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

RE: COMMENTS ON PROPOSED REVISIONS TO ASOP 4, 27, AND 35

Members of the Actuarial Standards Board,

Thank you for the opportunity to offer our comments and suggestions regarding the exposure drafts containing the proposed revisions to:

- ASOP 4 – Measuring Pension Obligations and Determining Pension Plan Costs or Contributions
- ASOP 27 - Selection of Economic Assumptions for Measuring Pension Obligations
- ASOP 35 – Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations

We are strongly supportive of these proposed revisions, which introduce important new disclosure requirements for pension actuaries performing funding valuations. Our comments and suggestions for your consideration follow:

ASOP 4

Section 3.11, Investment Risk Defeasement Measure

Purpose

We strongly support the concept of a required disclosure of a liability measure that is uniformly calculated on a market-consistent basis for all pension plans. Such a liability measure provides a meaningful, transparent, and trackable metric for the plan sponsor and/or the entity responsible for funding the plan, as well as to other stakeholders. By making the liability measure independent of the sponsor's investment strategy, it facilitates a better understanding and tracking of a plan's funded status, and facilitates a relevant comparison of a plan's funded status to that of other plans or systems. Currently, this critical information is generally unavailable in the published reports of public pension plans.

Name

In our view, the proposed name, Investment Risk Defeasement Measure (IRDM), does not capture the essence or the value of this additional liability measure. It can even be misleading because the real value of this liability is as a point-in-time, market consistent, transparent solvency measure.

We believe a more straightforward name like “market-consistent present value of accrued benefits” or “proxy settlement value” is more descriptive, as well as more indicative of the calculation methodology and the relevance of this required disclosure.

Calculation elements

We support the use of what is essentially a unit credit actuarial allocation method and agree that the measure should reflect low-risk discounting. This liability calculation method relies on a straightforward discounting of projected cash flows at an appropriate discount rate, much like typical market instruments. Among the array of different actuarial cost allocation methods, we believe that the method required for this important liability disclosure is the only method that will replicate a market process on a consistent basis. Further, particularly for disclosure purposes, we support this degree of prescription.

We note that in the public sector, future benefit accruals are often protected by the state’s constitution. In those situations, some might believe that such future benefits are already “accrued.” As such, it may be worth reinforcing that, under 3.11(a), “benefits accrued as of the measurement date” do not include the impact of future accruals, even if so protected.

Section 3.14, Amortization Methods

We support the added focus on amortization methods contained in section 3.14, which helps shine a light on the excessive deferral of costs/contributions.

Section 3.16, Output Smoothing Methods

We believe the expansion of the definition of output smoothing will be useful, and the added focus may encourage actuaries to consider the value of smoothing outputs over inputs.

Section 3.20, Reasonable Actuarially Determined Contribution

We support the disclosure of a reasonable actuarially determined contribution when the determination prescribed by the plan sponsor is not. In general, we would expect that actuaries would fulfill this requirement by bringing in line those elements that fall outside the actuary’s judgment of reasonable. However, flexibility in this determination is appropriate as in some cases the contribution is prescribed as an amount, not as the result of a calculation. Further, we could envision that some actuaries may prefer to use a standard, reasonable alternative across all their clients, irrespective of the particular methods or assumptions in question for a given client.

ASOP 27

Section 3.6.3, Phase-In of Changes in Assumptions

We respect the desire to provide guidance on the phase-in of assumption changes over multiple measurement dates. But as we read it, the guidance merely reinforces that the “regular” rules apply at each measurement date. And given that the environment at a future measurement date cannot be known today, a phase-in merely becomes a statement of intent. As such, we question the value of giving this topic its own subsection, and suggest the reinforcement of the underlying principles be handled either in the appendix or embedded in a section such as 3.13

on reviewing assumptions. Alternatively, the subsection could be retained, but the structure changed to convey that a phase-in is acceptable if the assumptions at the current measurement date are reasonable, and the assumptions at each future stage of the phase-in are reasonable at the respective future measurement date.

Section 4.1.2, Rationale for Assumptions

We agree that an actuary should provide his or her rationale for supporting assumptions selected by another party. We believe it should be made more clear that the intent is that, with respect to a *significant* assumption selected by another party, the actuary should make a determination as to its reasonableness and disclose such determination.

ASOP 35

Section 3.4, Phase-In of Changes in Assumptions

See related section under ASOP 27 comments above.

Section 4.1.2, Rationale for Assumptions

See related section under ASOP 27 comments above. In addition, we support the added disclosure around the use of older mortality tables.

We appreciate your consideration of our comments. If you have questions, you may reach us via John Moore at 720-504-7974 or john.moore@terrygroup.com.

Sincerely,

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