

Comment #58 – 7/31/18 – 8:58 p.m.

Date: July 30, 2018
To: Actuarial Standards Board
From: James Donofrio, FSA, MAAA
Subject: ASOP No. 4 Exposure Draft of March 2018

These comments reflect my personal opinion and are not necessarily shared by my employer.

I support the proposed revisions to ASOP No. 4 in the expectation that they will assist stakeholders to better understand the risks undertaken by sponsors of defined benefit pension plans. In particular, participants in such plans need more information about how the sponsors of their plan are securing the benefit promises that have been made to them, what risks threaten their benefit security and how those risks are or are not being mitigated.

The fact that over one million participants in distressed multiemployer plans are facing the possibility of a default on pension promises in the foreseeable future and that possibly many others in severely underfunded state and local government plans will eventually face similar issues provides compelling justification for requiring that the actuaries providing valuation services to pension plans include information on the risks to benefit security in their reports.

It is clear that while a combination of circumstances has contributed to the financial challenges of distressed plans, the absence of a market-consistent liability or an Investment Risk Defeasement Measure (IRDM) can obscure the true level of risk while it is emerging, and while it may still be practical to implement remedial measures.

The opposition to such disclosures is not at all persuasive. Some suggest that the volatility of these measurements will confuse stakeholders. Yet most Americans own a home and understand that the volatility in its value is not irrelevant to their financial security. Some conflate the volatility of such a funded status metric with the challenges of a volatile contribution or cost requirement. But there are many ways to smooth contribution requirements within the framework of the revised standard (up to a point). Some even suggest that political motivations are driving the proposed IRDM disclosure requirements, which is inappropriately dismissive of the financial economics perspective on the measurement of pension obligations.

While the overall direction of the proposed revision is definitely an improvement, there are some aspects that could be refined. For example, plans that already disclose liability measurements that utilize market-based discount rates (such as plans subject to ASC 715) should be able to use those measurements to comply with the revised standard.

The draft requested comments on two specific issues:

1. The discount rate choices specified for the IRDM (either U.S. Treasury yields or yields of fixed income debt securities in one of the two highest ratings categories) are appropriate.
2. The conditions listed in section 3.20 regarding the process of arriving at a Reasonable Actuarially Determined Contribution as drafted does describe an appropriate allocation procedure.