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October 31, 2016

Assessment and Disclosure of Risk
Actuarial Standards Board
1850 M Street, Suite 300
Washington DC 20036-4601

Subject: Proposed Actuarial Standard of Practice – Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions

Mercer is pleased to provide our response to the second exposure draft of the proposed ASOP on Assessment and Disclosure of Risk for pension plans. These comments were prepared by Mercer's Actuarial Resource Network, a group of senior actuaries in the retirement practice area representing all of the U.S. geographic areas in which Mercer operates.

We would like to thank the Actuarial Standards Board (ASB) for their efforts in this important area. We believe that this draft is a significant improvement over the first draft, with meaningful and substantial progress in the right direction. However, we appreciate the opportunity to offer the following comments:

**Section 3.7 – Plan Maturity Measures**

We understand that items a. through e. of this section are simply examples. However we also believe, as we expect the ASB does, that many users will rely on that list to select maturity measures, so making that list as clear as possible is very important. As such, in a., where you indicate "payroll," we suggest some clarification or discussion regarding whether the intent is plan payroll, company payroll, parent company payroll, etc. Each of those comparisons could provide some value, although as strictly a maturity value, perhaps plan payroll is the most valuable.

**Section 3.8 – Historical Information**

We believe the section should not only indicate that professional judgment is key to selecting which measures will be reported, but also that professional judgment is key to deciding how far back the historical period should go. As written, the lack of any limitation on the period could lead one to assume the ASOP requires a period back to plan inception (assuming the information is reasonably available), but in many situations a long history will be meaningless — e.g., when a plan's measures have significantly changed as a result of plan amendments, spinoff, annuity purchases, curtailments, etc. In addition, we suggest the standard clarify the requirement in the case of an actuarial takeover — should the actuary include information for prior periods prepared by prior actuaries when the new actuary has no way to know if that information is correct? We believe that, in the absence of known concerns as to the accuracy of this information, the new actuary should be encouraged to provide it with proper attribution. We also believe that the ASOP should make clear both that confirmation of accuracy is not the new actuary's responsibility and that including the information is not an indication that the new actuary has evaluated the information in any way.

**Section 3.9 – Reliance on a Separate Report**

While we agree with the concept of this section, we believe that the language as written creates questions:

- The language suggests that an actuary can only rely on a report written by someone else. While Section 4.1 contemplates that an actuary can also rely on another document prepared by the actuary, clarifying in Section 3.9 that the actuary can also rely on a previous report prepared by the actuary (and on the same terms as a report prepared by someone else) would be helpful.
- We believe the words "is consistent" are too vague. For example, what if a report prepared by someone else had, in the actuary's judgment, an excellent assessment of risk as described in Section 3.2, but did not include maturity measures or historical information? Does that exempt the actuary from doing a risk report? Or does the missing information require the actuary to conclude the other individual's report is not consistent with what the actuary would have produced and thus do an entirely new report? We believe the intent of this section might be better described as allowing the actuary to reference other reports in complying with each of the requirements of this ASOP (when the actuary agrees with those reports) rather than having to determine whether reliance on the report is appropriate for all of the requirements of this ASOP.

**Section 4.1 – Disclosures**

Item b) uses the term "significance." Significance is a mathematical term when applying statistical measures, which are a way of conveying risk. We do not believe that this use of "significance" was intended to reference the mathematical denotation; as such we suggest that clarifying it to something such as "relative importance" could prove helpful to an actuary defending a disclosure.

**Specific questions asked by the Actuarial Standards Board**

We would answer yes to each of the specific questions, subject to our comments above about historical measures.

**Additional thoughts**

In addition to the comments above, we support many of the recommendations made by the Academy's Pension Committee. So as to avoid being repetitive, we will not provide a full write-up here. However, we wish in particular to emphasize our strong support for the following points made by the Pension Committee in its comment letter:

- Section 1 should state clearly that a single risk assessment per year is sufficient, even if the funding standards incorporate multiple calculations and certifications.
- Section 1.2 should confirm that the standard does not apply when the results are provided to a regulatory agency solely to satisfy a government filing requirement.
- Section 2 should be expanded to include definitions for all pertinent terms that are defined in other standards (for example, “actuarially determined contribution” and “market-consistent present value”).
- The final sentence of Section 2.1 should be rewritten to clarify that an ERISA funding valuation is only an example of a funding valuation, rather than the only sort of valuation that meets the definition.
- Section 2.2 should be clarified so it is clear that the periodic cost is the periodic *funding* cost, since “periodic cost” often refers to a plan’s expense under the relevant accounting standard (which is not covered by the ASOP).
- Section 3.3 should be expanded to include other demographic risks, such as retirement risk.

Thank you for the opportunity to comment on the exposure draft. If you have any questions, please contact Jim Verlautz (612 642 8819) or me (212 345 7257).

Sincerely,

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