July 31, 2018
Sent via e-mail to comments@actuary.org

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

Subject Proposed Revision of Actuarial Standard of Practice (ASOP) No. 4

To Members of the Actuarial Standard Board (ASB):

We appreciate the opportunity to comment. This letter documents the response of Principal Financial Group Retirement Actuarial Services to the proposed revision of Actuarial Standard of Practice ("ASOP") No. 4 Measuring Pension Obligations and Determining Pension Plan Costs and Contributions, as requested in the Exposure Draft (ED) of March 2018.

Principal provides actuarial services and consulting to over 500 defined benefit plans based in the United States. Our Retirement Actuarial Services group is comprised of approximately 25 credentialed actuaries subject to the Actuarial Standards of Practice. This letter was prepared by the author in conjunction with thoughts and opinions from other actuaries within Principal.

Section 3.8, Actuarial Assumptions*, was expanded to provide additional guidance regarding the selection of assumptions.*

We generally agree with this section and the cross references to ASOP 27 and ASOP 35. Regarding "adverse deviation", we suggest a cross reference to the Setting Assumption Exposure Draft (released December 2016). It is not clear what adverse deviation means under the current ASOP 4 exposure draft.

Section 3.11**,** ***Investment Risk Defeasement Measure****, requires the calculation and disclosure of an investment risk defeasement measure when the actuary is performing a funding valuation. The guidance allows for discount rates to be based upon either U.S. Treasury yields or yields of fixed income debt securities that receive one of the two highest ratings given by a recognized ratings agency. Are these discount rate choices appropriate? If not, what rate choice would you suggest?*

As stated from Section 3.1.4 of ASOP 1:

"The ASOPs are principles-based and do not attempt to dictate every step and decision in an actuarial assignment. Generally, ASOPs are not narrowly prescriptive and neither dictate a single approach nor mandate a particular outcome. Rather, ASOPs provide the actuary with an analytical framework for exercising professional judgment, and identify factors that the actuary typically should consider when rendering a particular type of actuarial service."

We request that the ASB provide an explanation of how this section complies with ASOP 1. We agree that there are certain circumstances where disclosing the investment risk of the plan is both useful and appropriate, however, the measure may not be applicable for all funding valuations. We recommend referencing ASOP 51 (Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions).

In Section 3.11, the current ED states, “the actuary should calculate and disclose” and lists the detailed assumptions used for the investment risk defeasement measure. The use of the word “should” implies “normal and appropriate practice for an actuary to follow”. For many of our clients, this exercise could prove to be a burden that may not result in any meaningful benefit to them. We recommend changing “should” to “may”.

U.S. private corporate pension plans are already subject to various funding and accounting rules with multiple sets of interest rates. We request that the ASB allow ERISA private pension plans to use an existing funding liability with current spot rates or an accounting liability with market rates to satisfy this proposed investment risk defeasement measure.

The ASOPs allow for the actuary to use professional judgment when selecting methods and assumptions, conducting analysis, and reaching conclusions. When faced with the same information, it’s reasonable that different actuaries could reach different conclusions. We strongly request that the ASB reconsider section 3.11.

We thank the ASB for the opportunity to comment on the exposure draft. Please contact us directly if you would like to discuss.

Sincerely,

Yubo Qiu, FSA, EA, CFA, FCA, MAAA
Consulting Actuary
Retirement Actuarial Services
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