October 15, 2021

ASOP No. 4 Revision
Actuarial Standards Board
1850 M Street, NW, Suite 300
Washington, DC 20036

Dear Sir or Madam:

This letter documents the response of Willis Towers Watson to the proposed revision of Actuarial Standard of Practice ("ASOP") No. 4 Measuring Pension Obligations and Determining Pension Plan Costs and Contributions, as requested in the Third Exposure Draft (ED) dated June 2021.

Willis Towers Watson is a leading global professional services company that employs over 40,000 associates worldwide, over 1,100 of whom are members of U.S. actuarial bodies subject to the standards and approximately 600 of whom are enrolled actuaries. We provide actuarial and consulting services to more than 1,700 defined benefit plans in the U.S. The undersigned have prepared our company's response with input from others in the company.

Our overarching comment is that many pension plans, such as qualified U.S. plans in the private sector, are already subject to a vast array of rules and requirements. The standard proposed by the Exposure Draft would introduce redundant analyses and disclosures for these plans. This will likely create confusion for Principals while not adding value. It would be more appropriate to provide exemptions for plans already subject to such governance. In this way, the ASOP would benefit those actuaries operating in areas without clear guidance, but it would not make others bear the burden of superfluous requirements.

We appreciate the opportunity to provide the following comments, which we have organized sequentially by section. To make our comments as clear as possible, we have bolded terms that are defined and bolded within the ASOP.

Specific Comments

Sections 3.8 Assumptions and 4.1(l) Required Disclosures in an Actuarial Report - These sections should be clearer that "assess" means to determine whether it significantly conflicts with what would be reasonable, as discussed in sections 3.24 and 4.2(a).

Section 3.9 – Measuring the Value of Accrued or Vested Benefits – We recommend Section 3.9(g)(3) (expenses associated with a potential plan termination, including transaction costs to liquidate plan assets) and (4) (changes in investment policy) be deleted or changed. While these costs and investment policy changes are important to consider when advising a Principal on whether assets are sufficient to facilitate a special event, and on plan costs/necessary contributions in the interim, they are typically not included in measuring the value of accrued or vested benefits "reflecting the impact of a special event (such as a plant shutdown or plan termination)". While expenses incurred by an insurance company would typically be reflected in an assumed annuity purchase price, much of the liability for a plan termination may be settled via lump sums, and for a plant closing annuities would typically not be purchased. Other expenses associated with the event would typically

Willis Towers Watson
3001 Summer Street
Stamford, CT 06905

willistowerswatson.com

not be included in a measure of accrued or vested benefits. These considerations would seem to belong in Section 3.3 rather than in a discussion of determining the present value of vested or accrued benefits.

Section 3.10 – Market Consistent Present Values – As noted in our previous comments, we believe this section should be eliminated. If it is retained, it should be made clear that ABO and PBO under ASC 715 are likely not **market consistent present values**. PBO includes future pay increases not yet earned and neither obligation may "consider how benefit payment default risk or the financial health of the plan sponsor affects the calculation". It should also be noted that any liability (including the funding target used in determining minimum required contributions for qualified pension plans) calculated in accordance with "applicable law (statutes, regulations, accounting standards or guidance, and other binding authority)" will likely not qualify as a **market consistent present value,** as the appropriate assumptions to use and benefits to reflect would be dictated by those standards

If the section is retained, we believe that the portion permitting the reflection of payment default risk or the financial health of the sponsor should be eliminated. The actuary typically will not have the ability and training to assess these factors. In addition, any reflection of these factors would logically result in a lower measurement of liabilities for weaker sponsors. We fail to see how such a variation in measurement based on the health of the sponsor would benefit Principals and other users.

Section 3.10 Market-Consistent Present Values and Section 3.11 Low-Default-Risk Obligation Measure – It is not clear whether "benefits earned as of the valuation date" are the same thing as "accrued benefits" in Section 3.9. *Measuring the Value of Accrued or Vested Benefits* If so, the ASOP should use the same terminology in all three of these sections. If a distinction is intended, it should be made clear what the difference is.

Section 3.11 Low-Default-Risk Obligation Measure - It is not clear what "costs accrued" means in this context, or how a "low-default-risk obligation measure of the costs accrued" would be determined, especially if "costs accrued" is meant in an accounting context. If it is meant in a different context, the term "costs accrued" should be defined.

It is also not clear that the discount rates selected for purposes of a low-default-risk obligation measure, calculated only to comply with an ASOP, would ever have an effect on the pattern of plan benefits expected. Plan benefits may be tied to investment returns, or long-term bond rates, which should certainly be reflected in any measurement, but a plan where the benefits actually depended on the discount rate chosen from time to time by the actuary or the plan sponsor to measure obligations (particularly to measure obligations for no other purpose than satisfying an ASOP) would be very unusual.

A more appropriate sentence would be *"For purposes of this obligation measure, the actuary may take into account the expected relationship, if any, between the pattern of plan benefits expected to be paid in the future, such as in a variable annuity plan, and the interest rates on which the chosen discount rate is based".*

In addition, we object to the requirement in Section 4.1(o)(1) that the rationale for the selection of the discount rate be disclosed. For many pension plans, there are already one or more low default risk obligation measures required to be calculated and disclosed. The rationale in these situations will be that the measurement was readily available and satisfies the requirements of the ASOP. If such a measurement does not already exist and is being performed only because this ASOP requires it, we note that this ASOP provides several examples of the rates that may be used but does not provide any considerations that might favor one type of rate over another in a given situation. We expect in these situations that all the rates listed in the ASOP (as well as other rates) will be viewed as satisfactory and the rationale for selecting will be the one that is most expeditious. In both situations the rationale will essentially be the rate was chosen that provided the simplest path to compliance with the ASOP. Such a disclosure is not meaningful to the Principal.

Section 3.14 Amortization Method - We believe this section should say that the actuary should "consider" the items listed, not that the actuary should necessarily "take them into account", as some of them may not be necessary or appropriate to take into account. In particular, considering whether an amortization base is positive or negative seems inappropriate in many contexts, and would not in fact be acceptable for accounting purposes nor for US qualified plan funding.

Section 3.17 Allocation Procedure - We believe this section should say that the actuary should "consider" the items listed, not that the actuary should necessarily "take them into account", as some of them may not be necessary or appropriate to take into account (e.g., relevant input from the principal, potentially intergenerational equity).

***Section 3.19 Implications of Contribution Allocation Procedure or Funding* Policy**

Section 3.19(b) could be read to require a disclosure when a contribution allocation procedure produces an expected contribution that exceeds normal cost plus interest on the unfunded, but the plan sponsor's funding policy results in a lower (or no) contribution due to application of funding or credit balances. Determining when a contribution will be made in excess of normal cost plus interest on the unfunded may be problematic in such a case because plan sponsors do not typically have a funding policy that indicates "we will always use the funding balance or credit balance until it is exhausted"; rather, decisions about use of such credits are typically made year to year based on a number of factors. We believe the disclosure contemplated in section 3.19(b) should not be required as long as the contribution allocation procedure produces an expected contribution that exceeds normal cost plus interest on the unfunded.

Section 3.26 Documentation - We recommend that the sentence "In addition, the actuary should refer to ASOP No. 41 for guidance related to the retention of file material other than that which is to be disclosed under section 4" be struck. ASOP No. 41 section 3.8 reads "Retention of Other Materials—An actuary may choose to keep file material other than that which is to be disclosed under this ASOP." ASOPs should not make statements like "An actuary may choose to do X" – of course an actuary might choose to keep file material, the actuary does not need permission from an ASOP to do so, and statements like this suggest that actuaries do not or should not do anything if not explicitly directed to by an ASOP. Because the statement is problematic, and does not add any requirement that does not already exist in ASOP No. 41, we request that it be struck.

Section 4.1 Required Disclosures in an Actuarial Report

Section 4.1(o)(5) – This section requires commentary on "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." Since **funded status** is defined as any "comparison of a particular measure of plan assets to a particular measure of plan liabilities", there is no the **funded status** of a plan, and the significance of the low-default–risk obligation measure to this particular **funded status** is obvious – it is "a particular measure of plan obligations" and thus is a piece of this particular **funded status.** It is entirely unclear what the ASB expects the actuary to disclose in response to this requirement.

In addition, we note that this particular measure of **funded status** likely has little to no significance to plan contributions, or to security of participant benefits, unless this measure is based on the cost of terminating the plan now, the plan is expected to be terminated now and/or the plan sponsor is unlikely to be able to fund the plan as required (which the actuary is not in a position to evaluate). Even in those circumstances, an evaluation of the security of participant benefits would need to take into account PBGC guarantees, the possibility of recovery by PBGC of employer assets, etc. We believe this disclosure should be deleted.

Section 4.1(aa) – While we appreciate the elimination of the second exposure draft's Section 4.1(v) from the third exposure draft, we believe the associated additions to section 4.1(aa) are equally, and unnecessarily, burdensome. The actuary is still being asked to describe how all the "pertinent" considerations in section 3.17 have been taken into account in determining a reasonable **actuarially determined contribution,** particularly given that a reasonable **actuarially determined contribution** explicitly relies on a number of component procedures.

Thank you for this opportunity to comment on the Exposure Draft. If you have any questions concerning our comments, please contact us directly.

Sincerely,

Bruce E. Bach, FSA, EA, MAAA
Managing Director, North America Retirement Policies Procedures and Change Leader
(703) 258 8105
bruce.bach@willistowerswatson.com

Maria M. Sarli, FCA, FCA, EA, MAAA
Senior Director, U.S. Retirement Resource Actuary
678 684 0782
maria.sarli@willistowerswatson.com