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

October 31, 2016

Subject Proposed ASOP - Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions, Exposure Draft July 2016

To Members of the Actuarial Standard Board:

I am writing as an individual practitioner to share some concerns and comments about the second exposure draft. Some of these notes may seem inappropriate for a second draft; I had not commented earlier as my understanding was that the first draft was focused on public and multiemployer plan practice areas. Those are not my areas of practice.

1. I have concerns about the scope of this exposure draft. There is a strong potential (given the analysis, data collection, and disclosure requirements) that its requirements will result in additional cost but limited value for some plan sponsors.
  - For smaller plans where risk is neither readily predictable nor avoidable, there is little return for the additional cost. I would suggest the ASB consider adding specific language acknowledging how risk varies for smaller plans.
  - For plans using similar methods and assumptions (such as plans subject to the PPA single plan funding rules), risks are similar across many plans. This could easily result in boilerplate language that may or may not be read by the intended users of the report. In addition, historical measures (such as funded status) are available but of less value when done on a constantly varying prescribed interest basis.

I would recommend the ASB consider adding wording to address the handling of prescribed methods and assumptions. It is not clear how prescribed methods or assumptions are to be handled, since their only mention is in Section 4.2, discussing deviations from this standard. What is the ASB's intention here?

2. With regard to section 3.3, I am concerned that a standard that requires an itemization of risks considered is an invitation for litigation if/when a risk not foreseen or deemed material by the actuary comes to pass. Including a specific list of risk types in the ASOP provides an implicit checklist. It is human nature to use the provided list (whether or not appropriate for a specific plan) and not look much further.

The ASB might want to consider whether it would be better to shift the list of identified risks currently in Section 3.3 to either a preamble or discussion section, rather than placing it within the ASOP.

3. Section 3.7 identifies plan maturity measures. With some exceptions (such as the duration of the actuarial accrued liability), these are not commonly prepared or tracked for single-employer ERISA plans. Given the prescribed nature of ERISA single-employer plans, should these measures developed and disclosed for them? They seem more closely associated with public plans or multiemployer plans,

where funding requirements are not subject to the same discipline required by ERISA. Requiring them here seems to add cost to a process while not necessarily adding value to the intended user.

4. Session 3.9 states that “the actuary may rely on a separate report that the actuary has not produced”. Please clarify or give examples of such “report”. Would this include research papers on the relevant topic of plan risks in general, case studies that illustrate the risks on sample plans, and special risk studies (e.g. ALM reports) for the plan performed by another actuarial expert? Or were you considering reports from other experts, such as investment professionals?

You had also asked us to respond to specific questions:

***Question 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 2.3?*

I agree that contribution risk is a factor included in section 2.3, and doesn't necessarily conflict with the definition. See also above comments on Section 3.3.

***Question 2:*** *Do you agree with the proposed guidance in section 3.6 that if, in the actuary's professional judgment, 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?*

I agree that additional analysis is almost always “beneficial” but hesitate to recommend that it be done. It is difficult to find a situation when additional analysis might not be beneficial. However, it smacks a little of self-promotion by the profession to encourage additional work be performed based on an almost universally met standard. The ASB might consider softening the requirement to having the intended user consider whether an additional risk assessment might provide them with sufficiently valuable insights.

***Question 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 would you suggest?*

I do think that portions of section 3.8 are appropriate and it does allow the actuary to use professional judgement if these historical values are reasonably available. But, consideration should be given to noting the length of “history” considered appropriate – 3 years? 5 years? 15 years?

Thank you for the opportunity to comment on the exposure draft. I encourage you to consider these making comments as you move forward.

Sincerely,



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