Comment #2 – 10/11/21

This email presents my comments on the third exposure draft of ASOP 4.

I emphasize that my comments are personal and do not necessarily reflect the views of my employer or of any actuarial body of which I am a member.

I am an enrolled actuary, a Fellow of the Institute of Actuaries (UK), a Fellow of the Society of Actuaries, and a member of the American Academy of Actuaries.

Section 3.11

I recommend replacing "should calculate and disclose" with "should consider whether, having regard to the benefit and cost, it would be worthwhile to calculate and disclose"

The recommendation for adding the requirements of Section 3.11 came from the Pension Task Force (PTF) in 2016. In their recommendations, the PTF noted that a similar measure had been mandatory in Canada for years. Nowhere did the PTF indicate to what extent, if at all, the requirement to provide this measure in Canada resulted in improved funding levels for Canadian pension plans, responses from sponsors of such plans on the value of the additional information, or behavior by such sponsors indicating a better level of contributions and funding than in the United States. The ASB has provided no information on how things have changed in Canada since 2016, nor has it provided any information on the degree to which active pension actuaries on the ASB, its subsidiary boards and committees have voluntarily included such a measure in the pension funding reports they prepare for their clients. Nothing in any ASOP, IRS, DOL, or PBGC regulation has prohibited any pension actuary from including such a measure in a pension funding report.

Significant changes have occurred in the United States regarding some Multiemployer Pension Plans, for whom an agency of the US Government has picked up the tab for all benefits expected to be paid out for several decades. It is unclear to me what use, if any, the sponsor of such a plan would gain from a requirement to include information consistent with Section 3.11 in an actuarial funding report.

My proposed change of wording would make the provision of a Low-Default-Risk Obligation Measure optional, rather than mandatory. It would appropriately impose on the actuary the obligation to make a judgment call on whether the value of such a measure would be justified by the additional cost of providing it. It would appropriately impose on the actuary the obligation to consider, in light of the actuary's awareness of the plan sponsor's priorities, if there would be any value in providing such a measure. For example, the sponsor of a plan whose benefits are fully covered by the Pension Benefit Guarantee Corporation who is facing severe financial problems in operating the business might be far better off triggering a plan termination than paying additional fees to the plan's actuary to provide a Low-Default-Risk Obligation Measure. Another sponsor who has maintained a plan for 80 years, in a well-funded position, who has no intention of terminating it, will have no use for any low-default-risk obligation. I suspect the vast majority of plan sponsors, if asked, would indicate that they have no interest in receiving the information and even less interest in having to pay increased actuarial fees to receive it. I am mindful that a few days ago the new Afghan government gave strict instructions to all barbers not to cut or trim beards because doing so violates their interpretation of the Q'ran, despite 2.256 proclaiming "there shall be no compulsion with religion." The ASB should refrain from imposing a requirement that all pension actuaries provide a low-default-risk calculation in all pension funding

reports and instead encourage pension actuaries to consider whether providing such a value is appropriate.

The ASB should trust actuaries to make suitable judgments on the usefulness of this measure, rather than ruthlessly impose it as a required content of all funding valuation reports.

As a final observation in relation to this measure, I note the ASB, consistent with the PTF, would not require it more than once a year. Yet, in any year when the underlying yield curves changed significantly, the required measure given as of one date could be significantly inaccurate as of a different date in the same year. A reasonable calculation of this value on one day in a year may be significantly different from a reasonable calculation on a different day; providing only one value in a year could lead a plan sponsor to make inappropriate decisions if the sponsor believes the value is valid for the whole year and decides to spend time and money finding out what it would cost to transfer the plan's liabilities to an insurance company at a later date during the year only to find the cost far higher than the earlier published figure.

Actuaries deserve the right to consider whether or not to provide this measure; allowing them to exercise that right would be far better for pension actuaries, the reputation of the actuarial profession, plan sponsors, and plan participants, than requiring all pension actuaries to provide this measure in all funding reports.

Best Wishes
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