



July 30, 2020

ASB Comments

American Academy of Actuaries

By email: comments@actuary.org

Re: ASB Actuarial Standards of Practice No. 4 Second Exposure Draft

Dear Members of the Actuarial Standards Board:

We are writing on behalf of our members, who are the directors, administrators, managers, and trustees of public retirement systems throughout the United States. These systems hold more than \$4.0 trillion in trust to provide pension and other benefits on behalf of more than 25 million working and retired employees of state and local government in the United States.

We appreciate the opportunity to submit comments in response to the Second Exposure Draft of Actuarial Standards of Practice (ASOP) No. 4. We also want to express our appreciation for certain changes made to the First Exposure Draft that are consistent with concerns we cited in our previous letter. We specifically appreciate the Board's decision to move from the proposed Investment Risk Defeasement Measure (IRDM) to the Low Default Risk Obligation Measure (LDROM), for these reasons:

- Compared to the IRDM, the LDROM may be calculated on any immediate gain actuarial method, which could include the same method as the one used in the standard valuation. The LDROM not only would allow us to use the same measure as for funding, but also, unlike the risk-free accrued benefit measure, allows for the interpretation of this new number as what the ongoing funding liability would be if the plan actually invested entirely in low default risk bonds. Under that interpretation, the difference between that LDROM and the actual funding liability provides a measure of what the plan expects to save the taxpayers through taking on a prudent level of investment risk.
- The discount rate selected may include any one of a number of low-default-risk fixed income rates.
- In the case of pension plans whose benefits are affected by the assumed discount rate or by investment return, actuaries may reflect this effect when calculating the LDROM. This may be significant for plans with variable benefits that are dependent either upon the plan's funded status or the actual returns on plan assets.
- The affirmation that the LDROM will not be "the one true value."

We also appreciate the ASB's invitation that actuaries provide "related commentary to help the intended user understand the significance of the low-default-risk obligation measure with respect to the funded status of the plan, plan contributions, and the security of participant benefits." We believe this provides a vital opportunity to put the LDROM into proper context.

Notwithstanding these improvements from the First Exposure Draft, we believe the LDROM does not belong in ASOP 4. The chief purpose of an actuarial valuation is to measure a pension plan's obligations and costs. To accomplish this purpose, ASOP 4 prescribes the various methods an actuary should use in order to determine a pension plan's condition and required costs. Yet the purpose for the LDROM is not to determine a plan's obligations and costs, but rather, is to provide a measure of the plan's level of risk. That is a purpose that is inconsistent with ASOP 4, but fully consistent with another ASOP, ASOP 51.

As its title implies, the purpose for ASOP 51, *Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions*, is to assess and disclose a pension plan's risk associated with its pension obligations. As a risk measure, we believe the LDROM calculation belongs in ASOP 51. Because the purpose of an actuarial valuation is to measure a pension plan's obligations and costs, our overarching concern with the Second Exposure Draft is that the proposed LDROM will result in confusion to users.

ASOP 51 does not include mandatory quantitative risk assessments, nor does it require a specific one. Instead, ASOP 51 suggests various methods for assessment of risk. Many of the methods listed as examples in ASOP 51 would be more generally applicable than the proposed LDROM currently prescribed in the ASOP 4 exposure draft. Meanwhile, as discussed above, calculating and reporting both an LDROM and complying with ASOP 51 will lead to confusion and may lead to misinterpretation and misuse.

Once again, we want to express our appreciation for the opportunity to convey our concerns about this proposal. On behalf of our many members and their millions of plan participants, thousands of public employers, and other public pension plan stakeholders, we appreciate your consideration of our views.

Sincerely,



Dana Bilyeu
Executive Director, National Association of State Retirement Administrators



Brian Guthrie
President, National Council on Teacher Retirement



Hank Kim
Executive Director and Counsel, National Conference of Public Employee Retirement Systems