded liability is not ever expected to be fully amortized, even if all actuarial assumptions are realized and contributions are made when due, then this fact should be disclosed. These situations can arise under the following amortization methods: 1. The amortization payments in the current year are less than interest on the unfunded liability (typically the case early in the amortization period when payments are a level	The PTF believes that an amortization method that results in negative amortization can be acceptable as long as it eliminates the balance over a reasonable period of time. The PTF suggests that a reasonable actuarially determined contribution be calculated and disclosed whenever a funding valuation is performed. To be considered reasonable, an ADC must meet certain conditions, one of which is that the amortization payments must either be greater than the nominal interest on the unfunded liability or pay off all of the unfunded liability in a reasonable fixed (finite) time period. The PTF also suggests a qualitative disclosure of the projected exhaustion date (i.e.,

External Proposal	PTF View
percentage of an increasing payroll and the amortization period is sufficiently long), OR 2. The amortization period is reset each year to the original period (open or rolling amortization), so that amortization of the liability never is completed.	when assets are expected to be exhausted prior to the final benefit payment) in the funding valuation if current funding policy/practice is expected to result in plan exhaustion. Finally, the PTF suggests disclosure of any situation where the contribution requirement is less than the normal cost plus interest on the UAL calculated using the market value of assets and how long before the current funding policy will result in amortization payments that are greater than the interest on the UAL on that basis.
Rolling amortization with permanent negative amortization should be out-of-bounds.	The PTF believes that an amortization method that results in negative amortization can be acceptable as long as it eliminates the balance over a reasonable period of time. The PTF suggests that a reasonable actuarially determined contribution be calculated and disclosed whenever a funding valuation is performed. To be considered reasonable, an ADC must meet certain conditions, one of which is that the amortization payments must either be greater than the nominal interest on the unfunded liability or pay off all of the unfunded liability in a reasonable fixed (finite) time period. (Note that rolling amortization combined with negative amortization would not satisfy the requirement for a reasonable ADC.)
Additional guidance excluding use of rolling amortization periods resulting in negative amortization would be helpful.	The PTF suggests that a reasonable actuarially determined contribution be calculated and disclosed whenever a funding valuation is performed. To be considered reasonable, an ADC must meet certain conditions. One of these conditions is that the amortization payments must either be greater than the nominal interest on the unfunded liability or pay off all of the unfunded liability in a reasonable fixed (finite) time period. (Note that rolling amortization combined with negative amortization would not satisfy the requirement for a reasonable ADC.)
The use of negative amortization and/or rolling amortization periods is widespread. Furthermore, funding targets are often just 80% of full funding. ASOP No. 4, Section 3.13.2, states that, if in the actuary's professional judgment an actuarial cost method or amortization method is significantly inconsistent with the plan accumulating adequate assets to make benefit payments when due, the	The PTF suggests that a reasonable actuarially determined contribution be calculated and disclosed whenever a funding valuation is performed. To be considered reasonable, an ADC must meet certain conditions. One of these conditions is that the amortization payments must either be greater than the nominal interest on the unfunded liability or pay off all of the unfunded

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actuary should disclose this. However, only in the most egregious cases of underfunding, do public pension actuarial reports contain such disclosures.	liability in a reasonable fixed (finite) time period. (Note that rolling amortization combined with negative amortization would not satisfy the requirement for a reasonable ADC.)
Concern has been expressed about the use of amortization methods that are not to result in full amortization of the UAAL, e.g. rolling 30-year amortization. We believe the new GASB rules could result in a curtailment of the use of such methods making the need for change in actuarial standards with respect to governmental plans premature. In any case, such a method appears to require disclosure under section 4.1.k of the new ASOP No. 4. That could be added as an example. Any change in the area should be made applicable to all plans.	The PTF believes that an amortization method that results in negative amortization can be acceptable as long as it eliminates the balance over a reasonable period of time. The PTF suggests that a reasonable actuarially determined contribution be calculated and disclosed whenever a funding valuation is performed. To be considered reasonable, an ADC must meet certain conditions, one of which is that the amortization payments must either be greater than the nominal interest on the unfunded liability or pay off all of the unfunded liability in a reasonable fixed (finite) time period.
For fixed rate plans the implicit amortization period should be disclosed. If the fixed rate plan results in negative amortization then the disclosures for that should also be included.	The PTF suggests that the implicit amortization period be calculated and disclosed for fixed rate plans and that required disclosures, including those the PTF has suggested in negative amortization situations, be extended to such plans.
Disclose implicit amortization period in fixed rate situations.	The PTF suggests that the implicit amortization period be calculated and disclosed for fixed rate plans and that required disclosures, including those the PTF has suggested in negative amortization situations, be extended to such plans.
May need prescription on non-actuarial advice given to plans such as amortization schedule.	The PTF believes that the choice of methods and assumptions should be left to the professional judgment of the actuary and that prescriptive guidance regarding this item is neither necessary nor appropriate. The PTF believes that an amortization method that results in negative amortization can be acceptable as long as it eliminates the balance over a reasonable period of time. The PTF suggests that a reasonable actuarially determined contribution be calculated and disclosed whenever a funding valuation is performed. To be considered reasonable, an ADC must meet certain conditions, one of which is that the amortization payments must either be greater than the nominal interest on the unfunded liability or pay off all of the unfunded liability in a reasonable fixed (finite) time period.
Guidance should provide additional educational materials on appropriate amortization methods	The PTF suggests that the Pension Practice Council may wish to consider additional educational

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and/or periods.	material on the topic.
Amortization should be based on individual years.	The PTF notes that experience has shown that "layered" amortization schedules often result in inappropriate results (requiring a payment on the UAL when in surplus or vice versa) which has traditionally been addressed by combining the bases in a "fresh start." As a result, this proposal was not adopted by the PTF.

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Asset Smoothing	
I believe we need less prescriptive guidance on asset smoothing. ASOP No. 44 essentially says that the actuary must believe that the smoothed value and the fair value will be within a reasonable range of each other most of the time and, when they're not, they will return to such a range within a reasonable time. Some actuaries take the position that ASOP No. 44 requires corridors around market value and that the longer the smoothing period, the narrower the corridor must be.	The PTF believes that the language in the portions of ASOP No. 44, section 3.3 that are related to this comment is not inappropriately prescriptive and suggests no changes in response to this comment.
Modern financial modeling and forecasting methods suggest that asset smoothing has outlived its usefulness and we suggest that it be replaced by more transparent approaches to contribution management.	The PTF does not recommend that specific bright line limits on asset smoothing be adopted at this time. However, the PTF notes that the ASB Pension Committee has discussed revisiting ASOP No. 44 as a potential future project, subject to the ASB's prioritization of work on different pension issues, and the PTF supports that endeavor. Furthermore, The PTF suggests that the actuary provide an opinion statement including, among other things that the smoothing methods used, including asset smoothing, taken together, lead to a reasonable result.
Additional guidance excluding use of long recognition periods for asset smoothing without asset corridors would be helpful.	The PTF does not recommend that specific bright line limits on asset smoothing be adopted at this time. However, the PTF notes that the ASB Pension Committee has discussed revisiting ASOP No. 44 as a potential future project, subject to the ASB's prioritization of work on different pension issues, and the PTF supports that endeavor. Furthermore, The PTF suggests that the actuary provide an opinion statement including, among other things that the smoothing methods used, including asset smoothing, taken together, lead to a reasonable result.
Some limits should be placed on asset smoothing.	The PTF does not recommend that specific bright line limits on asset smoothing be adopted at this time. However, the PTF notes that the ASB Pension Committee has discussed revisiting ASOP No. 44 as a potential future project, subject to the ASB's prioritization of work on different pension issues, and the PTF supports that endeavor. Furthermore, The PTF suggests that the

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	actuary provide an opinion statement including, among other things that the smoothing methods used, including asset smoothing, taken together, lead to a reasonable result.

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Liability Calculations	
While actuarial standards cannot be a replacement or a proxy for accounting standards and legislation, they can go a good ways to protect the public. Actuarial standards should require that whenever a valuation is required, the actuary should also provide his or her best estimate of what the liability should be so that the obligation is fully recognized at the time each participant starts receiving benefits. The actuary shouldn't have to opine on the dollar level of funding for these liabilities. It should be one hundred percent. A standard like this will go a long ways towards assuring the public that we are their servants and that our work can be trusted.	The PTF notes that the actuary is working in the public interest when providing information that is needed for the intended user to make a good decision. The PTF is making a number of suggestions to serve this purpose, including the requirement to calculate and disclose both a reasonable actuarially determined contribution and a solvency value whenever funding calculations are performed. The PTF believes that actuarial standards cannot substitute for regulation.
Actuaries should be required to disclose the pension obligation using a discount rate based on little or no default risk such as the US Treasury Yield Curve. This amount, when compared to the amount determined for funding the plan, provides a useful measure of what the investment policy hopes to gain by including return-seeking assets in the plan's portfolio.	The PTF suggests that the actuary should calculate and disclose a solvency value whenever funding calculations are performed, and that an acceptable proxy for this measure would be a liability calculated using the unit credit method (i.e., valuing benefits accrued to date) and U.S. Treasury interest rates (which would normally mean using a Treasury yield curve), along with other assumptions determined in accordance with ASOP Nos. 27 and 35. The PTF notes, however, that there may be differences other than the discount rate between this value and a more traditional liability value and that these differences can complicate comparisons.
An additional risk measure that could be a standard deliverable in actuarial reporting (alongside "best estimate" measures) is disclosure of the value of the plan liability and normal cost at a current "risk-free" interest rate. This measure represents a) 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; b)the cost to the employer if no risk is taken on the plan investments, allowing 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	The PTF suggests that the actuary should calculate and disclose a solvency value whenever funding calculations are performed, and that an acceptable proxy for this measure would be a liability calculated using the unit credit method (i.e., valuing benefits accrued to date) and U.S. Treasury interest rates (which would normally mean using a Treasury yield curve), along with other assumptions determined in accordance with ASOP Nos. 27 and 35. The PTF notes, however, that there may be differences other than the discount rate between this value and a more traditional liability value and that these differences can complicate comparisons.

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investment risk taken (the risk premium embedded in the assumed return). It also 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.	
Fix the disconnect between pubic plan practices and the principles of economics.	The PTF sees the value in supplemental, alternative liability calculations and suggests that a solvency value be disclosed whenever funding calculations are performed.
Revise standards so they don't encourage asset risk taking.	The PTF sees the value in supplemental, alternative market-based liability calculations and suggests that a solvency value be disclosed whenever funding calculations are performed.
Perform an additional liability measurement to provide additional context of traditional actuarial practice or ERISA based liability.	The PTF sees the value in alternative liability calculations and suggests that a solvency value be disclosed whenever funding calculations are performed.
Make public and private plan practices the same.	The PTF believes that public plan guidance and private plan guidance should be the same absent a good reason. Differing accounting standards (e.g. GASB vs. FASB) and regulatory regimes (e.g. qualified plans vs. non-qualified plans) will necessarily result in differences in practice. However, the PTF sees the value in some suggestions (such as an alternative liability calculation) that will bring practices closer together. As a result, the PTF suggests that a solvency value be disclosed whenever funding calculations are performed. The PTF suggests that this guidance be applicable to all pension practice, in both the public and private arenas. The PTF notes that private sector plans that appear fully funded under currently disclosed measures could be less than fully funded on a solvency basis.
Use a lower discount rate to quantify investment risk (show that portion of future earnings that derive from taking investment risk).	The PTF sees value in alternative liability calculations and suggests that a solvency value be disclosed whenever funding calculations are performed.
Disclose the market value of liabilities.	The PTF sees the value in alternative liability calculations and suggests that a solvency value be disclosed whenever funding calculations are performed.
Calculate values using ERISA assumptions.	The PTF sees some potential value in having a measure that was comparable to the current private sector single-employer measure, but was

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	concerned about limits on the conceptual justification for such a measure. The PTF suggests that a solvency value be disclosed whenever funding calculations are performed.
Perform a wind up (solvency) calculation.	The PTF sees the value in alternative liability calculations and suggests that a solvency value be disclosed whenever funding calculations are performed.
Disclose solvency liability and normal cost using unit credit and risk free rate.	The PTF suggests that a solvency value should be calculated and disclosed whenever funding calculations are performed. However, some members of the PTF do not believe that disclosure of the normal cost using the unit credit method and treasury rates would be of sufficient value for intended users to mandate its disclosure, so the PTF did not endorse this part of the recommendation.
Perform a calculation with a market based interest rate.	The PTF sees the value in alternative liability calculations and suggests that a solvency value be disclosed whenever funding calculations are performed.

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Assumptions	
Phasing in the liability impact of method or assumptions changes (by phasing in the assumption change itself) rather than phasing the impact of those changes in the actuarially determined contribution (which results in the current unfunded liability not reflecting those changes) should be out-of-bounds.	The PTF notes that phase-in of assumptions is only acceptable under existing standards when the assumption used is, itself, reasonable. The PTF suggests clarifying language on this point.
I am urging the ASB to proscribe the use of the following mortality tables unless there is compelling evidence that their use is appropriate for a specific Principal: 1) 1951 Group Annuity Mortality Table without projection to the valuation year, 2) 1971 Group Annuity Mortality Table without projection to the valuation year, 3) 1983 Group Annuity Mortality Table without projection to the valuation year, 4) 1984 Unisex Pensioner Mortality Table without projection to the valuation year. (Specific language was suggested.)	The PTF does not believe that a proscription of specific tables is necessary or consistent with a principles-based system of guidance. The PTF was concerned that such a proscription might imply that all other tables are acceptable, which likely is not true, or that use of these tables is *always* inappropriate, which might not be true. However, the PTF does suggest language along the lines of "When using published pension mortality tables (or variations on such tables) that substantially pre-date more recent published pension mortality tables, the actuary should disclose justification for the use of the table."
Some public plans still use extremely outdated mortality tables such as 1951 GAM, 1971 GAM, 1983 GAM and UP 1984. These tables should be prohibited.	The PTF does not believe that a proscription of specific tables is necessary or consistent with a principles based system of guidance. The PTF was concerned that such a proscription might imply that all other tables are acceptable, which likely is not true, or that use of these tables is *always* inappropriate, which might not be true. However, the PTF does suggest language along the lines of "When using published pension mortality tables (or variations on such tables) that substantially pre-date more recent published pension mortality tables, the actuary should disclose justification for the use of the table."
Ban use of old mortality tables.	The PTF does not believe that a proscription of such tables is necessary or consistent with a principles based system of guidance. The PTF was concerned that such a proscription might imply that all other tables are acceptable, which likely is not true, or that use of these tables is *always* inappropriate, which might not be true. However, the PTF does suggest language along the lines of "When using published pension mortality tables (or variations on such tables) that substantially

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	pre-date more recent published pension mortality tables, the actuary should disclose justification for the use of the table."
Where customized mortality tables are used, the need for custom tables should be justified and the universe and methodology for assembling the custom table should be described. The actuary should also describe why commonly used tables such as the RP-2000 table would produce inferior results to the custom tables.	The PTF believes that the requirement to disclose the rationale for the selection of assumptions (including the PTF's suggested clarification that this include why the actuary selected the assumption) is the appropriate, principles-based guidance to cover this situation. The PTF believes that the actuary should only be required to justify the use of the table used. Requiring the actuary to justify why other tables weren't used is too open-ended.
Boundaries should be clearly established requiring provision for prospective mortality improvement. Using assumptions and methods outside those boundaries should be permitted only if fully supported by strong arguments by the actuary.	The PTF believes that the choice of methods and assumptions should be left to the professional judgment of the actuary and that prescriptive prohibitions regarding these items are neither necessary nor appropriate. The PTF further believes that the recent changes to ASOP No. 35 are having the desired effect in guiding practice regarding mortality improvement assumptions and does not see a need for change in this area.
Values should reflect non-zero mortality improvement.	The PTF suggests no change to ASOP No. 35 wording at this time. The PTF believes that the recent changes to ASOP No. 35 are having the desired effect in guiding practice regarding mortality improvement assumptions.
Stronger requirements to recognize likely future trends in experience, e.g., mortality improvement, should be adopted to avoid an additional bias for underfunding.	The PTF believes that the choice of methods and assumptions should be left to the professional judgment of the actuary and that prescriptive prohibitions regarding these items are neither necessary nor appropriate. The PTF further believes that the recent changes to ASOP No. 35 are having the desired effect in guiding practice regarding mortality improvement and does not see a need for change in this area.
Valuation reports should do more to explain how the pension trustees and the actuary arrived at the selected assumptions.	The PTF notes that disclosure of the rationale for the selection of assumptions is required by ASOP Nos. 27 and 35. The PTF suggests additional wording clarifying that the requirement to include rationale for assumptions includes disclosing why the actuary thinks the assumptions are reasonable (as opposed to merely stating why the actuary chose the assumptions). The PTF also notes that for any assumptions selected by the trustees, the actuary is required to identify if such assumptions

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	significantly conflicts with what the actuary deems reasonable. The PTF believe this “negative” disclosure requirement should be made a “positive” opinion statement about the reasonableness and consistency of the significant individual assumptions and assumptions in the aggregate and the combinations of the assumptions and methods, taken together.
Disclose the basis of assumptions (i.e. experience study or other) and the date of the study.	The PTF suggests that the actuary should disclose the basis of each significant assumption (e.g., experience study or other) and, if study-based, the date of the study.
With respect to describing the plan design and selecting demographic assumptions, it is not uncommon to read in the media about salary “spiking” in the final year of employment, double dipping, special retirement incentive windows, “13th checks,” ad-hoc COLAs, too-high or outdated mortality assumptions, and too-optimistic retirement assumptions. Given the widespread concern and given the profession’s desire to serve the public, it would be sensible for the ASB to mention these matters explicitly, and suggest that they be addressed within any recap of actuarial assumptions and within any recap of plan design.	Existing standards require the actuary to consider such factors when setting assumptions and selecting methods. The actuary is also to select reasonable methods and assumptions. Finally, the actuary is required to document the assumptions used along with the rationale for each. The PTF suggests that similar disclosures be required for methods and the total package of methods and assumptions. In addition, the PTF suggests additional wording clarifying that the requirement to include rationale for assumptions includes disclosing why the actuary chose the assumptions. The PTF does not suggest specific mention of every particular situation, but notes that the ASOPs sometimes do mention specific practices. For example, ASOP No. 35 states that in some circumstances, “an additional assumption regarding an expected increase in pay in the final year of service may be used,” which would cover salary “spiking” practices.
Under the existing ASOP structure, it is not entirely clear whether some of these topics are “demographic” or “economic” assumptions, and one danger is that they fall between the cracks of the ASOPs.	The PTF notes that ASOP No. 35 states in section 1.2: “This standard applies to actuaries when they are selecting demographic and all other assumptions not covered by ASOP No. 27…” The PTF believes this does not leave any gaps.
Some public plans use retirement age assumptions that are completely inconsistent with their “30 and out” or similar highly subsidized early retirement provisions, which are heavily utilized by participants. I would strongly suggest that the language in that section be tightened up to require more reasonable retirement age assumptions.	The PTF believes this is covered appropriately in existing standards. ASOP No. 35, section 3.3.5 states that an assumption is reasonable if, among other things, “it takes into account historical and current demographic data that is relevant as of the measurement date” and “it reflects the actuary’s estimate of future experience, the actuary’s observation of the estimates inherent in market data (if any), or a combination thereof.”

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Narrow practice regarding more unique provisions (e.g. DROPs).	The PTF notes that there are many unique benefits structures and believes that existing guidance is sufficient for these structures – in particular, ASOP No. 4, section 3.5.3, which covers plan provisions that are difficult to measure using traditional valuation procedures. The PTF does not believe it is necessary to provide more specific guidance regarding these unique provisions at this time. However, the PTF suggests that the Academy's Pension Practice Council may wish to consider this item for further educational material.
A more prescriptive approach to instituting regular examinations of assumptions such as the investment rate of return and inflation; setting modeling assumptions in which a plan provision has optionality (i.e. cost of living adjustments based on investment returns, inflation, or other measures of market condition); and reflecting mortality improvement projection scales could greatly assist in plan governance.	The PTF notes that several of its specific suggestions address the selection of assumptions. However, these suggestions remain principles based. The PTF also notes that the recent revisions to ASOP No. 35 do encourage the use of mortality improvement assumptions; and ASOP No. 4, section 3.5.3 addresses plan provisions containing optionality.
Require regular experience studies.	The PTF suggests that standards include language along the lines of the following: "The actuary should consider the length of time since the assumption was last analyzed and the availability of credible data, and consider whether techniques such as experience studies or gain / loss analysis are warranted."
ASB should suggest that a gain/loss analysis be part of the annual valuation communication. In this regard, I note that ASOP No. 5 specifically references follow-up studies and encourages the actuary to perform them when regularly estimating incurred health and disability claims, or the resulting unpaid claim liability. Such studies can identify previously unidentified processes, errors in data, or areas where simple assumptions were believed, incorrectly, to be sufficient. Even if the actuary chooses to make no explicit provision, in modelling or assumptions, for a particular topic, a report of gain/loss would show the annual cost of such an item if material.	The PTF suggests that an abbreviated gain/loss analysis should be included in any actuarial report on pension funding. This analysis should separate investment gains or losses from those from other components. The PTF also suggests adding guidance that the actuary consider whether techniques such as experience studies or gain/loss analysis are warranted.
Report should show gain/loss analysis.	The PTF suggests that an abbreviated gain/loss analysis should be included in any actuarial report on pension funding. This analysis should separate investment gains or losses from those from other

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	components. The PTF also suggests adding guidance that the actuary consider whether techniques such as experience studies or gain/loss analysis are warranted.
Some additional information that is readily available (and could be disclosed) would be whether the assumed discount rate is gross or net of expenses, tying the actual investment returns to other economic indexes such as the GDP, 10 year treasury rate, CPI, etc. for the particular time period, defining what portion of the ARC is due to non actuarially equivalent benefits, what portion is being paid by non-current plan member future generations (generation equity), and what portion of the future plan costs are assumed to be funded by investment earnings. (errors in original)	The PTF notes that disclosure of how expenses are handled in pension calculations is required by ASOP No. 35. Disclosure of the source of an investment return assumption is also required but specific methods for setting the assumption are left to the judgment of the actuary and the PTF believes this is appropriate. The PTF believes that disclosure of additional details of the composition of the ARC, disclosure of what portion is allocated to what generation and disclosure of what portion of future costs are funded from investment earnings may all be appropriate in some cases but that to require such disclosures would result in an unnecessary burden on many plans. As such the PTF believes that this is best left to the judgment of the actuary.
Disclose investment risk premium expectations.	The PTF notes that current standards require disclosure of the source and rationale for all assumptions, including investment return assumptions. The PTF suggests additional wording clarifying that the requirement to include rationale for assumptions includes disclosing why the assumption is reasonable. Even so, this guidance does not require disclosure of the risk premium inherent in the investment return assumptions. The PTF does not support requiring this disclosure for two reasons. First, the PTF notes that investment assumptions are often set by investment professionals, not actuaries. While ASOP No. 27 requires that the selection of external advice should reflect the actuary's professional judgment, detailed information on the risk premium assumption may not be available to the actuary. Second, the methodology for setting the investment return assumption may not have involved explicit identification of the risk premium component. That said, the PTF believes that more could be done with respect to the risks associated with investment volatility and supports the work of the ASB Pension Committee in developing a standard regarding pension risks.
ASOP No. 27, Section 3.9(a), allows a discount rate	The PTF considered this matter at length and came

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equal to the anticipated investment return. This is no longer done with private plans, other than vestigial use of expected rate of return on assets used for calculating pension income under ASC 715-30 that is being phased out as part of the continued push towards mark-to-market accounting and FASB/IASB convergence. It's time for ASOP No. 27 to catch up, for both private and public plans.	to the conclusion that the existing language regarding discount rates, which permits both assumed return and market-consistent approaches, is appropriate for pension calculations, considering the purpose of the measurement. However, the PTF suggests that a calculation of solvency value be required whenever funding valuation calculations are performed.
Boundaries should be clearly established requiring recognition of volatility in asset return assumptions. Using assumptions and methods outside those boundaries should be permitted only if fully supported by strong arguments by the actuary.	The PTF considered the issue of asset return assumptions at length and came to the conclusion that the existing language regarding investment return assumptions is appropriate for pension calculations. However, the PTF suggests that a calculation of solvency value be required whenever funding valuation calculations are performed.
The method used for calculating discount rates in ASOP No. 27 is wrong. (Author advocates a method between traditional and FE.)	There were a number of proposals to change the way discount rates are set in determining plan values. These included using probability weighted rates, using market rates, and other suggestions. The PTF considered how pension values are calculated at length and decided that the most useful supplemental measure for intended users was a solvency value.
The method used for calculating discount rates in ASOP No. 27 is wrong because it isn't probability weighted.	There were a number of proposals to change the way discount rates are set in determining plan values. These included using probability weighted rates, using market rates, and other suggestions. The PTF considered how pension values are calculated at length and decided that the most useful supplemental measure for intended users was a solvency value.
Another concern that has been expressed is the use of actuarial assumptions that reflect long term expectations rather than current market conditions. Existing actuarial standards of practice recognize that measurements of plan liabilities may be made on a market consistent basis, but that the appropriate basis to measure liabilities depends on the purpose of the measurement. (The measurement should not be mandated by a standard.)	The PTF notes that there are many different pension measures and the assumptions used should reflect the purpose of the measurement.
Assumptions should reflect anticipated experience.	The PTF notes that both ASOP No. 27 (section 3.6.d) and ASOP No. 35 (section 3.3.5.d) allow for this but do not require it. (Assumptions can reflect

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	market conditions as well.)
Given the need to recognize uncertainty, the importance of risk analysis, and the range of assumptions in common use and the relatively similar portfolio constructions across plans, we believe that more guidance is needed for setting the asset return assumption. Specifically: Assumptions should be demonstrably achievable 50% of the time. The Panel's review of the basis for assumed returns suggested that return assumptions are often set at a level other than the median expected return. Funding calculations should recognize that annual returns will be volatile and will emerge above and below the compound return over the investment horizon. Approaches to recognizing the cost of this volatility might include reducing average annual returns to recognize the impact of variability over the investment time horizon, using stochastic modeling methods or using select and ultimate type assumptions. Other approaches may also be viable.	The PTF notes that ASOP No. 27 requires the actuary to consider the implications of using arithmetic vs. geometric investment return assumptions. The PTF believes that the current guidance for setting investment returns is appropriate but that more could be done with respect to the risks associated with investment volatility. The PTF supports the work of the ASB Pension Committee in developing a standard regarding pension risks and feels that such a standard is the best place to address the risks associated with investment volatility.
All other assumptions should be clearly stated; and if the actuary believes any other required assumption deviates from reasonable expectation, they should so state that in their report and provide the result under reasonably expected assumptions.	The PTF notes that current standards cover the disclosure of assumptions that the actuary feels are unreasonable. Section 4.1.1 of both ASOP Nos. 27 and 35 requires that the actuary describe "each significant assumption used." ASOP No. 41, section 3.2 requires that "the actuary should state the … assumptions … with sufficient clarity that another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary's work ..." Section 4.2 of both ASOPs 27 and 35 requires that the actuary identify any "prescribed assumption or method set by another party that significantly conflicts with what, in the actuary's professional judgment, would be reasonable ..." Section 2.6 of both ASOP Nos. 27 and 35 defines that "an assumption or method set by a governmental entity for a plan that such governmental entity or a political subdivision of that entity directly or indirectly sponsors is deemed to be a prescribed assumption or method set by another party." The PTF suggests that a reasonable actuarially determined contribution be provided whenever a funding valuation is performed, calculated

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	according to certain principles.
Clarify that the actuary needs to disclose why he or she thinks assumptions are reasonable.	The PTF suggests that that the requirement to “disclose the information and analysis used in selecting” each assumption (the “rationale” requirement, section 4.1.2 in both ASOP Nos. 27 and 35) be clarified to note that this includes disclosing why the actuary thinks the assumption is reasonable.
Provide opinion statement on assumptions.	The PTF suggests that an opinion statement be required (in ASOP No. 4) about the reasonableness and consistency of the significant individual assumptions and assumptions in the aggregate and the combinations of the assumptions and methods, taken together. The PTF believes this should be a “positive” opinion statement and not just a requirement to opine when mandated assumptions are not reasonable.

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Disclosures	
Actuaries should provide that level of disclosure that provides the various Stakeholders with what they need to evaluate the financial status of the Plans. While a Board of Trustees may need only a modest amount of information to fulfill their prescribed functions, most such Boards of Trustees would benefit from more disclosure on the financial status of their Plans and more discussion of the Risks that could potentially impact them and other Stakeholders. In addition, those other Stakeholders would benefit from a variety of disclosures that could impact their interests, as well as information on Risk that might matter more to them than to the actuarial definition of Principal. The actuary should be professionally bound to provide a level of information sufficient to help all Stakeholders better understand the financial status of the Plan, even if that information goes beyond what is required by law or governmental accounting standards.	The PTF believes that the actuary should not be required to provide information merely because it might be useful to someone who is not an intended user. The public interest is served when the actuary provides the information to the intended user that is needed for the intended user to make a good decision (regardless of whether the intended user asks for it or wants it). Many disclosures are required by current standards. In addition, the PTF suggests a number of improvements to standards that will provide the intended user with better information on the condition of their plans and the risks facing their plans. Further, the ASOP on risk that is in the developmental stage will likely require additional new disclosures.
Another useful disclosure to the principal, all intended users and other users is the cash flows associated with pension obligations. Such cash flows would enable any user of the information to determine the sensitivity to changes in interest rates. This disclosure would also enhance the understanding of future cash flow needs and the long duration aspects of the obligation.	The PTF believes that cash flow information is not necessary for the intended user to make a good decision.
Many of the recommendations made by the Blue Ribbon Panel are good ones, and I'm a little surprised that some of them aren't included in all funding reports. For example, is it really possible to issue an ASOP-compliant funding report that does not include undiscounted cash flows or stress testing of key assumptions?	The PTF suggests some of the proposals from the Blue Ribbon panel but not all of them. In particular, the PTF does not believe that undiscounted cash flows provide value to the intended user and does not suggest that they be provided. Regarding stress testing of key assumptions, The PTF supports the work of the ASB Pension Committee in developing a standard regarding pension risks.
Require disclosure of information not needed by the intended user but useful to others.	The PTF believes that the actuary should not be required to provide information merely because it might be useful to someone who is not an intended user. The public interest is served when the actuary provides the information to the intended user that is needed for the intended user

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	to make a good decision (regardless of whether the intended user asks for it or wants it). Many disclosures are required by current standards. In addition, the PTF suggests a number of improvements to standards that will provide the intended user with better information on the condition of their plans and the risks facing their plans. Further, the ASOP on risk that is the developmental stage will likely require additional new disclosures.
Report should show the history of actual and assumed contributions.	The PTF suggests disclosure of an historical scorecard comparing actual contributions to recommended contributions if this information is available to the actuary and there is a history of underfunding.
I think a retrospective exhibit of the development of the unfunded liability could help (example provided). In addition, in order to understand the magnitude of the issue, such a historical development table should include balance sheet items such as the total liability amount and unfunded liability amount, so one can make percentage comparisons.	The PTF suggests that an abbreviated gain and loss analysis should be included in any actuarial report on pension funding. This analysis should separate investment gains or losses (relative to expectations) from those from other components. The PTF felt that a requirement for a more detailed gain and loss for all plans was not practical at this time. The PTF suggests disclosure of an historical scorecard comparing actual contributions to recommended contributions if this information is available to the actuary and there is a history of underfunding, as such information can also be informative as to the development of an unfunded liability.
The history of plan asset, liabilities and benefits paid should be provided, just as it is in the Comprehensive Annual Financial Report (CAFR).	The PTF notes that this information is available from other reports and is not needed by the intended user to make an appropriate decision.
Disclose the description of “fully funded.”	ASOP No. 4, section 4.1.q requires disclosure of considerable information on the meaning of any measurement of funded status. The PTF does not feel that additional disclosure is necessary for appropriate practice.
Project and disclose the year-by-year adequacy of accumulated assets and amortization of UAAL.	The PTF suggests the disclosure of a qualitative estimate of when assets are expected to be exhausted prior to the final benefit payment if current funding policy/practice is expected to result in plan exhaustion. The PTF considered suggesting that projections of this type be required in other situations but decided not to do so because of the work required relative to the value of the information to the intended user.

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Disclose long term impact of higher contributions.	While the PTF feels this might be beneficial, it does not believe that providing this information is necessary for appropriate practice.
Departures from common actuarial practice due to statute or client mandate should be identified and the implications of such departures should be analyzed.	The PTF notes that ASOP Nos. 27 and 35 currently require the actuary to opine on any prescribed assumption or method set by another party if the actuary believes it is unreasonable. Section 2.6 of both ASOP Nos. 27 and 35 defines that "an assumption or method set by a governmental entity for a plan that such governmental entity or a political subdivision of that entity directly or indirectly sponsors is deemed to be a prescribed assumption or method set by another party." The PTF suggests that a reasonable actuarially determined contribution be provided whenever a funding valuation is performed, calculated according to certain principles.
Actuaries currently have few, if any, professional requirements to bring poor funding status and/or reasonably-anticipated funding difficulties to the forefront except, maybe, to the assumed Principal.	The PTF notes that ASOP No. 4 requires the actuary to disclose that the funding will be insufficient if that is the actuary's opinion, and also requires the actuary to describe the implications of the contribution allocation procedure or the plan sponsor's funding policy on future expected plan contributions and funded status. The PTF does not believe it is the role of ASOPs to require an actuary to comment on the funding policy beyond the commentary in the actuarial report unless it is done at the request of the client.
Disclose who is hiring and paying the actuary.	Precept 5 of the Code of Conduct requires the actuary "to identify the principal" and "describe the capacity in which the actuary serves." The PTF felt that any additional disclosure, such as who is paying him or her, was not necessary as it adds no value for the intended user.

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General Guidance	
The role played by Pension Obligation Bonds is important for some plans and may deserve segmentation in disclosures of past funding and contributions, and in forecasts of future funding status and contributions. I doubt that it is ever appropriate to recap past employer contributions that arise from budget appropriations, without also noting past POB deposits to the plan.	While the PTF acknowledges that the presence of these bonds is important to the financing entity, it believes that the presence of pension obligation bonds makes little difference to the actuarial work concerning pensions. Usually, the dollars that were paid into the plan as a result of these bonds simply look, to the plan, like other assets. The PTF further notes that the actuary may not even know that these bonds exist.
The actuary should have the obligation to elaborate on the financial impact on the plan of failure to receive the full ARC (beyond just an observation of the simple fact that the full ARC was not received).	The PTF suggests disclosure of an historical scorecard comparing actual contributions to recommended contributions if this information is available to the actuary and there is a history of underfunding.
Valuation reports frequently lack narratives explaining the significance of each economic and actuarial measurement.	The ASB Pension Committee is developing a standard regarding pension risks. This standard may include a requirement for a discussion of the sensitivity of the results to the assumptions. The PTF supports this work and believes it is should address this issue.
Improvement in the accuracy of assumptions and in the projections of future outcomes would greatly assist retirement systems in making important decisions. Many different benefit and investment structures exist within public plans. Decisions based on benefit, contribution, investment and other strategies would be enhanced by the improved ability to predict short and long-term outcomes.	The PTF suggests several changes that would help in the selection of appropriate assumptions. The PTF considered suggesting that projections of the type proposed be required but decided not to do so because of the work required relative to the benefit provided to the intended user. The PTF also notes that the issue of projections was included in the exposure draft on the "Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions" and that that proposed standard would be a more appropriate venue for discussing projections.
Good communication by actuaries is critical to retirement systems. Because of the complex technical nature of actuarial advice, the ability to effectively communicate their advice is critical. In many situations, the actuarial valuation report is not the most effective means of communicating of actuarial advice. Often adding a large amount of new information to an actuarial valuation may detract from communication and lead to more confusion. Professional judgment should be used	The PTF believes that good communication is necessary but also notes that certain information must be provided in order for the principal to make a good decision. While the PTF acknowledges that including this information will, on occasion, make the report more difficult to understand, that is not a reason to exclude necessary information. To the extent the inclusion of information is necessary to making an appropriate decision, the PTF believes standards

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by the actuary as to how to communicate their advice. Therefore maximum flexibility should be given in how information resulting from any new guidance is communicated.	should require it.
Perhaps a supplement to a standard actuarial report is needed, one written for the benefit of other users of the report, not the user who writes the actuary's check. The "Other Users Supplement" should be less technical than a standard report. Other Users will not be impressed with information on the risk free rate. Perhaps different scenarios could be described (e.g. what the current level of funding would provide vs. what's been promised, etc.).	The PTF does not believe that information for other than intended users should be required by actuarial standards and therefore does not see the need to require an "Other Users Supplement."
The broader group of public sector stakeholders/intended users should ideally be able to rely on actuaries to provide objective information beyond the current year best estimate, including planned patterns of costs over time, the effects of sponsor decisions, and the risks and uncertainties about those plans or estimates. These needs – in essence, good risk assessment and measurement – require the greater context and more nuanced opinions of the second type to help stakeholders understand the potential for changes in the amount or cost of benefits. Actuaries outside the pension area often deal with these broader issues and wider groups of intended users. The high-level processes and lessons learned in these other practices might help inform the discussion in the pension area.	The PTF believes that the actuary should not be required to provide information merely because it might be useful to someone who is not an intended user. That said, the PTF believes that the actuary should disclose all necessary information that the intended user needs to make an appropriate decision, or that the actuary feels should be disclosed when doing appropriate work, regardless of whether the intended user asks for it or wants it. The PTF also notes that ASOP No. 4 requires the actuary to describe the implications of the contribution allocation procedure or the plan sponsor's funding policy on future expected plan contributions and funded status. The PTF also sees the value of additional risk analysis and supports the work of the ASB Pension Committee in developing a standard regarding pension risks.
We believe that as professionals actuaries should take clear responsibility for their work and recommendations, whether explicit or implied. We strongly believe that the actuary should be required to provide his/her opinion that the assumptions and methods are reasonable and consistent with achieving the funding principles established.	The PTF suggests that the actuary provide an opinion statement about the reasonableness and consistency of significant individual assumptions, the assumptions in the aggregate, and the combinations of the assumptions and methods, including the interaction of any smoothing techniques used, taken together. In addition, the PTF notes that ASOP No. 4 requires the actuary to disclose that the funding will be insufficient if that is the actuary's opinion. The PTF also notes that ASOP No. 4 requires the actuary to describe the implications of the contribution allocation procedure or the plan sponsor's funding policy on future expected plan contributions and funded status.

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Actuary should comment on whatever methods and assumptions are chosen.	The PTF suggests that the actuary provide an opinion statement about the reasonableness and consistency of significant individual assumptions, the assumptions in the aggregate, and the combinations of the assumptions and methods, including the interaction of any smoothing techniques used, taken together. In addition, the PTF notes that section 4.1.2 of both ASOP Nos. 27 and 35 require the actuary to document the rationale for each assumption used. The PTF suggests that similar disclosures be required for methods and the total package. The PTF also suggests additional wording clarifying that the requirement to include rationale for assumptions includes disclosing why the actuary chose the assumptions.
Additional guidance is needed in several areas, including but not limited to, the following: 1) An actuary's responsibility to various public plan stakeholders, including the taxpayers who ultimately finance the plan 2) An actuary's responsibility to provide information to various public plan stakeholders beyond what is required by law or governmental accounting standards.	The PTF believes that the actuary should not be required to provide information merely because it might be useful to someone who is not an intended user. That said, the PTF believes that the actuary should disclose all necessary information that the intended user needs to make an appropriate decision, or that the actuary feels should be disclosed when doing appropriate work, regardless of whether the intended user asks for it or wants it.
Some limits may be needed for direct rate smoothing.	The PTF suggests that there be specific reference to direct rate smoothing with guidance that is consistent, where appropriate, with that for asset smoothing.
Additional guidance on funding policies or contribution allocation procedures.	The PTF suggests that the actuary consider the principles of benefit security, intergenerational equity, and stability and predictability of contributions in selecting a contribution allocation procedure. In addition, the PTF feels that additional educational material on the topic of funding policy may be appropriate and suggests that this topic be referred this to the Pension Practice Council.
Provide an ARC calculation whenever any work is done.	The PTF suggests that a reasonable actuarially determined contribution be disclosed whenever a funding valuation is performed. The PTF also suggests requirements that an ADC needs to meet to be called reasonable.
Better explanation of the role and function of pension actuaries.	The PTF does not believe this would be appropriate for a standard and suggests that this

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	proposal be referred to the Pension Practice Council.

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Risk Analysis	
A range of results should be provided in the actuarial report. The values with a range can include rate of return (or discount/interest rate), unfunded liability, normal cost, amortized values, and other appropriate reported values that vary with rate of return. The range of each of these results should be derived only by varying the rate of return with the range being around the actual return on the pension fund's invested assets plus or minus some reasonable values. Those reasonable values could be specific amounts (e.g. plus or minus 2%) or they could be a statistically justified amount (e.g. plus or minus one or two standard deviations from the actual return). The ASOP should specify the range (e.g. actual-invested-pension-assets return plus or minus two standard deviations) and not leave the choice to the actuary. Of course state law should be followed; but even if the law or the principal (state or local municipality) requires/requests a higher interest rate be used, the hired actuary should be required by our ASOP to also report the range of results at the ASOPs required interest rate and range of results; in addition to whatever the state/principal requires. Furthermore, the actuarial report could say the media should state whether they are giving state-required-results or that required-by-actuarial-standards when they report value in their medium.	The PTF sees the value of additional risk analysis and supports the work of the ASB Pension Committee in developing a standard regarding pension risks.
The Valuation Report should examine the sensitivity of the most critical assumptions (investment returns, mortality, age of retirement and so on) to changes in each assumption.	The PTF sees the value of additional risk analysis and supports the work of the ASB Pension Committee in developing a standard regarding pension risks.
Reports should look to the future rather than only to the past. Clearly expressing assets, liabilities, and funding as a function of assumptions and a range around those assumptions will allow stakeholders to better understand the trade-offs of risk. Reporting should also be timely and should be written not only for plan administrators and trustees but also for plan members and employers.	The PTF sees the value of additional risk analysis and supports the work of the ASB Pension Committee in developing a standard regarding pension risks. The PTF does not believe that information for other than intended users should be required.
Key variables should be sensitivity tested for risk report.	The PTF sees the value of additional risk analysis and supports the work of the ASB Pension

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	Committee in developing a standard regarding pension risks.
An additional risk analysis that could be a standard deliverable in actuarial reporting (alongside "best estimate" measures) is 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.	The PTF sees the value of additional risk analysis and supports the work of the ASB Pension Committee in developing a standard regarding pension risks.
Key variables should be stress tested for risk report.	The PTF sees the value of additional risk analysis and supports the work of the ASB Pension Committee in developing a standard regarding pension risks.
Volatility of investment returns must be discussed. In my experience, elected officials blindly accept that the assumed investment return will be achieved; the implications of the variability of the annual returns have on average returns are seldom examined.	The PTF sees the value of additional risk analysis and supports the work of the ASB Pension Committee in developing a standard regarding pension risks.
Need more information on the risk of volatility of contributions vs. level of contributions.	PTF notes that the relationship between asset allocation and contribution stability is an important one. However, the PTF does not believe that practice has advanced sufficiently in this area to allow for a standard at this time. As a result, the PTF sees this as an aspirational goal rather than as something that should be required for appropriate practice. The PTF feels that additional educational material on this topic may be appropriate and suggests that this topic be referred to the Pension Practice Council.
Disclose the cost of risk associated with risky investments.	The PTF suggests calculation and disclosure of a solvency value whenever funding calculations are performed. This will provide valuable information on solvency risk.
Explain contribution risk associated with asset allocation.	The PTF notes that the relationship between asset allocation and contribution stability is an important one. However, the PTF does not believe that practice has advanced sufficiently in this area to allow for a standard at this time. As a result, the PTF sees this as an aspirational goal rather than as something that should be required for appropriate practice. The PTF feels that additional educational material on this topic may be appropriate and suggests that this proposal be referred to the Pension Practice Council.

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Disclose something on volatility of contribution risk.	The PTF sees the value of additional risk analysis and supports the work of the ASB Pension Committee in developing a standard regarding pension risks. See also the PTF view on the prior proposal.
Additional information about the impact on plan members in the event of a plan termination would be useful and would help to prevent misunderstanding. A lack of information about the consequences of plan wind-up may lead users to assume that a plan with a funded ratio of 100% has sufficient funds to provide for benefits without reduction in the event of plan termination. This may not be correct.	The PTF suggests that the actuary calculate and disclose a solvency value whenever a funding valuation is performed. This measure indicates the risk to plan participants of immediate plan wind-up.
Risk to participants should be shown in risk report.	The PTF suggests that the actuary calculate and disclose a solvency value whenever a funding valuation is performed. This measure indicates the risk to plan participants of immediate plan wind-up.
Risk report should show impact of continuing contributions below needed level (if that is the case currently).	The PTF suggests disclosure of an historical scorecard comparing actual contributions to recommended contributions if this information is available to the actuary and there is a history of underfunding. In addition, the PTF suggests that the actuary disclose a qualitative estimate of the length of time until assets are used up if the funding policy is not expected to result in sufficient funds to fund all benefits. The PTF also notes that ASOP No. 4 requires the actuary to describe the implications of the contribution allocation procedure or the plan sponsor's funding policy on future expected plan contributions and funded status.
The ASB may want to consider additional principle-based disclosure relating to 1) potential contribution volatility, 2) potential funding level volatility, 3) plan maturity, and 4) benefit security.	The PTF sees the value of additional risk analysis and supports the work of the ASB Pension Committee in developing a standard regarding pension risks. In addition, the PTF suggests that the actuary calculate and disclose a solvency value whenever a funding calculation is performed, which will also provide helpful information about benefit security.
For all types of plans, it may well be appropriate to describe the risk posed by the failure to make contributions. This should apply to all plans.	The PTF suggests disclosure of an historical scorecard comparing actual contributions to recommended contributions if this information is available to the actuary and there is a history of underfunding. In addition, the PTF suggests that

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	the actuary calculate and disclose a solvency value whenever a funding calculation is performed, which will also provide helpful information in this regard. The PTF also notes that ASOP No. 4 requires the actuary to describe the implications of the contribution allocation procedure or the plan sponsor's funding policy on future expected plan contributions and funded status.
In a situation where a plan sponsor is not making the contributions required to fund the plan, users may assume that the contributions are being made unless this is explicitly discussed in the report.	The PTF suggests disclosure of an historical scorecard comparing actual contributions to recommended contributions if this information is available to the actuary and there is a history of underfunding. In addition, the PTF suggests that the actuary disclose a qualitative estimate of the length of time until assets are used up if the funding policy is not expected to result in sufficient funds to fund all benefits. The PTF also notes that ASOP No. 4 requires the actuary to describe the implications of the contribution allocation procedure or the plan sponsor's funding policy on future expected plan contributions and funded status.
It would be appropriate to require that there be some disclosures related to risk. A lack of information about the risks taken in the funding of the plan may lead users to underestimate these risks.	The PTF sees the value of additional risk analysis and supports the work of the ASB Pension Committee in developing a standard regarding pension risks.
Additional guidance regarding risk measures such as potential contribution volatility, plan maturity, and benefit security would be helpful.	The PTF sees the value of additional risk analysis and supports the work of the ASB Pension Committee in developing a standard regarding pension risks. The PTF suggests that the actuary consider the principles of benefit security, intergenerational equity, and stability and predictability of contributions in selecting a contribution allocation method.
Additional guidance should be provided concerning disclosures related to the level of risk and uncertainty associated with funding the pension obligation.	The PTF sees the value of additional risk analysis and supports the work of the ASB Pension Committee in developing a standard regarding pension risks.
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.	The PTF sees the value of additional risk analysis and supports the work of the ASB Pension Committee in developing a standard regarding pension risks.
The risks faced by any pension plan need to be made far more transparent. Increased guidance would be helpful on the need to provide	The PTF sees the value of additional risk analysis and supports the work of the ASB Pension Committee in developing a standard regarding

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projections on best estimate assumptions and also stress testing them by varying assumptions and scenarios.	pension risks.
Additional principle-based guidance that improves both investment risk and non-investment risk discussion would be useful. Currently, many actuaries and investment professions routinely and thoroughly discuss investment risk; however, other types of risks are not generally thoroughly discussed. Guidance that focuses on the risks that are not routinely covered would be useful.	The PTF sees the value of additional risk analysis and supports the work of the ASB Pension Committee in developing a standard regarding pension risks.
An ASOP covering how the actuarial profession should be engaging plan sponsors in a discussion of risk is required for all plan types. We look forward to the forthcoming exposure draft.	The PTF sees the value of additional risk analysis and supports the work of the ASB Pension Committee in developing a standard regarding pension risks.
Disclose risk of having no payroll growth.	The PTF sees the value of additional risk analysis and supports the work of the ASB Pension Committee in developing a standard regarding pension risks.
Base need for risk analysis on plan measures such as maturity, account leverage, etc.	The PTF sees the value of additional risk analysis and supports the work of the ASB Pension Committee in developing a standard regarding pension risks. The PTF notes that measures of this type were included in the first exposure draft of the proposed risk ASOP.
Risk consideration should be expanded beyond the scenario in which all assumptions are realized and the plan sponsor makes all contributions when due, to include (at least) a qualitative assessment of the risk that the assumptions will not be realized or the plan sponsor will not make all contributions when due. This is particularly important when the contribution allocation procedure has deferred higher levels of contributions into the future.	The PTF sees the value of additional risk analysis and supports the work of the ASB Pension Committee in developing a standard regarding pension risks. The PTF suggests disclosure of an historical scorecard comparing actual contributions to recommended contributions if this information is available to the actuary and there is a history of underfunding. However, the PTF does not believe that it is appropriate to require the actuary to make judgments about the ability of the plan sponsor to make required contributions.
Actuarial disclosures are too heavily focused on compliance and historical analysis, and despite the fact that actuaries themselves are trained in measuring risk and uncertainty, a discussion on these important topics has been absent in nearly every report that I have reviewed. While measuring risk would involve a more rigorous analysis than current efforts to report the liability, normal cost, and amortization schedules, the value	The PTF sees the value of additional risk analysis and supports the work of the ASB Pension Committee in developing a standard regarding pension risks.

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of doing so would exceed the cost. Such analysis would directly inform the decisions made by plan executives, the plan board, and policymakers.	
I'd like to see new guidance help expand the discussion of pension funding and risk even further. The questions that I find most relevant to stakeholders are (1) "What is the probability that the annual contributions from the plan sponsor will be sufficient to fully fund benefit promises?" and (2) "Should plan assumptions, and thus contributions, be more conservative to better ensure benefits are fully funded?" I'd like to see the standards create a framework where actuaries have a common understanding of how to evaluate and communicate the answer to these questions, and incorporate this type of analysis into the selection of the values for key plan assumptions that set employers' annual contributions.	The PTF considered ways to analyze the probability of success of a plan and decided not to suggest them because of the amount of work involved and the potential inaccuracy of the results. However, the PTF sees the value of additional risk analysis and supports the work of the ASB Pension Committee in developing a standard regarding pension risks. The PTF suggests several ideas for improving the selection of assumptions. However, the PTF does not believe that requiring the use of conservative assumptions for determining contributions is an appropriate requirement for an actuarial standard.
Both public and private prefunded retirement plans are subject to many of the same risks. We would like to see the ASB provide more guidance in the area of risk disclosure, along the lines of the June 2012 Assessment and Disclosure of Risk discussion draft.	The PTF sees the value of additional risk analysis and supports the work of the ASB Pension Committee in developing a standard regarding pension risks.
Guidance should encourage all actuaries to follow practices that help employers/employees and interested parties understand future contribution, expense and funding levels, including volatility.	The PTF sees the value of additional risk analysis and supports the work of the ASB Pension Committee in developing a standard regarding pension risks. The PTF also notes that ASOP No. 4 requires the actuary to describe the implications of the contribution allocation procedure or the plan sponsor's funding policy on future expected plan contributions and funded status.
Communicating the risk and uncertainty inherent in actuarial measurements.	The PTF sees the value of additional risk analysis and supports the work of the ASB Pension Committee in developing a standard regarding pension risks.
We are aware that the ASB is working on an exposure draft related to risk, and would welcome some additional guidance in this area. In particular, we believe that when managing a pension plan—including decision-making relative to the level of promised benefits, the contributions to be made, and the strategy for investing assets—it is important for plan sponsors to consider projections based on expected experience, as well as projections showing the risks of experience not	The PTF sees the value of additional risk analysis and supports the work of the ASB Pension Committee in developing a standard regarding pension risks.

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meeting the expectations.	
As capital markets and other factors are likely to remain highly unpredictable and volatile, supportable contribution recommendations must be accompanied by a risk analysis of economic scenarios other than the ‘best estimate’ outcome.	The PTF sees the value of additional risk analysis and supports the work of the ASB Pension Committee in developing a standard regarding pension risks.

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Other Proposals	
I suggest using the life insurance asset adequacy memorandum as a paradigm and try to transpose it to public pensions. Thus a confidential memorandum would be produced showing the health of the public plan. This memorandum would then be reviewed by a state insurance department, which would presumably have staff or hire consultants. If a state department reviewed it, there would be some confidentiality of the detail. Another possible level of review, that life insurance companies use, is their own CPA (auditor) who would certify the statement.	The PTF notes that such a requirement is beyond the purview of the ASB, since it would regulate the plan itself.
When the major media reports results and the actuary becomes aware of it, I think the actuary should provide a press release if the actuary believes the media-reported-results were wrong, misrepresented, or deceptive. Otherwise, silence from the assigned actuary will be assumed by the public to be acceptance of the media's reporting.	The PTF notes that if the client wishes the actuary to comment on the press release the client can hire the actuary to do so. The PTF takes the view that public relations regarding the plan are the responsibility of the client, not the actuary. The PTF further notes that for the actuary to comment on the story may require the use of confidential information and that disclosure of such information would be a violation of precept 9 of the Code of Conduct.
The guidance should not be a retreat to “well established actuarial practice,” as the California Actuarial Advisory Panel terms its “model” methods. It should encourage the development of new methods where appropriate. After all, traditional funding methods were developed when computing capacity was limited. Actuaries have historically used deterministic methods and limited them to the plan population as of the valuation date at least partly to limit the extent of computational work necessary. With today’s computing capacity, actuaries might be inclined to develop more elaborate methods that model likely future scenarios more robustly, illustrate risks not shown in deterministic models, and give more information and insight to their principals.	As stated in ASOP No. 1, (Section 1) actuarial standards should represent appropriate practice. The PTF does not believe that the guidance in standards should be limited to what is currently common practice. The PTF also notes that practice has evolved considerably over the years as technology has advanced and that standards have embraced those changes. That said, practice is often well established because it is appropriate. As the PTF reviewed the proposals made in the background materials for this report it kept in mind the need to establish appropriate guidance. The PTF did not limit itself to well established practice.
The guidance should not be universal; it should vary depending on the financial condition of the plan and of its contributing entities. If, for example, a plan’s contributing entities can easily increase contributions after periods of poor	The PTF notes that ASOP Nos. 4, 27, and 35 all indicate that pension work should reflect the particulars of the plan so this is already in standards in general terms. Furthermore, the PTF believes that standards should allow the actuary to

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investment performance to restore the plan to 100% funded status, the need for asset smoothing and other contribution-leveling techniques is reduced or eliminated. Actuaries may need to become aware of the size and variability of revenue streams of the contributing entities in an effort to ensure that plan contribution requirements will fit within these revenue streams.	use all acceptable practice techniques when they fit a particular situation and that the decision regarding which of these techniques to use should be left to the professional judgment of the actuary. Finally, the PTF does not believe that the actuary should be required to determine how the required contributions will fit into the entity's revenue streams, either now or in the future. This is not an actuarial matter – it is a matter for consideration by plan sponsors and other decision makers.
There is a misperception that ASOPs are de facto governing public sector plan funding. Perhaps the ASOPs should require actuaries to disclose that ASOPs do not act to regulate the funding of plans.	The PTF believes that this concern goes beyond pension practice and suggests that the ASB consider this concept in a broader context in due course.
Provide a disclosure on the limits of ASOPs.	The PTF suggests the ASB consider this idea in a broader context in due course.
The ASB should consider adding requirements for actuaries to make additional disclosures in communications covering funding of those plans that are not covered by funding/solvency standards set by independent third parties. Such disclosures could note that ASOPs set principles for actuaries in choosing funding assumptions and methodology but do not provide strict guidance for actuaries on whether any particular economic and demographic assumptions or any actuarial method is appropriate or inappropriate for plan funding, e.g. that the funding obligation calculated is only one potential estimate of the cost; actual cost will likely vary significantly based on experience and future costs could be significantly higher or lower than the value suggested by this number. Or, alternatively, the disclosures could note that ASOPS are not akin to accounting standards set by the FASB/GASB (which provide strict regulatory oversight on accounting) and as such are not designed to provide specific regulatory oversight to the practice of plan funding.	The PTF suggests that for an actuarially determined contribution to be considered reasonable it must meet certain requirements, and that a reasonable ADC be disclosed whenever a funding calculation is performed. The PTF further notes that ASOP No. 4, section 4.1.r requires "a statement, appropriate for the intended users, indicating that future measurements … may differ significantly from the current measurement," and that the ASOP on risk that is in the developmental stage will likely require additional new disclosures. The PTF believes that a statement that ASOPs do not substitute for regulatory oversight goes beyond pension practice and suggests that the ASB consider this concept in a broader context in due course.
A glossary of terms should be available to help pension trustees, elected and appointed public officials, and journalists understand the reports.	The PTF suggests that this be referred to the Pension Practice Council for consideration.