CALSTRS
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July 30, 2020

ASOP No. 4 Revision (Second Exposure Draft)
Actuarial Standards Board
1850 M Street NW, Suite 300
Washington, DC 20036

SUBJECT: Comments on the Proposed Revision of Actuarial Standard of Practice (ASOP) No. 4 (Second Exposure Draft)

Dear Members of the Actuarial Standards Board:

The California State Teachers' Retirement System (CalSTRS) thanks the Actuarial Standard Board (ASB) for the opportunity to provide comments on the second exposure draft for proposed ASOP No. 4 changes. CalSTRS provided comments on the First Exposure Draft of ASOP No. 4 on July 23, 2018.

CalSTRS, with a portfolio valued at approximately $246 billion as of June 30, 2020, is the largest educator-only pension fund in the world. CalSTRS serves California's more than 964,000 public school educators and their families from the state's 1,700 school districts, county offices of education and community college districts. CalSTRS administers a hybrid retirement system consisting of a traditional defined benefit, a cash balance and a voluntary defined contribution plan.

Overall, we agree with many of the changes between the first and second exposure draft and appreciate that many of the comments provided for the first exposure draft were taken into account in developing the second exposure draft. However, many of the issues provided in our first comment letter still apply.

We appreciate the changes to Section 3.11 to allow the use of any immediate gain actuarial cost method. It now provides the necessary flexibility to allow public plans to use the Entry Age Normal Cost method, which is more appropriate and widely used by public defined benefit plans. We also appreciate the change away from requiring the disclosure of a defeasement measurement since such measurement is not applicable for public pension plans. The change to the Low-Default-Risk Obligation Measure is more appropriate for public plans.

However, we still do not support the proposed requirement for such a disclosure. As stated in our first comment letter, CalSTRS reminds the ASB that ASOPs have historically been principles-based and have not prescribed specific actuarial practice/calculation. The second exposure draft continues to be prescriptive by requiring the disclosure of a new liability measurement. We would prefer the wording be modified to say that actuaries should consider disclosing this measure instead of requiring it.

Finally, now that the new proposed required disclosure has been renamed Low-Default-Risk Obligation Measure, it is clearly a risk measure. We feel strongly ASOP No. 51 already adequately addresses the requirements to provide additional information on risk. We do not see the need to include a new requirement in ASOP No. 4 for the disclosure of a risk measure. It has been almost two years since ASOP no. 51 has been in effect. It has already led to increased disclosure of risk in a way that is appropriate to each plan. Adding a new risk disclosure requirement in ASOP No. 4 is not necessary and would serve no specific purpose for CalSTRS. What would a CalSTRS trustee do with this information? What action would or should a CalSTRS trustee take based on learning the plan's Low-Default-Risk Obligation Measure?

At CalSTRS, we are strong believers in meaningful and appropriate disclosure of risk. That is why for the last few years, even before the issuance of ASOP No. 51, CalSTRS has produced an annual report entitled "CalSTRS Review of Funding Levels and Risks". This annual report is used to inform and educate board members, policymakers and stakeholders on the risks inherent in the funding of the system. We believe the measures of risk provided in our risk report, which are consistent with the guidance provided in ASOP No. 51, better serve CalSTRS board members and California policymakers.

In conclusion, CalSTRS appreciates the opportunity to provide comments on this exposure draft and commends the ASB for taking into account previous comments in creating the second exposure draft. CalSTRS continues to believe that standards of practice should remain principles based and avoid imposing prescriptive requirements on actuaries. As a result, we once again request that the ASB considers not requiring the disclosure of a Low-Default-Risk Obligation, especially when considering ASOP No. 51 already provides the necessary guidance when it comes to the disclosure of risk for pension plans.

Thank you for considering our response.

Sincerely,

Rick Reed	David Lamoureux	Jordan Fassler
System Actuary	Deputy System Actuary	Senior Pension Actuary
CalSTRS	CalSTRS	CalSTRS