

Comment #1 – 5/18/18 – 5 p.m.

This email presents my comments on the proposed revision to ASOP 4. I emphasize that my comments are personal and do not necessarily represent the views of my employer or of any actuarial body of which I am a member. I am a Fellow of the Institute of Actuaries (London), a Fellow of the Society of Actuaries, An Enrolled Actuary, and a member of the American Academy of Actuaries.

1 The ability of myself, other actuaries, and other interested parties to comment on this proposed revision would be greatly enhanced – to a minimum acceptable level – if the ASB issued a red line version of the proposed revision, using strikeout font for text in the original that the ASB proposes to remove and by using italic/different color font for text the ASB proposes to add. Such a version is essential for us to make a reasonable review of the changes and to catch areas where the changes appear to need further revision or removal. I urge the ASB to provide red line versions for all future proposed revisions of ASOPs and to provide red line versions of all current draft ASOPs that are proposed revisions of existing ASOPs.

2 I urge removal of 3.11, which discusses Investment Risk Defeasement Measure, for these reasons:

- Section 2 contains no definition of Investment Risk Defeasement Measure, Defeasement, Investment Risk Defeasement, or Defeasement Measure. Before accepting a revised ASOP with 3.11, the ASB should submit for fresh review a version that includes such definitions. The lack of definition is an insuperable hurdle for allowing adoption without exposing a new draft for further review.
- Section 4.1.o. provides inadequate guidance on the communication of this measurement. Inclusion of a value and information on the assumptions used, without contextual information on how the actuary's principal is expected to understand or use the information is unhelpful.
- SAOs on retirement plans typically include measures of funding target using constrained and unconstrained interest rates, 4010 liability values, the present value of accrued benefits under ASC960, PBO, DBO, ABO, and VBO. Multiemployer plan SAOs include withdrawal liability. I question the need, value, or appropriateness of adding a measure of Investment Risk Defeasement to this array of existing actuarial values.
- The actuary's principal should have authority to determine if the actuary should calculate this value based on the value of the information and the cost of the actuary performing the calculation and revising the SAO to include communication of it.
- In many situations, the measure will be of no relevance to the actuary's principal. Such situations include a plan with all benefits fully covered by the PBGC; plans with assets far in excess of even the most conservative measure of liabilities, multiemployer plans that are not in the green zone, terminated single employer plans, and plans with a funding policy contribution more than adequate to eliminate the need for this measure.

- The requirement of 3.11.d. on demographic assumptions is worse than worthless; it emphasizes funding valuation assumptions, although such assumptions may be inappropriate for (a) a situation in which the plan sponsor decides to defease the investment risk of the plan or (b) a situation in which large numbers of plan sponsors decide to defease the investment risk. Other ASOPs require the actuary to adopt appropriate assumptions; ASOP 4 is no place for 3.11c. or 3.11d.

3 I urge the ASB not to change the ASOP to reflect the proposed addition or modification of 3.14, 3.16, 3.17, 3.20, 3.21. and 4.1. - and the corresponding definitions in Section 2. They make the ASOP too prescriptive. Far from adding these parts, I urge the ASB to review the ASOP with a view to removing from it all of the prescriptive wording and making it a general ASOP that allows actuaries working in the retirement income area to adopt appropriate measurement procedures and to discuss them in appropriate detail in any SAO. The proposed additions to the ASOP and much of the existing entries in sections 2 and 3 belong, not in an ASOP, but in actuarial textbooks, informal guidance, blogs, and discussion papers.

Meetings of the ASB and of the ASB Pension Committee that will discuss the comments on this proposed revision will be under different rules from those that applied in the past. The meeting chair can now prohibit attendance by anyone for any reason and for no reason. The ASB should have sought input from the Academy membership before piggybacking on the changes adopted for Academy board and committee meetings. I urge the ASB, as a separate entity from the AAA, to sever its meeting attendance policy from the policy for the Academy meetings and adopt a modern web-based attendance policy that would make live webcasts of all ASB board and committee meetings (similar to C-Span) readily accessible to anyone, and to provide an accessible library of recordings of past such meetings. I am confident the ASB could provide appropriate rules for those rare situations where the confidential nature of some discussion merits in-camera treatment. The ASB refuses to post or consider anonymous comment communications on draft ASOPs. The ASB and its pension committee should not adopt a “do as I say, not as I do” approach, by holding meetings that those interested in the ASOP have no guarantee of attending (thereby, being unable to identify the people on the committee or board whose comments lead to welcome or unwelcome changes).

An unresolved conflict of interest could exist if an actuary’s work on the ASB or any ASB committee could affect (a) any client of the actuary, or (b) any other direct or indirect financial interest of the actuary. I urge the ASB to publish standard statements by each member of the ASB and of each of its committees prior to participating in any ASB-related meeting that attest to (a) having received approval from each client to perform work on the ASB or ASB committee at that meeting regardless of if that work affects that client and (b) having no material conflict of interest in any other matter in relation to ASB board or committee work.

Best Wishes

Jan Harrington