

Appendix

Comments on the Third Exposure Draft and Responses

The third exposure draft of the proposed revision of ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*, was approved in June 2021 with a comment deadline of October 15, 2021. Seven comment letters were received, some of which were submitted on behalf of multiple commentators, such as by firms or committees. For purposes of the appendix, the term “commentator” may refer to more than one person associated with a particular comment letter. The Pension Committee carefully considered all comments received, and the ASB reviewed (and modified, where appropriate) the changes proposed by the Pension Committee.

Summarized below are the significant issues and questions contained in the comment letters and the responses to each. Minor wording or punctuation changes that were suggested but not significant are not reflected in the appendix, although they may have been adopted.

The term “reviewers” in the appendix includes the Pension Committee and the ASB. Also, the section numbers and titles used in the appendix refer to those in the third exposure draft.

GENERAL COMMENTS	
Comment	One commentator recommended that ASOP No. 4 explicitly recognize and state that many provisions would not apply to small defined benefit plans.
Response	The reviewers disagree and made no change.
SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES AND EFFECTIVE DATE	
Section 1.2, Scope	
Comment	One commentator suggested a reference to ASOP No. 56, <i>Modeling</i> , be added to the scope section.
Response	The reviewers disagree and made no change in response to this comment. The reviewers note the paragraph in scope addresses potential conflicts with pension-related ASOPs that provide guidance directly related to this standard. The reviewers also note that a reference to ASOP No. 56 was added to section 3.2.
SECTION 2. DEFINITIONS	
Section 2.8, Contribution Allocation Procedure	
Comment	One commentator suggested changing the second sentence in section 2.8 to state, “The procedure uses an actuarial cost method and may use an asset valuation method, an amortization method, and/or an output smoothing method.”
Response	The reviewers disagree and made no change as the use of “and/or” is inconsistent with ASOP style since the use of “or” incorporates “and.”
Section 2.9, Cost Allocation Procedure	
Comment	One commentator suggested changing the second sentence in section 2.9 to state, “The procedure uses an actuarial cost method, and may use an asset valuation method and/or an amortization method.”
Response	The reviewers disagree and made no change as the use of “and/or” is inconsistent with ASOP style since the use of “or” incorporates “and.”

SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES	
Section 3.2, General Procedures	
Comment	One commentator suggested adding modeling to the list of general procedures, as well as adding a new subsection.
Response	The reviewers disagree on the inclusion of a new subsection but added a reference to ASOP No. 56 in section 3.2.
Section 3.4.3, Adjustments of Prior Measurements	
Comment	One commentator suggested changing the last sentence in section 3.4.3 to state, “When adjusting obligations from a prior measurement date, the actuary should consider using revised assumptions to determine the obligations if appropriate for the purpose of the measurement.”
Response	The reviewers agree and modified the language in response to this comment.
Section 3.8, Assumptions	
Comment	One commentator suggested the term “assess” in section 3.8 should be clarified to determine whether the combined effect of assumptions significantly conflicts with what would be reasonable.
Response	The reviewers believe the guidance is sufficiently clear and made no change.
Section 3.9, Measuring the Value of Accrued or Vested Benefits	
Comment	One commentator recommended 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, changed, or moved to section 3.3.
Response	The reviewers modified the guidance in section 3.9 in response to this comment.
Section 3.10, Market-Consistent Present Values	
Comment	One commentator suggested eliminating this section and stated that, if the concept is retained, it should be made clear that ABO and PBO under ASC 715 are likely not market consistent present values.
Response	The reviewers believe the guidance is appropriate and made no change in response to this comment.
Comment	One commentator suggested that if section 3.10 is retained, the portion permitting the reflection of payment default risk or the financial health of the sponsor should be eliminated.
Response	The reviewers disagree and made no change in response to this comment.
Comment	One commentator stated that in sections 3.10 and 3.11 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.
Response	The reviewers clarified the guidance in section 3.9 in response to this comment.
Section 3.11, Low-Default-Risk Obligation Measure	
Comment	Several commentators suggested changing “...should calculate...” to “...should consider calculating...” in first paragraph of section 3.11.
Response	The reviewers disagree and made no change in response to this comment.
Comment	Several commentators provided alternative language for the variable annuity plan language in section 3.11.
Response	The reviewers modified the guidance to read, “For purposes of this obligation measure, the actuary should consider reflecting the impact, if any, of investing plan assets in low-default-risk fixed income securities on the pattern of benefits expected to be paid in the future, such as in a variable annuity plan.”

Comment	One commentator felt the ASB should include an explanation about why and how including LDRM disclosure provides appropriate and useful information for the intended user for inclusion in all funding valuations.
Response	The reviewers believe the guidance is appropriate and note the transmittal memorandum of the ASOP states, "...this additional disclosure provides a more complete assessment of a plan's funded status and provides additional information regarding the security of benefits that members have earned as of the measurement date."
Comment	One commentator stated it is not clear what "costs accrued" means in the context of section 3.11.
Response	The reviewers agree and clarified the guidance in response to this comment.
Comment	One commentator suggested modifying the language in the fourth paragraph of section 3.11 to state, "When plan provisions create pension obligations that are difficult to appropriately measure using traditional valuation procedures, such as benefits affected by actual investment returns, movements in a market index, or other similar factors, the actuary should consider using alternative valuation procedures such as those described under section 3.5.3, including the use of alternative discount rates if indicated by such procedures, to calculate the low-default-risk obligation measure of those benefits earned or costs accrued as of the measurement date."
Response	The reviewers disagree and made no change in response to this comment. The reviewers note modifications were made to the fifth paragraph as follows: "For purposes of this obligation measure, the actuary should consider reflecting the impact, if any, of investing plan assets in low-default-risk fixed income securities on the pattern of benefits expected to be paid in the future, such as in a variable annuity plan."
Section 3.14, Amortization Method	
Comment	One commentator felt section 3.14 should state 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.
Response	The reviewers note that the guidance in section 3.14 states, "the actuary should take into account factors including, but not limited to, the following, if applicable." Therefore, the reviewers made no change.
Comment	One commentator suggested requiring that a reasonable actuarially determined contribution use an amortization method that is designed to fully amortize the unfunded actuarial liability.
Response	The reviewers believe the guidance is appropriate and made no change.
Section 3.17, Allocation Procedure	
Comment	One commentator felt section 3.17 should state 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).
Response	The reviewers disagree and made no change.
Section 3.19, Implications of Contribution Allocation Procedure or Funding Policy	
Comment	One commentator felt 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.
Response	The reviewers believe the guidance is appropriate and made no change. The reviewers note that the guidance states, "For purposes of this section, the actuary may presume that all assumptions will be realized and the plan sponsor (or other contributing entity) will make contributions anticipated by the contribution allocation procedure or funding policy."

Comment	One commentator suggested alternative wording for paragraphs (b), (c), and (d) in section 3.19 to clarify that “contribution” refers to “plan's expected future contributions.”
Response	The reviewers believe the guidance is appropriate and made no change. The reviewers note that the guidance states, “For purposes of this section, the actuary may presume that all assumptions will be realized and the plan sponsor (or other contributing entity) will make contributions anticipated by the contribution allocation procedure or funding policy.”
Section 3.21, Reasonable Actuarially Determined Contribution	
Comment	One commentator suggested alternative wording for 3.21(b).
Response	The reviewers agree and modified the language in response to this comment.
Comment	One commentator suggested section 3.21(b) should be clarified to allow an entry age normal cost calculation to use “the current plan of benefits for each participant,” for the purposes of determining a reasonable actuarially determined contribution.
Response	The reviewers believe the guidance is appropriate and made no change in response to this comment.
Section 3.22, Gain and Loss Analysis	
Comment	In section 3.22, one commentator suggested replacing “single individual” with “limited group of individuals” to provide a more meaningful example.
Response	The reviewers believe the guidance is appropriate and made no change in response to this comment.
Section 3.26, Documentation	
Comment	In section 3.26, one commentator felt 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” was unnecessary and should be deleted.
Response	The reviewers disagree and made no change.
SECTION 4. COMMUNICATIONS AND DISCLOSURES	
Section 4.1, Required Disclosures in an Actuarial Report	
Comment	Two commentators suggested adding ASOP No. 56 to the list of ASOPs in section 4.1.
Response	The reviewers note that guidance on ASOP No. 56 was added to section 3 and, therefore, was added to the list of ASOPs in section 4.1
Comment	One commentator suggested inserting “significant” before “assumptions” in section 4.1(k).
Response	The reviewers agree and modified the language in response to this comment.
Comment	One commentator objected to the requirement in section 4.1(o)(1) that the rationale for the selection of the discount rate be disclosed.
Response	The reviewers believe the guidance is appropriate and made no change.
Comment	One commentator suggested that the disclosure requirement in section 4.1(o)(5) be deleted as it is entirely unclear what the ASB expects the actuary to disclose in response to this requirement.
Response	The reviewers disagree and made no change in response to this comment. The reviewers note that the guidance in section 3.11 states, “The actuary should use professional judgment to determine the appropriate commentary for the intended user.”
Comment	While one commentator appreciated the elimination of the second exposure draft’s section 4.1(v) from the third exposure draft, the commentator stated the associated additions to section 4.1(aa) were equally, and unnecessarily, burdensome.
Response	The reviewers disagree and made no change. The reviewers note section 4.1(aa) states that, “the disclosure may be brief but should be relevant to the plan’s circumstances.”