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May 31, 2012

ASOP No. 4 Revision
Actuarial Standards Board
1850 M Street, NW, Suite 300
Washington, DC 20035

Re: **ASOP 4 Exposure Draft**

To the Members of the Actuarial Standards Board:

We are writing on behalf of The Segal Company with comments on the Exposure Draft of the Proposed Revision of Actuarial Standard of Practice No. 4 – Measuring Pension Obligations and Determining Pension Plan Costs or Contributions.

For over 70 years, Segal has been providing benefits and human resource consulting for multiemployer trust funds, public sector organizations and corporate employers. More than 8 million employees and their dependents in the US, Canada, and abroad are covered by benefit programs sponsored by Segal's thousands of clients in the private, public and non-profit sectors. Segal has approximately 1,000 staff members and 150 credentialed actuaries.

We thank you for the opportunity to comment on the Exposure Draft. We are pleased with the proposed revisions with the exception of a few areas of concern described below:

- Page vi and Section 4.1(p) – The actuary is supposed to disclose certain items if the actuary is asserting that the plan is “fully funded.”
 - The additional disclosures apply only if the plan is 100% funded. It is unclear why these disclosures are only relevant if the actuary asserts that the plan is fully funded. If the actuary asserts that the plan is 99% funded, similar disclosures might be helpful.
 - The first disclosure is “whether the plan’s market value of assets equals or exceeds the estimated cost to settle the benefit obligations”. There are a number of issues with this requirement including:
 - The scope of the assignment might not include the determination of a settlement cost.
 - How is the actuary supposed to determine the cost to settle the benefit obligations of a public sector pension plan or any very large plan where there is not a market under which to settle such obligations?
 - The first disclosure should be modified to allow the actuary to state: “We make no representation as to whether the assets cover the cost to settle the benefit obligations”.

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- The second disclosure that fully funded is a temporary measure at a particular point in time applies to every measure of pension obligations, pension plan costs, and contributions. This disclosure seems to put an undue importance on the fully funded temporary measure that could apply to all measurements.
 - The third disclosure requires a statement as to whether there is a significant risk that the fully funded plan would cease to be fully funded. This disclosure is not clearly defined – what is a significant risk, and more fundamentally, why is this event characterized as a risk? For example, should the actuary state that there is a significant risk if future asset investment returns fall short? Is a plan at “risk” of ceasing to be fully funded if that result would be expected if future contributions are not made?
 - We believe the fourth disclosure could be modified to cover any accrued liability and not just “present value of accrued benefits”. In addition, the disclosure could reflect that even though a plan is fully funded, additional contributions would routinely be required for future costs for current employees or for new entrants.
- Page vii, last paragraph – It is unclear whether “economic” is supposed to be a synonym for or a subset of “market” value of liabilities. If these terms are supposed to mean the same thing, then it is confusing to introduce the less well defined term “economic” liability. If the two terms have different meanings, then they should be defined separately. If the two terms have the same meaning, then we suggest consistently using “market” instead of “economic”.
- Page x, number 4 – The Board asked: “Is the lack of prescribed assumptions for determining a market-consistent present value a deficiency in the proposed standard?” We believe that this is not a deficiency. There is a debate about what “market-consistent” means, particularly for a public sector pension plan or any very large plan where there is no market to annuitize the benefit payment stream.
- Section 3.7 – Our general observation is that while Section 3.7 seeks to classify types of present values, in fact it focuses primarily on the discount rates used to determine those present values. While the type of discount rate is certainly important, the details may be more appropriate for ASOP No. 27. Section 3.7 of ASOP No. 4 could then incorporate the role of the actuarial cost method when categorizing the basic types of actuarial measures of a pension obligation, as well as the role of assumptions besides the discount rate.
- Section 3.7.2 and Section 3.7.3 – Even within the discount-rate-based structure of the Exposure Draft, the relationship between these two sections can be improved by recognizing that market-consistent present values (as now discussed in 3.7.3) are actually a broader class of market related present values. That class includes those based on discount rates that are considered market-consistent as well as those that are more generally based on market levels of interest rates.

This could be accomplished by having 3.7.2 briefly state this broad class of market related or market derived values. Section 3.7.2.a would define market-consistent present values using the text now in 3.7.3. Then 3.7.2.b would describe other market related present values whose discount rates are not strictly market-consistent. A common example of the latter is the PPA 2006 segment rates, which are based on a 24-month average of market rates.

This structure also recognizes that the line between market-consistent and more generally market related is not always clearly drawn. For example, again under PPA 2006, the “full yield curve” is based on a month long average of observed market rates. Whether that is too long an average to be market-consistent is subject to debate. Having all the market related rates in a single broad category (i.e., 3.7.2) would help reduce the need to classify discount rates based on how rigorously market-consistent they are.

That would leave the new Section 3.7.3 for “other” present values, those that are not based on plan assets but are also not generally based on market interest rates. We further recommend that examples be provided in this new Section 3.7.3. One such example would be when the actuary is asked to value the liabilities of a plan using a company’s internal rate of return as the discount rate.

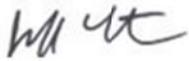
- Section 3.7.3 – (Note that under our suggestion above, this section would become 3.7.2 a.) This section contains the statements: “A market-consistent present value is one that is consistent with the price at which expected plan benefit payments would trade in an open market between a knowledgeable seller and a knowledgeable buyer. The existence of a deep and liquid market for pension cash flows or for entire pension plans is not a prerequisite for this present value measurement.” When there is no such market, either no market at all or just a shallow and illiquid one, how is the basis for this measurement supposed to be determined? The language in this section is unclear as to how to apply it to a large retirement plan whose cash flows are larger than the capacity of the bond market. In addition, item c uses the term “economic value” which is not defined in the statement. Item c should be revised to say “If the actuary uses an measurement for assessing the present value based on financial economic theory, it might be appropriate for the actuary to measure benefits earned as of the measurement date and reflect default payment risk.”
- Section 3.13.3 – If the actuary does not select the contribution allocation procedure, disclosure is required “If, in the actuary’s professional judgment, such a contribution allocation procedure is significantly inconsistent with the plan accumulating adequate assets to make benefit payments when due...” What does the term “significantly inconsistent” mean? The meaning could range from the actuary believing that the plan will be insolvent to a short or mid-term decrease in the projected funded ratio. This requirement should be clarified, perhaps by including examples of what outcomes “significantly inconsistent” is meant to describe, or perhaps by referring to Section 3.13.1.
- Section 3.13.4 and 3.13.5 – The standard should clarify that “the expected cost progression implications” can be satisfied by describing the trend in future funded status measures or increasing contribution requirements rather than by producing the projection itself. In certain cases, a short-term projection of the costs could be required (for example, if the actuarial assets are outside a certain corridor of the market value of assets). The standard should clarify whether a short-term projection is intended. In addition, please see comment on Section 4.1(1).
- Section 4.1(i) – Disclosure is required of the “general description of the implications” of the chosen actuarial present value type. We believe it is appropriate to disclose the type of present value in a work product. The disclosure of the implications is concerning and subject to interpretation. The example of an implication for a present value that is asset based is that it might create an incentive to adopt riskier investment policies. The actuary may not be in a position to make this assessment, as there are likely to be other considerations and this assessment may not be applicable to the intended audience. The example of an implication for a present value that is not based on assets is that it might create an incentive to adopt a different investment policy. Again, the actuary may not be in a position to make this assessment and this assessment may not be applicable to the intended audience.

The general description of the implications is too broad and puts an unreasonable burden on the actuary.

- Section 4.1(1) – We believe it might be advisable to provide specific guidance on the allowable amortization methods. For example, an amortization method that is based on a level percentage of payroll and a period in excess of 20 years may not reduce the outstanding balance in the early years of the amortization period. The actuary should be required to disclose the impact of this type of amortization method. Furthermore, the actuary should be discouraged from choosing an amortization method that does not reduce the outstanding balance over time.

Thank you for your consideration of these comments.

Sincerely,



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