

ASB Comments
American Academy of Actuaries
1850 M Street NW, Suite 300
Washington, DC 20036

To Whom It May Concern,

This email presents my comments on the proposed revision to Actuarial Standards of Practice 4 (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 an Associate of the Society of Actuaries, An Enrolled Actuary, and a member of the American Academy of Actuaries.

I strongly urge the ASB to remove the word defeasement from ASOP 4, and I request that the ASB consider substituting Investment Risk Diminution Measure for Investment Risk Defeasement Measure for the following reason:

A pension actuary may take a position based on his principles that “defeasement” (meaning nullification) is a word that is inappropriate for investment risk in a defined benefit pension plan unless that plan is terminated, and he may, in accordance with Section 3.2 a. of ASOP 4, word the purpose of the Investment Risk Defeasement Measure accordingly.^{1,2} That actuary may do additional work that is not generally included in a funding valuation³, and he may be at a disadvantage in terms of setting competitive prices for actuarial services compared to other pension actuaries who do not take that position. The exposure draft for ASOP 4 as currently written may diminish respect for the Actuarial Standards of Practice. An increasing number of pension actuaries may need to compromise their principles by rationalizing ways to avoid the position described above so that they may continue offering their services as pension actuaries.

I also request that the Actuarial Standards Board (ASB) consider (1) adding guidance about the purposes for the Investment Risk Diminution Measure, (2) adding a definition for the Investment Risk Diminution Measure to Section 2 and (3) amending Section 1.2 to clarify that the Investment Risk Diminution Measure is “an assignment of the value of plan obligations to time periods” and not an obligation related to “annuity pricing.”

Thank you,

Michael Hunter

¹ ASOP 4 provides no guidance with respect to the purposes of the Investment Risk Defeasement Measure. In addition, the Investment Risk Defeasement Measure is not defined in Section 2, nor has the scope of ASOP 4 been amended to indicate that the Investment Risk Defeasement Measure is “an assignment of the value of plan obligations to time periods” and not an obligation related to “annuity pricing”, which is not included in the scope of ASOP 4.

² The purpose of the Investment Risk Defeasement Measure could be worded as follows: “...to communicate the equivalent of an obligation that, if matched in assets, could have allowed the plan sponsor to purchase annuity contracts for all plan participants as of the valuation date as part of a standard plan termination.” This purpose is reasonably based on the definition of defeasance and on the reference in Section 3.11 to “[discount] rates at which the pension obligation can be effectively settled.”

³ The additional work may include the following: (1) evaluate and potentially use alternate actuarial assumptions in addition to the discount rates, (2) analyze and communicate information about the volatility of the measure, (3) provide a sensitivity analysis for the measure, and (4) communicate information about the plan’s investments and how they differ from an investment portfolio associated with the discount rate(s) used for the measure.