

# Donald E. Fuerst

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July 31, 2018

Actuarial Standards Board  
1850 M Street NW, Suite 300  
Washington, DC 20036-4601

## **Re: ASOP No. 4 Exposure Draft**

Dear Members of the Actuarial Standards Board:

Thank you for the opportunity to provide comments regarding the ASOP No. 4 exposure draft. I am pleased to provide the following comments which reflect solely my own opinion.

I commend the ASB for a generally excellent exposure draft. I hope my comments may assist you in making some modest improvement.

## **Discount Rate for IRDM**

The ASOPs have a history of being principles based and not prescriptive. I support the principles-based ASOPs and suggest that essentially the same result can be obtained by specifying the objective of a discount rate that represents minimal default risk. The two rates currently cited in the exposure draft could be mentioned as meeting that criteria and could be safe harbor selections for the actuary. This change might allow the actuary to use a similar rate and a calculation that is currently disclosed, e.g. current liability, if the actuary determines the difference is not material.

## **Actuarial Cost Method for IRDM**

In my opinion, the IRDM's greatest value is obtained by comparing it to a similar measure determined using the expected rate of return on plan assets (EROA). This comparison determines the amount of gain the plan sponsor expects to attain by taking on investment risk. Unfortunately, a similar measure using the EROA may not be available unless the funding valuation uses the unit credit cost allocation method. This could be rectified by either:

1. Requiring the benefit obligation represented by the IRDM to be determined a second time using the EROA, or
2. Requiring the benefit obligation represented by the IRDM to be determined using the cost allocation method used in the funding valuation.

Method 1 has the advantage of also providing an estimate of the amount needed to settle the current obligations of the plan. Method 2 has the advantage of better representing the investment gain the sponsor expects to earn under the funding method actually utilized by the plan. I suggest either method provides useful information and under principles based ASOPs, the actuary should be able to choose the method that he/she thinks is most useful.

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## Amortization Method

Amortization payments are a component of the cost allocation or contribution allocation applicable to a specific time period. If the result of this allocation is an unfunded accrued actuarial liability (UAAL) that is expected to increase during the time period, the allocation is insufficient to be considered a reasonable actuarial method. Likewise, if the allocation is insufficient to fully amortize the UAAL in a reasonable period of time, the method is not reasonable. In other words, negative amortization in any year is not reasonable and any reasonable method must fully fund the UAAL in a reasonable period of time.

Section 3.14 of the exposure draft does not meet this criteria. It would deem reasonable a method that allocates nominal interest on the unfunded accrued liability plus \$1 but such a method would not fully fund the UAAL in a reasonable time period. Section 3.14 (b)(i) would allow the UAAL to increase. Methods that allocate insufficient amounts to the applicable time period should not be considered reasonable.

This could be corrected simply by changing the “or” in Section 3.14 to “and”, and by deleting 3.14(b)(i).

Sincerely,

Donald E. Fuerst, FSA, FCA, MAAA, EA