

July 31, 2018

ASOP No. 4 Comments  
Actuarial Standards Board  
1850 M Street, NW, Suite 300  
Washington, DC 20036

Dear Board Members:

We the undersigned are credentialed actuaries who do substantial valuation work for public sector pension plans. We are submitting the following comments on **Section 3.11** of the exposure draft of proposed revisions to Actuarial Standard of Practice (ASOP) No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*. These comments are being submitted to the ASB by us as individuals and do not necessarily reflect the views of any actuarial organizations to which we may belong, or of our respective employers.

We urge the ASB to acknowledge that the IRDM, in addition to being effectively a settlement measure, is also the value known in the financial economic literature as the “Solvency Value”<sup>1</sup>, and to consider the policy implications of making that value a universally required disclosure. In particular, we urge the ASB to consider the **risk of misrepresentation** of the IRDM that would result from the ASB imposing mandatory disclosure of a solvency/settlement value (however it is characterized) in reports prepared for funding purposes by pension plans’ retained actuaries. Such misrepresentations would mislead the public and possibly impair the reputation of the actuarial profession.

For years, some proponents of financial economics have claimed that the solvency/settlement value is the only true value of any pension obligation, and that actuaries, specifically those serving public pension plans, are misstating the true cost of pensions by performing funding valuations based on expected investment returns. In the current low interest rate environment, actuaries have been accused of understating costs in the funding valuation. In a high interest rate environment, they would be accused of overstating costs (which some of our signatories recall has happened in the past). For the ASB to select the solvency/settlement value as the sole, prescriptive measure to be universally required in all pension valuations may appear to confer the authority of the ASB upon these claims. We believe this could happen even if the ASB characterizes the value as only a measure of risk defeasement or settlement.

Thus, the IRDM disclosure requirement would require every funding valuation to include work product for which there is substantial evidence that it will be used to mislead the public, despite any explanations or limitations that are provided with the disclosure. Furthermore, we are concerned that the ASB’s apparent endorsement of the solvency value through the extraordinary action of prescribing its disclosure in all actuarial valuations could embolden claims that the funding valuations are deceiving the public by misstating costs (relative to the IRDM), thereby impairing the reputation of the actuarial profession.<sup>2</sup>

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<sup>1</sup> Note for example that the February 2016 “Report of the Pension Task Force of the Actuarial Standards Board” refers to the IRDM as the Solvency Value.

<sup>2</sup> The risk of “misquotation, misinterpretation, or other misuse” of actuarial work product so as to mislead the public is an important enough issue to warrant a precept (Precept 8) of the actuarial Code of Professional Conduct. While we are not proposing that the disclosure of a solvency/settlement value would incur a breach of that precept, we would ask the ASB to consider our concerns in the spirit of Precept 8 of the Code.

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Sincerely,

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