July 31, 2018

Via e-mail: comments@actuary.org

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

Re: Comments on exposure drafts for Actuarial Standards of Practice (ASOPs) 4, 27 and 35

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

As the former Chair of the SOA’s Blue Ribbon Panel on Public Pensions (BRP), I would like to thank you for undertaking this significant update and upgrade of the ASOP’s relevant to the practice of pension actuarial services. My view, which has not been considered by the former members of the BRP, is that, together with ASOP 51, the proposed changes represent a significant and desirable strengthening of the standards in this important area of actuarial work.

Specifically, I strongly support the requirement to disclose the investment risk being assumed by the plan through the calculation of the Investment Risk Defeasement Measure (IRDM) included section 3.11 of the ASOP 4 exposure draft. This measure is consistent with the recommendations of the BRP. I also suggest that this measure be extended to the calculation of the plan’s contribution using the same measurement basis as the IRDM, i.e., funding method and discount rate. The availability of both the aggregate and the annual risk of assuming returns in excess of more readily achievable returns provide important, useful and understandable information regarding the level of risks embedded in the plan’s funding program.

I also recommend that the guidance concerning the development of amortization methods (Amortization Method, section 3.14, ASOP 4 exposure draft) be strengthened to prohibit any negative amortization; currently the guidance only states that the actuary must consider the “length of time until amortization
payments exceed nominal interest” (3.14.b.i). In addition, I suggest that guidance concerning the period of amortization more strongly recommend that such period should be consistent with the average expected future working life of the employees so that promised benefits are fully funded upon retirement; again, currently, it is just a factor for consideration (3.14.b.ii, “duration of the actuarial accrued liability”).

Finally, I strongly support the requirement for the actuary to provide information and analysis used to support their determination that the assumptions are reasonable (Rationale for Assumptions, section 4.1.2, ASOP 27 exposure draft). The draft language states “For example, the actuary may disclose any specific approaches used, sources of external advice, and how past experience and future expectations were considered in determining the assumption to be reasonable.” I recommend that the language stating an actuary ‘may’ disclose specific approaches, sources of external advice, and other bases for their conclusion be strengthened to a ‘should disclose’ standard. In this regard, I believe it is critical that users have a full understanding of how the actuary reached their conclusion that assumptions are reasonable.

Thank you for making these important changes to the ASOPS covering pension practice. I hope that my suggestions will contribute to further improvement in practices and the transparency of the work being performed.

Robert Stein
Former Chair of the SOA Blue Ribbon Panel on Public Pensions