

Comments to Second Exposure Draft of Proposed ASOP: Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions

October 17, 2016

About Independent Actuaries, Inc. and Northwest Actuarial Consulting LLC

Independent Actuaries, Inc (IAI) is the largest locally owned actuarial consulting firm in the Pacific Northwest, providing consulting services to approximately 500 businesses of all sizes. We are employee owned with 19 employees; 12 of which are designated pension professional. IAI has expertise with all types of retirement plans, including qualified defined benefit plans. The majority of our defined benefit business is in the small to mid-sized plan market.

Alan J. Stonewall, FSPA, EA, MAAA is the principal consultant and owner of Northwest Actuarial Consulting, LLC. During his 40+ years as an actuary, he has served as President of the American Society of Pension Professionals and Actuaries, Chairperson of the Actuarial Standards Board, and Vice-Chair of The Actuarial Foundation, among other professional accomplishments. Alan has consulted with Fortune 500 companies, large and small governmental organizations, as well as hundreds of small businesses and their advisors

Northwest Actuarial Consulting LLC maintains a formal affiliation with Independent Actuaries, Inc. in order to provide clients with continuity and access to a broad range of actuarial services. We collaborate with each other on projects that involve the expertise of both firms as well as support each other with peer review and access to information valuable to our clients.

General Comments to ASB Exposure Draft

We appreciate the opportunity to respond to the second exposure draft. We applaud the direction of a more formal assessment and disclosure of inherent pension risks and recognize the time to draft this proposed ASOP. Since the majority of our business represents the small to mid-sized defined benefit plan market, we want to find a balance between useful disclosures and administrative costs. We feel that allowing the actuary to make a professional judgement to disclose the risks when relevant and material accurately strikes that balance.

Comments to ASB Specific Request for Comments

Our comments are italicized below.

1. Do you believe that the addition of contribution risk in section 3.3 is consistent with the risk definition in section 2.3? If not, how would you modify the definition in section 3.2? *The definition of Risk in section 2.3 is well written; complex and complete. We feel that the addition of contribution risk is consistent with 2.3 and strengthens section 3.3.*
2. Do you agree with the proposed guidance in section 3.6 that if, in the actuary's professional judgement, a more detailed assessment would be beneficial for the intended user to understand the risks identified by the actuary, the actuary should recommend to the intended user that such an assessment be performed? *Conceptually we agree that the actuary should recommend any assessment that would be materially useful to the intended user. See our specific comments below to the verbiage used throughout the exposure draft.*

3. Do you believe that the guidance in section 3.8 regarding the disclosure of historical actuarial measurements or potential disclosure of other historical information to assist in understanding the risks associated with the plan is appropriate? If not, what changes do you suggest? *Yes, we feel that this addition is appropriate.*

Specific Comments and Clarifications

1. Please clarify whether Scope as defined in Section 1.2 excludes reporting under Financial Accounting Standards Board Accounting Standards Codification (ASC). The reporting under ASC utilizes some assumptions not determined by the actuary and ASC already prescribes some assessment of risks.
2. Section 3.4 states that the assumptions used to determine expected future measurements should result in one or more “plausible outcomes”. This guidance seems incomplete. If the assumptions used result in an implausible outcome, isn’t that also potentially valuable information? Is it clear to an actuary when an outcome is plausible?
3. Section 3.4, second paragraph, describes the reliance on data and analyses obtained from a variety of sources. The guidance provided is that the actuary may consider the views of such sources but the actuary is responsible for selection of the assumptions used to assess risk. The sentence – “The actuary may benefit from becoming familiar with a range of views...” – should be removed. Among other reasons, it implies that an actuary who does not become familiar with a range of views on “the factors underlying each assumption” is missing out on something that might be beneficial to his work. This places an undue burden on the actuary who when challenged, cannot demonstrate that he obtained a range of views on each and every assumption used in his assessment. If it is decided to keep the sentence, we suggest replacing the wording: “The actuary may benefit from becoming familiar...” with “In some instances, the actuary may gain useful insight from becoming familiar...”
4. Similarly, we suggest replacing the word “beneficial” in the first sentence of 3.6 with “materially useful”.
5. Section 3.7 says the actuary should provide commentary to help the intended user understand the significance of the disclosed plan maturity measure when assessing risk. Can this commentary be oral? In some small plans where, for example, 75% or more of plan liabilities are attributable to one or two owners, plan maturity measures are seldom meaningful information. Is commentary to this fact required by Section 3.7?
6. Please clarify the intended meaning of the term “Plan Maturity”. We believe this is not a universally understood term. We suggest a definition be added to Section 2.
7. We recommend reordering the examples in Section 3.7, with the most commonly used measures listed first. A suggested order is as follows:
 - a) The duration of the actuarial accrued liability

- b) The ratio of the benefit payments to contributions,
 - c) The ratio of the retired life actuarial accrued liability to total actuarial accrued liability
 - d) The ratio of net cash flow to market value of assets, and
 - e) The ratio of market value of assets to payroll
8. In Section 3.8, we recommend requiring disclosure of historical values of the plan's actuarial measurements only when such values are significant to understanding "material risks" associated with the plan. The requirements of this section will likely be time consuming and burdensome for most small plans. This disclosure is already only required if the values are *reasonably available* and disclose *relevant* values, but further clarification of the limited nature of this requirement would be helpful to the small plan actuary.

Respectfully submitted by Sara Ark, FSA, EA, MAAA on behalf of Independent Actuaries, Inc. and Alan J. Stonewall, FSPA, EA, MAAA on behalf of Northwest Actuarial Consulting LLC.