BARTEL ASSOCIATES, LLC

July 31, 2018

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

Re: Proposed Revisions of ASOP No. 4

Dear Actuarial Standards Board:

This letter provides comments on the Exposure Draft of the Proposed Revision of Actuarial Standard of Practice No. 4 – Measuring Pension Obligations and Determining Pension Plan Costs or Contributions.

Bartel Associates, LLC is an actuarial consulting firm specializing in providing public sector actuarial consulting, including pension plan and retiree medical valuations.

Some of the comments provided in this letter are derived from this general philosophy.

Section 3.11 Investment Risk Defeasement Measure (IRDM):

1. Is in direct conflict with ASOP 1 3.1.4 and would move actuarial standards away from being principles based towards being prescriptive. In general, we believe ASOPs should continue to be principles based and if the ASB disagrees then there should be discussion within the actuarial community on this very issue rather than just making one change to one ASOP.
2. Requires an actuary calculate and disclose, in some instances, results that have no value to any user of the valuation.
3. Would be in direct conflict with Precept 8 of the Actuarial Code of Professional Conduct: "An Actuary who performs Actuarial Services shall take reasonable steps to ensure that such services are not used to mislead other parties."
4. Adds unnecessary cost to a pension valuation.
5. Will almost certainly cause IRDM results to be confused with funding results. As currently defined, the IRDM is not an appropriate measure for communicating the stated purpose of the measure – i.e. measuring the cost to defease the investment risk for a pension plan.

For the above reasons, we recommend the ASB rescind the IRDM disclosure requirement and allow practice to develop under the "purpose of measurement" guidance of ASOP Nos. 4 and 27 and the risk assessment guidance of ASOP No. 51.

Section 3.14 Amortization Method. We recommend, for those plans that use layered amortization, the conditions of Section 3.14 could apply either to each amortization base or layer individually, or to the aggregation of all bases.

Section 3.16 Output Smoothing Method. In general, we support the proposal to include guidance related to output smoothing methods. We recommend a minor change to Section 3.16 to better reflect plans that have incorporated output smoothing into the structure of their amortization payments and suggest the body of Section 3.16 follow the text of 3.16(a) by referring to "a corresponding actuarially determined contribution without output smoothing." Then subsections (a), (b) and (c) should all refer

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to "the corresponding actuarially determined contribution without output smoothing." This would add the words "without output smoothing" to subsections (a) and (c).

In addition, we recommend that Section 3.16 guidance on output smoothing be made consistent with the ASOP No. 44 guidance on the selection and use of asset valuation methods. We note 3.16(a) and (b) closely follow Sections 3.3(b)(1) and 3.3(b)(2) of ASOP No. 44. However, Section 3.3 of ASOP No. 44 also includes the following additional guidance:

> "In lieu of satisfying both (1) and (2) above, an asset valuation method could satisfy section 3.3(b) if, in the actuary's professional judgment, the asset valuation method either (i) produces values within a sufficiently narrow range around market value or (ii) recognizes differences from market value in a sufficiently short period."

We recommend Section 3.16 include guidance corresponding to this "sufficiently narrow range" and "sufficiently short period" guidance from ASOP No. 44 Section 3.3.

Section 3.20 Reasonable Actuarially Determined Contribution. We agree an actuary performing a funding valuation should calculate and disclose an Actuarially Determined Contribution (ADC). We support the disclosure of an ADC for all plans when performing a funding valuation, including plans where the funding policy (as referenced in Section 3.19) may determine contributions without reference to an ADC, such as a plan with a statutorily fixed contribution rate. For such plans, we recommend the ASB say the ADC should be determined independent of the any non-ADC based funding policy, rather than being developed to match the contributions set by such funding policy.

We also concur with the guidance of Section 3.20(b) that the normal cost should be should be based on the plan provisions applicable to each participant.

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Bartel Associates believes our standards of practice should remain principles based and avoid imposing prescriptive requirements on actuaries, particularly requirements that do not fulfill some universally applicable purpose. Accordingly, while we concur with most of the proposed changes we strongly recommend against the proposal that the IRDM be made a required disclosure as part of every funding valuation. If the IRDM disclosure requirement is retained, then any "should disclose" requirement should be changed to "should consider disclosing."

We appreciate your consideration of these comments and please do not hesitate to contact us if you have any questions.

Sincerely,

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President

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