**Comment #32 – 7/30/18 – 9:13 p.m.**

30 July 2018

Via email to: comments@actuary.org

Re: Exposure Draft of Actuarial Standard of Practice (ASOP) 4

Dear Members of the Actuarial Standards Board (ASB) and the Pension Committee of the ASB:

I am a life-annuity actuary who has been following issues surrounding public pensions and multiemployer pensions for some years. In addition to my interest as a taxpayer and having many friends and family who are public pension participants, my main interest is the reputation of the actuarial profession.

I have read through response letters to the draft exposure of ASOP 4 as of this date, and I generally agree with the thrust of the letters from Edward Bartholomew, Gordon Latter, David G. Pitts, and Larry Pollack, dated 23 July 2018[1]; from Robert North, dated 24 July 2018[2]; and from the Society of Actuaries, dated 19 July 2018 [3]with respect to the Investment Risk Defeasement Measure (IRDM).

I want to address three general types of objections to the IRDM.

1. **The confusion of having more than one measure for the same liability**

Actuaries in non-pension fields often must calculate liability valuations on different bases, that are used for different purposes. The most obvious example here are statutory reserves versus U.S. GAAP reserves for insurance liabilities. One measure is intended to protect policyholders by being somewhat conservative (not to mention risk-based capital requirements above that), and the other is to provide useful financial accounting for shareholders. For life insurance in specific, STAT and GAAP results can be extremely different, and actuaries have had to provide context as to why this is the case.

To quote the SOA letter of 19 July: [emphasis added]

> "The Investment Risk Defeasement Measure provides important information to assess the degree of risk in a plan's funding and investment policy that, **when accompanied by an actuarial report that provides context for its meaning**, improves pension plan sustainability."

Actuaries can explain that the IRDM was intended to provide a "risk-free" valuation of already accrued pension benefits, to separate what is supposed to be un-risky promises from sometimes very risky assets. I am sure there can be some sort of standard language to give an explanation that may be less contentious than, say, "the taxpayer/bondholder/participant put value" as the difference between the IRDM and the pension value reported for accounting purposes.

[1] http://www.actuarialstandardsboard.org/wp-content/uploads/2018/07/Comment-11.pdf
[2] http://www.actuarialstandardsboard.org/wp-content/uploads/2018/07/Comment-14.pdf
[3] http://www.actuarialstandardsboard.org/wp-content/uploads/2018/07/Comment-8.pdf

## 2. How to deal with non-guaranteed benefits

This is in context of trying to calculate the IRDM, when there are risk-sharing elements of the pension benefits or other non-guaranteed elements. There are similar challenges in valuation of life-annuity products, which often have non-guaranteed elements with risk-sharing characteristics.

I agree some sort of guidance would need to be given as to how these elements are handled in an IRDM calculation, similar to ASOPs covering nonguaranteed elements of life/annuity contracts (ASOP 52, Principle-Based Reserves for Life Products under the NAIC Valuation Manual, seems the most relevant for a starting point on guidance.)

## 3. The issue of providing information/communication to non-principal stakeholders

Again, this situation is not unique to pension actuaries. Actuaries working for insurers as their principals often find other audiences for their work: policyholders, regulators, and credit rating agencies, for instance. Government actuaries may have their governmental employers as principals, but the public obviously has an interest in their work as well.

There are obviously very interested parties outside the plan sponsor or the pension fund trustees: plan participants, bondholders of the sponsor, and taxpayers who are asked to provide the backstop for these plans (whether public or private pensions).

This is where my interest of the reputation of the actuarial profession comes in.

We are expected to be the disinterested quantifiers of contingent liabilities. Our profession has had a reputation of high integrity such that our reports and calculations could be relied on. While this does not occur frequently, actuaries have refused to sign off on what they considered insufficient reserves, sometimes resigning their positions. The former chief actuary of Medicare, Richard Foster, considered resigning when his "principal" (a.k.a. the Executive branch of the U.S. government) tried to block him from communicating his analysis of proposed changes to Medicare to the Legislative branch. As Barbara Lautzenheiser, then-President of the American Academy of Actuaries wrote about Foster in April 2004:[4]

> "We support the principle that sound, unbiased actuarial analysis should be available to decision-makers, in both the public and private sectors. The open exchange of information is crucial to our democracy. The news reports have brought to the public's attention the value of actuarial analysis and the role of the actuary in determining national policy."

While actuarial organizations such as the Academy provide independent information for public policy-makers, given the multiplicity of pension plans in the U.S., the actuaries working directly on them are in the best position to show the specific risks being taken in those specific plans. The "principal" may not be interested in that risk being exposed, no more than did some insurers wishing too low reserves or a presidential administration that wanted to low-ball prospective policy costs.

In this, I agree with Robert North's letter of 24 July[5]:

> "As noted, actuaries are often not the decision makers on the actuarial assumptions and methods employed to determine financial commitments to many Public and Multiemployer

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[4] https://www.actuary.org/files/publications/Actuarial_Update_April_2004.pdf
[5] http://www.actuarialstandardsboard.org/wp-content/uploads/2018/07/Comment-14.pdf

> Pension Plans. In these cases, actuaries may, nevertheless, be perceived by the public as responsible (i.e. the actuaries are the experts) and subject to ridicule if they try to hide behind the "it was not my decision" defense when things go wrong. This suggests that having strong actuarial standards is important to protect, not just the actuaries, but Plan participants, the public and everyone else involved with Pension Plan financing."

I also agree with the SOA when it writes in its comment letter of 19 July[6]:

> "The SOA Board recommends this measure [IRDM] not be removed or meaningfully changed as ASOP 4 is revised, including any changes that would allow an actuary or plan sponsor to opt out of its calculation."

If the ASB does not include a measure substantially similar to the IRDM, the likelihood is that other, non-actuarial, parties will continue to encroach upon actuarial analysis in the sphere of pensions, and that the actuarial profession will lose credibility in being able to contribute to policy development in this area.

Thank you for this opportunity to comment,

Mary Pat Campbell, FSA, MAAA

[6] http://www.actuarialstandardsboard.org/wp-content/uploads/2018/07/Comment-8.pdf