

Comment #10 – 7/20/18 – 3:16 p.m.

Comments on Exposure Draft to Proposed Revision of ASOP No. 4

I am submitting these comments in regards to the exposure draft of ASOP No. 4, approved by the ASB in March 2018. These comments are being submitted on my own behalf, and not on behalf of my employer.

Section 3.11 Investment Risk Defeasement Measure – adding another calculation of the obligation measure to the funding valuation reports is at best confusing and at worst misleading to the potential audience of the report. Accordingly, I have grave concern that adding such a measure could result in the actuary violating Precept 8 of the actuarial code of conduct. This Precept states the actuary shall take reasonable steps to ensure that his services are not used to mislead other parties. Concern exists on whether best efforts to clearly present explanations and limitations on utilization of such information will prevent these measures of liabilities from being misinterpreted to other parties as the “true cost” of benefits.

Further utility of such a measure is debatable. For example, for pension plans that are traditionally invested (including meaningful equity allocations), a liability based on a risk free discount rate is of little value. It is unlikely such a measure would be used in decision-making for managing the plan. It may, however, result in wasting of resources to calculate, disclose and explain such a measure. In addition, such a measure could cause unmerited concerns and even panic as the measure could easily be misused by those either unknowledgeable on such matters or with their own political agendas.

If this section is retained, the term investment risk defeasement measure should be added and defined in Section 2, to aid in user. This concept of investment risk defeasement for an ongoing plan with a long-term life ahead of it, is a concept many will find extremely confusing and of little value. In my practice, I’m not looking forward to having to explain why we need to calculate and disclosure this measure nor am I confident I will be able to convince my clients that this addition is helpful to them. For many pension plans, there already exists obligation measures based on a range of discount rates (for funding, accounting and PBGC purposes, for example), so requiring this additional measure is not necessary and in many cases not helpful.

Therefore, I strongly urge the ASB to remove this Section 3.11 and the investment risk defeasement measure from the ASOP’s.

Respectfully Submitted,

Glen Gahan