July 31, 2018

Actuarial Standards Board
1850 M Street, NW, Suite 300
Washington DC 20036

Subject: Comments on Proposed Revisions to ASOP 35

Dear Actuarial Standard Board:

Thank you for the opportunity to comment on the proposed revisions to ASOP 35.

1. The reference to ASOP 34 was added to section 1.1 from the current version of the ASOP, and we believe this reference should be deleted or clarified. Nothing in the scope as articulated in section 1.2 would include the types of valuations normally done in conjunction with actuarial practice concerning retirement plan benefits in domestic relations actions, nor is ASOP 34 mentioned as one of the ASOPs related to measuring pension and retiree group benefit obligations in the background section. While in some ASOP 34 valuations, following concepts similar to the concepts articulated in ASOP 35 would be appropriate and Section 3.3.4 of ASOP 34 does reference ASOP 35, in many instances the guidance of ASOP 35 is not appropriate for valuations under ASOP 34.

   Before the ASB changes guidelines on how economic assumptions for all purposes under ASOP 34 are determined, we urge the ASB consult with individuals with actual experience in the actual application of ASOP 34 in practice. Further, since the stated motivation of the changes to ASOP 35 are related to issues related to public plans, and ASOP 34 has nothing to do with valuing public plans, this seems well outside the scope of the intent of the changes being made.

   Similarly, the ASB should harmonize including ASOP 34 in the scope with including ASOP 17 in the scope.

   Lastly, if the reference to ASOP 34 is not deleted then the expression "…use of economic assumptions" should read "…use of demographic and noneconomic assumptions." I.e. there appears to be a typo and the language intended for ASOP 27 was included in ASOP 35.

2. In Section 1.1, should there be a reference to ASOP 51?

3. Section 2.3, the term demographic assumptions includes all other noneconomic assumptions. As discussed below, noneconomic assumptions could include items such as an anticipated plan termination date, or some other future event that cannot reasonably be called demographic in nature. At a minimum a comment should be added somewhere that for readability the ASOP uses the term demographic assumption even though it refers to assumptions that may not be demographic in nature.

4. Should the title of Section 3 more accurately be "Analysis of Issues and Appropriate Practices?" The inclusion of the word "Recommended Practices" may give the idea that the issues mentioned in Section 3 are literally recommendations which an actuary may follow or not follow.

5. We believe that the list in section 3.2.1 should be expanded such that the actuary, depending upon the nature of the measurement, should reflect other factors, such as the probability that benefits payments may be triggered earlier than retirement due to a plan termination. For example, in selecting the assumption the actuary should reflect any likely timeframe for plan termination such as a plan sponsor articulated time frame to terminate the plan or is likely need to terminate the plan due to regulatory issues (such as IRC 401(a)(26)).

6. Section 3.2.2 b was changed to remove the requirement that the experience be credible to be relevant. We wonder whether this means that the actuary should consider experience data even if it is not credible. We would suggest reverting back to the current language.

7. The first sentence of 3.2.5 was changed. Unless there was some compelling reason for this change, we believe that the prior language was superior, and should be retained, as the proposed language is not clear. We believe that the next sentence is unclear as to whether the assumption should individually meet each requirement (i.e. the sentence should say "…has all the following characteristics…") or should meet some of these characteristics. Also, it would appear that this list is intended to be exhaustive, in other words, the ASOP is stating that an assumption is reasonable, if and only if, it meets these requirements. We do not believe this to be true, and can think of many counter examples (i.e. where an assumption is reasonable, but does not meet that set of requirements and conversely where it might meet that set of requirements but still is not reasonable).

   An easy example of a problem with this list is an assumption regarding retirement or mortality in a small plan in which no participant has ever retired or died. If the response is "well the requirement is "that is relevant"" we would respond that if 3.2.5 requires all of these requirements to be met, but this requirement is not always applicable, then, at a minimum, it should say "if applicable" or "to the extent there is relevant data." In the alternative, we would suggest that the language should be changed to make clear that not all items are required (perhaps by saying "if applicable") and that an assumption is unreasonable if it does not meet these requirements (i.e. meeting the requirements is not conclusive that the assumption is reasonable).

8. Section 3.4 of the exposure draft contemplates that the phased-in assumption must be reasonable at each measurement date during the phase-in period. This requirement would be strengthened if there was also an explicit requirement that the phased-in assumption be consistent with other assumptions on each measurement date during the phase-in period.

9. In Section 3.5.1, with the number of Americans working to older ages, Section 3.5.1 would be enhanced by encouraging actuaries to use retirement rates that run beyond normal retirement age if appropriate to do so.

10. Section 3.5.2 should be updated to reflect that the actuary should consider automation, outsourcing abroad and other economic trends in choice of demographic assumptions.

11. We believe that the logic of 3.5.4 needs to be improved.

    First, in Sections 3.5.4 and 4.1.1, it should be clearer whether the actuary is required to make and disclose a mortality improvement assumption with respect to mortality assumptions which are plan provisions. As an example, it would be helpful if the actuary was required to explicitly disclose what mortality improvement assumption (if any) was applied to Section 417(e) mortality assumption if such a mortality assumption is part of the benefit calculation and as part of the particular valuation future lump sum payments are being valued. If the mortality improvement is inconsistent with the mortality improvement used for the decrements, it would be appropriate to include an explanation.

    Second, the mortality table used for various government related purposes (IRC 430, 404 and PBGC) are usually based upon a table with a fixed mortality improvement, such that the level of improvement changes each year. It would appear that the use of the published table is not fully compliant with the standard if used for purposes unrelated to the prescribed purpose. Either, the ASOP should be changed to allow that use of tables under IRC 430 are considered compliant with this requirement, or the ASOP should be modified to allow a projection done in the manner that it is done for IRC 430 purposes.

    Lastly, we have also heard of actuaries who make a mockery of this requirement by reflecting mortality improvement, but then adjusting the resulting mortality to return to what they would have used without regard to the requirement for reflecting mortality improvement.

12. Section 3.5.6 would be improved by explicitly considering the purpose of the measurement. For example, participants' behavior is different with respect to election of lump sums during a lump sum window than upon plan termination. Additionally, Section 3.5.6 would be clearer if it was clear that the actuary is to make an assumption regarding the timing of benefit receipt and that the assumption was consistent between actives decrementing and previously decremented participants.

13. Section 3.5.7 should be updated to reflect guidance about whether the expenses are to be borne by the plan or sponsor. I.e. for many valuations, there would be no need to make an expense assumption regarding expenses paid by the plan sponsor. We note that for some ASOPs the term expenses is defined and handles this issue, but it is not defined for this ASOP.

    It should be clearer how expenses should be handled when there is no need for an investment return assumption.

14. Section 3.6.2 – Update to say that the actuary should consider making and disclosing an assumption with respect to same-sex marriages. Additionally, the actuary should consider making as assumption with respect to domestic partners if it affects benefit amounts or eligibility.

15. Section 3.6.3 – Clarify whether the actuary should consider general demographic terms in the new entrants for the open group. As an example, should an open group valuation of a school district assume that the group remains the same size if publically available demographic data shows that the number of school age students in the district will decline by 20% in the next ten years. This is a separate concern from whether the school district is financially able to make contributions in the future.

    Additionally Section 3.6.3 should be updated to reflect that the actuary should consider automation, outsourcing abroad and other economic trends in choice of demographic assumptions.

16. The language of section 3.7 is not consistent with section 3.12 of ASOP 27. Also please see our comments on section 3.12 of ASOP 27.

17. Section 3.8 references the actuary reviewing recent gain and loss analyses. However, as drafted the exposure draft does not contemplate that a gain/loss analysis is required. Further, it would require that "the actuary should consider reviewing recent gain and loss analyses" whether or not any such analyses exists. The ASB's position may be that ASOP 4 would require a gain and loss analysis, but, under the current exposure draft of ASOP 4, a gain and loss analysis would not necessarily be required in all situations where ASOP 35 applies. Further, we would reference our comment on ASOP 4's requirements regarding gain and loss analyses. We believe that the current language should be maintained.

18. Section 4 should generally be strengthened to reflect certain trends in private pension plan practice. First, the IRS is requiring that new actuaries replicate the prior actuary's valuation within a very small tolerance to qualify for an automatic change in funding method. Second, some actuarial firms take the position that their test lives are proprietary and will not supply copies on takeover. The combination of these two trends means that more information should be disclosed as part of funding valuation.

19. On the disclosure requirement regarding old morality tables in Section 4.1.2, it might be clearer to have the actuary disclose adjustments (if any) that have been made to the table to reflect mortality improvement as part of the justification for using the table.

    Additionally, for both the benefit of the user and to encourage more rigorous actuarial thought, it may be helpful to have the actuary disclose sample life expectancies under the assumed old table (after adjustments) and a more modern table. The names of tables and mortality rates are not meaningful for users, but at least some users will have an understanding and reaction to life expectancies.

    These changes will re-inforce the ASBS's goal of having actuaries use more up-to-date tables, adjust older tables as appropriate or have a strong rationale for using older tables.

These comments represent our personal comments and do not represent the view of any actuarial organization to which we belong.

Sincerely,

DocuSigned by:
Larry Deutsch
2003BA03F7944B2...
Larry Deutsch

DocuSigned by:
Karen N. Smith
15F9AE9E3C0945C...
Karen Smith

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