WillisTowersWatson

July 27, 2018

ASOP No.4 Revision
Actuarial Standards Board
1850 M Street, NW, Suite 300
Washington, DC 20036

Dear Sir or Madam,

This letter documents the response of Willis Towers Watson to the proposed revision of Actuarial Standard of Practice ("ASOP") No. 4 Measuring Pension Obligations and Determining Pension Plan Costs and Contributions, as requested in the Exposure Draft (ED) of March 2018.

Willis Towers Watson is a leading global professional services company that employs over 40,000 associates worldwide, over 1,100 of whom are members of U.S. actuarial bodies subject to the standards and approximately 600 of whom are enrolled actuaries. We provide actuarial and consulting services to more than 1,700 defined benefit plans in the U.S. The undersigned have prepared our company's response with input from others in the company.

Our comments generally support four central themes that we believe should apply to the ASOPs that can be found on our website at https://www.towerswatson.com/en/north-american-retirement-principles.

Summary and General Observations

Many of our comments note that the proposed requirements would entail significant additional work that would often not benefit the Principal. When additional analyses and disclosures are not helpful or requested, the actuary would not be compensated for the incremental effort imposed by ASOP No. 4. Such requirements would lead only to a more confusing work product and are not in the best interest of the profession.

We also observe that the requirements, other than ASOPs, that apply differ significantly among different areas of pension practice. Some pension plans, such as qualified U.S. plans in the private sector, are already subject to a vast array of funding rules and accounting requirements at both the plan and the corporate level. The standard proposed by the ED would introduce confusing and redundant analyses and disclosures for these plans. It would be more appropriate to provide exemptions for plans already subject to such governance. In this way, the ASOP would improve practice in areas without clear current guidance or requirements, but it would not impose superfluous requirements on others.

In addition, we believe that based on the definition of measurement date, the standard will be effective and apply immediately upon adoption to projections that are more than 12 months out. We recommend modifying the effective date provisions to avoid this result.

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We appreciate the opportunity to provide feedback. Our specific feedback on the ED follows, beginning with the two questions listed in the *Request for Comments* section of the ED.

Responses to Specific Requests for Comments

1. *Section 3.11, Investment Risk Defeasement Measure, requires the calculation and disclosure of an investment risk defeasement measure when the actuary is performing a funding valuation. The guidance allows for discount rates to be based upon either U.S. Treasury yields or yields of fixed income debt securities that receive one of the two highest ratings given by a recognized ratings agency. Are these discount rate choices appropriate? If not, what rate choice would you suggest?*

   As discussed in more detail in our comments on specific sections below, we do not believe that requiring the calculation and disclosure of an investment risk defeasement measure when the actuary is performing a funding valuation is appropriate. Additional risk assessments or measures may be "best practice" in some situations, but they are certainly not required for appropriate practice. In many situations such additional assessments would provide no benefit, not be desired by the Principal and result in uncompensated work for the actuary. Some such situations include when such measures are already provided for accounting purposes and when the plan is not material to the plan sponsor. Even if the additional measure would provide useful new information, we object to a broad requirement to include the measure as it will often lead to uncompensated work for the actuary that will not be valued by the Principal.

   While we do believe that the discount rate choices noted above would be appropriate for such a measure if adopted, we believe this disclosure already occurs in the accounting valuation for corporate pension plans. While we believe that this requirement should be eliminated, if adopted, we ask that the standard specifically state that separately provided financial reporting information determined under relevant accounting standards can be used to satisfy this requirement.

2. *Under certain circumstances, section 3.20, Reasonable Actuarially Determined Contribution, requires the actuary to calculate and disclose a reasonable actuarially determined contribution. Do the conditions in this section describe an appropriate contribution allocation procedure for this purpose? If not, what changes would you suggest?*

   We believe this section is redundant in that it simply refers to other sections of ASOP No. 4 and other ASOPs. For many pension plans, such as qualified U.S. pension plans in the private sector, the funding valuation includes many prescribed methods and assumptions set by law, making this section not applicable.

Specific Comments

***Section 3.3.2 (Uncertainty or Risk)* –** The ED added reference to ASOP No. 51 Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions. However, ASOP No. 51, section 1.2 (Scope) states that "this standard applies to actuaries when performing a funding valuation of a pension plan." Adding the reference to ASOP No. 51 into section 3.3.2 of the ED could be interpreted to extend ASOP No. 51's risk evaluation requirements beyond funding valuations, and the vagueness of section 3.3.2 exacerbates the problem. We suggest that the reference to ASOP No. 51 be deleted.

***Section 3.8 (Actuarial Assumptions)* –** The additions to this Section do not seem necessary and the guidance provided is not always appropriate. For example, an actuary might perform multiple funding or funded status projections some of which might include optimistic assumptions (such as showing the 75th percentile results), which does not appear to be included in the concept of "adverse" deviation. Such analysis is a typical part of funding projections and should not represent a deviation from the requirement of ASOP No. 4. We suggest clarifying that the section does not apply to projections or adding "as appropriate" after the phrase about the combined effect of assumptions having no significant bias.

However, we also strongly believe the additions to this section are not needed, as we already have very comprehensive guidance on setting actuarial assumptions in other current ASOPs (No. 27 and No. 35) and potentially additional such guidance in upcoming ASOPs on modelling and assumption setting. We suggest no additions regarding assumptions be made to ASOP No. 4 to reduce redundancy, as it is burdensome for an actuary to have to refer to multiple ASOPs to ensure satisfaction of the guidance that relates to assumption setting.

Section 3.11 (Investment Risk Defeasement Measure) – We object to the addition of this requirement for the following reasons.

- For virtually all corporate qualified plans, such a measure already is provided routinely for accounting purposes and we see no reason to require an additional such disclosure for the funding valuation.
- The measure is not useful in a number of situations, including plans that are not material to the sponsor and plans that are overfunded using any reasonable set of assumptions
- The requirement places a burden on the actuary, imposing requirements for analyses that will often be beyond the scope of any agreement with the Principal, which the Principal may not need, and for which the actuary is unlikely to be compensated.

If such a disclosure is retained:

- We ask that this section explicitly state that measures and amounts used for financial reporting (e.g. the U.S. Generally Accepted Accounting Principles (GAAP) Accumulated Benefit Obligation measured at the most recent financial reporting date) may be used to satisfy this requirement. However, given that financial reporting already provides a measure very close to what is described in this section, we do not believe Section 3.11 is needed at all and we object to its addition.

- Section 3.11.d mentions that the actuary should calculate the investment risk defeasement measure using "assumptions other than discount rates used in the funding valuation or other reasonable assumptions based on estimates inherent in market data". We request clarification of what is meant by "market data" for some demographic assumptions such as retirement and termination rates, and would suggest removing the mention of market data since the actuary will rely on ASOPs No. 27 and No. 35 anyway in selecting assumptions. Otherwise we believe this sentence could be interpreted to imply completely separate assumptions from the funding or accounting valuations.

Section 3.13 (Actuarial Cost Method) – Paragraph (c): We suggest clarifying to say the requirement only applies to expenses that are paid from the pension trust.

Section 3.20 (Reasonable Actuarially Determined Contribution) – As discussed above in the Responses to Specific Requests for Comments section, we do not believe that this section is needed.

Section 3.21 (Gain and Loss Analysis) – We agree that the actuary should generally determine the gain/loss for each period, including separately determining the amount attributable to investments. In our view this represents basic professional standards. However, we do not believe that there should be any requirement to perform a detailed gain/loss analysis by source. We are concerned that some may interpret the Section to require this and try to impose that interpretation on actuaries. We recommend that Section 3.21 clearly state that a detailed gain and loss analysis by source is not required as such an analysis can be time consuming and expensive, may often yield only marginally more information than a higher level analysis and may not be wanted by the Principal. The actuary should apply professional judgement in determining how detailed an analysis to perform.

We suggest changing the phrase "successive gain and loss analyses would not be appropriate for assessing the reasonableness of the actuarial assumptions" to "successive gain and loss analyses would not be appropriate or necessary for assessing the reasonableness of the actuarial assumptions".

Section 4.1 (Communication Requirements) – Paragraph (l): The addition of this section requires an assessment of whether Prescribed Assumptions or Methods Set by Another Party are reasonable and consistent with other assumptions in accordance with section 3.8. However, section 3.8 does not have such a requirement, as it only refers to assumptions selected by the actuary. In addition, this requirement places an impractical burden on the actuary, imposing unreasonable requirements for analysis that will often be beyond the scope of any agreement with the Principal. Such analysis will typically be unwanted by the Principal and as a result the actuary would not be compensated for this analysis. We believe the actuary should not have to assess the reasonableness and consistency with other assumptions of assumptions that the actuary does not control (because law, regulations or accounting guidance give that responsibility to another party), other than to disclosure if they significantly conflict with what would be reasonable. If the Principal has a different future expectation from the actuary and chooses a different assumption, then as long as that assumption does not significantly conflict with what would be reasonable, the actuary should not have to affirmatively determine that it is reasonable or consistent with the other assumptions. See our similar comments on ASOP 27 and 35.

We suggest carving Assumptions Set by Another Party out of this requirement or, even more appropriately, deleting this requirement and leaving guidance on assumptions to ASOP No. 27 and 35.

Paragraph (u): As written, this would seem to require disclosure in a situation where a plan is in surplus by more than the normal cost and the allocation procedure results in $0 contribution. We do not believe this is appropriate and recommend that the provision be modified to avoid this result.

Paragraph (w): We object to the addition of this requirement. It would be needlessly burdensome to the actuary to describe how all seven considerations in section 3.17 have been taken into account in selecting each method of the contribution allocation procedure. Such new disclosures would often involve substantial additional work not requested by the Principal and for which the actuary would not be compensated. As indicated above in the Summary and General Observations, adding additional disclosures as indicated in section 4.1(w) only creates potential confusion for the Principal and clutters communications with boilerplate language.

Section 4.2 (Disclosure about Assumptions or Methods Not Selected by the Actuary) – Paragraph (a): This requirement added “individually or in combination with other assumptions or methods”. This change would require an analysis of whether a Prescribed Assumption or Method Set by Another Party that by itself does not significantly conflict with what would be reasonable nevertheless does significantly conflict with what would be reasonable when combined with any other methods or assumptions, regardless of who selected them. First, we believe that ASOP No. 4 is not the appropriate standard to deal with the choice of or internal consistency of assumptions. In addition, we believe that in many situations it will not be possible for the actuary to determine whether the combination of assumptions significantly conflicts with what would be reasonable when the individual assumption chosen by the other party does not For example, the actuary may not know the details of the analysis that went into selecting that assumption, or the assumption may be outside the actuary’s areas of expertise, or the effects of various future economic outlooks on other assumptions – for example, future disability or retirement rates – may not be clear). Similar to section 3.8, we object to this requirement for additional analyses that the actuary may not be qualified to perform, was not requested by the Principal, and for which the actuary will not be compensated. We believe the current requirement to disclose if the actuary believes the assumption significantly conflicts with what would be reasonable is sufficient.

Thank you for this opportunity to comment on the ED. If you have any questions concerning our comments, please contact us directly.

Sincerely,

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