



July 31, 2018

ASOP No. 4 Revision  
Actuarial Standards Board  
1850 M. Street, NW, Suite 300  
Washington, DC 20036  
Re: Comments on ASOP4 Exposure Draft

Dear ASB Members:

On behalf of Findley we are pleased to submit the following comments on the proposed revision to the Actuarial Standards of Practice 4 (ASOP 4).

In regards to section 3.11 involving the Investment Risk Defeasement Measure (IRDM), we think the term itself is confusing and misleading. The entire term and its intended purpose is not clearly defined in the ASOP. If we interpret the meaning to be a measurement that defeases all risk, we still view the term IRDM as misleading. The only way to completely eliminate the risk of a pension obligation is to terminate the plan. If that is the purpose of providing this measure could this just be coined the Termination Liability Measurement or something similar to be more informative to a client. In addition, our principals typically determine when they need this calculation. Adding it as a requirement seems overly burdensome to principals who aren't concerned about plan termination.

The options provided for valuing this measure are to base discount rates on U.S. Treasury yields or yields of fixed-income debt securities that receive AA or AAA ratings. These seem like reasonable rates on the surface. However, we question the availability of the AA and AAA bonds to completely match some of the larger pension obligations. Also, there is default risk inherent in the corporate bonds. We do not believe that the use of these bonds clearly identifies a risk free liability.

From a private employer perspective, we do not see how this calculation is much different from the requirements under US accounting standards. The language for determining the discount rate is very similar to the language used in US accounting standards. It seems that the purpose of this requirement is to require a market-based liability calculation for public pension plans. It doesn't seem that the ASB should be overly prescriptive on this topic and it should let the governing bodies of these plans determine the required liability calculations.

The relevance of this liability measure as part of regular valuation process is also questionable. Typical valuation liabilities are valued as of the beginning of the plan or fiscal year. These reports may be issued months or even over a year after the beginning of the plan or fiscal year. It seems counterintuitive to provide a principal with a retrospective estimate of the IRDM, when more current yields are available to calculate.

In a typical year plan private plan sponsors are given the following liabilities:

- Funding Target using BBA segment rates
- Funding Target using pre-MAP 21 segment rates
- Funding Target using PBGC Rates
- Funding Target using 4010 assumptions and interest rates
- At-Risk Funding Target using BBA Relief Rates
- Projected Benefit Obligation using agreed upon discount rate
- Accumulated Benefit Obligation using agreed upon discount rate
- Defined Benefit Obligations using agreed upon discount rate for international plans
- Potentially other liability measures for certain scenarios

Another mandated measurement may not provide much value to the entities that our profession is looking to service. Most entities that have termination on the horizon have or can ask their actuaries to provide them with a current termination liability estimate, which would provide more up to date and pertinent information than another liability measurement in a report referencing the beginning of the plan/fiscal year.


As actuaries, we understand the esoteric reasoning for including such a measure into a valuation report. However, we do not think the measure, as currently defined, provides much, if any value to the clients paying for the determination of the measure. We also feel it is odd that the freshly minted ASOP 51 has no mention of this measurement. ASOP 51 was created to incorporate more risk management awareness into the day-to-day pension world, which is a good thing. It seems like an irregular oversight to place an IRDM type measurement in ASOP 4 and not mention it anywhere in ASOP 51.

The procedure described to formulate "Reasonable Actuarially Determined Contribution (RADC)" in Section 3.20 seems reasonable. We think you could argue that implementing an output smoothing method can be at odds with procuring the assets necessary to make benefit payments when due, but we think that the actuary should reasonably be able to use the procedure to formulate the "RADC".

The remaining changes to the ASOP appear to be reasonable. However, the overall tone of the revisions to ASOP 4 tends to be more prescriptive versus taking a principles-based approach to drafting the ASOP. The Standards of Practice have been built using a principles-based approach to setting standards. While some of the revisions make sense, I don't agree with the more prescriptive tone of the ASOP.

Thank you again for spending the time revising ASOP 4. While we feel the idea of the IRDM is a bit overreaching, it is always wise to review our ASOPs for current day needs, so we thank you for the time spent going over this.

Respectfully,



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