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

Re: Comments on ASOP No. 4 Exposure Draft

To the Actuarial Standards Board:

I have the following comments and suggestions on the Exposure Draft for the Proposed Revision of Actuarial Standard of Practice (ASOP) No. 4, Measuring Pension Obligations and Determining Pension Plan Cost or Contributions. In general, I believe this is an improvement of the current ASOP and I commend the ASB for their commitment and hard work.

In Section 2.8, the definition of Contribution Allocation Procedure, I suggest changing the second sentence to remove the specific "twenty-year" amortization to a more general phrase, "The procedure may produce a single value, such as a normal cost plus ~~twenty-year~~ *an* amortization payment …"

Sections 3.7.3 defines Market-Consistent Present Values as an example of a type of present value not based on plan assets. Since the type of present value not based on plan assets was defined in Section 3.7.2, Section 3.7.3 seems educational, prescriptive, and redundant to Section 3.7.2. If there are general principles in Section 3.7.3 that apply to all present values not based on plan assets, those should be incorporated in Section 3.7.2.

Section 3.13.4, Assessment of Overall Implications of Contribution Allocation Procedure, includes a requirement for disclosure if there is an expectation of either a declining future funded status or increasing contribution requirement. I would suggest that the term "Overall Implications" implies that this disclosure may need to be made when the long-term expectation is a declining funded status or increasing contributions, but that there may be cases in the short-term where it is too restrictive. For example, if an asset smoothing method has unrecognized losses followed by unrecognized gains there may be a short-term expectation of a declining funded status and contribution increases, but no long-term expectation of the same. I recommend clarifying this section to reflect the long-term nature of this item.

Section 4.1 i, requires disclosure of the type of actuarial present value and a general description of the implications to the chosen type. The example given for asset based present values is that it may create incentives to adopt riskier investment policies. This is a specific example of one particular risk and is narrowly prescriptive. It does not belong in the ASOP. If there is a compelling need for the ASOP to give examples of the implications of the type of present value chosen, they should be based on general principles for both types of present value calculations that the actuary should consider.

Sections 4.1 n. and 4.1 o. require new disclosures of funded status based on market value of assets if funded status is based on actuarial value of assets and funded status based on an immediate gain method if a spread gain method is used. These seem to go against Section 3.1.7 of the Introductory Actuarial Standard of Practice which states that the ASOPs are principles-based and do not attempt to dictate every step and decision in an actuarial assignment.

Section 4.1 p. includes additional disclosures for fully funded plans. I agree that clarification of what the actuary means by fully funded is a reasonable disclosure requirement, however the specific items 1 through 4 seem too prescriptive. In particular, it is not always consistent with the nature of the assignment to address settlement of benefit obligations which would be required under item 1. Item 3 uses the term “significant risk” without specifying what that means. For example, suppose that at 100% funded there is roughly a 50/50 chance of staying fully funded. Is that a significant risk? Item 4 could be interpreted that additional contributions would not be required if the plan is fully funded relative to the present value of projected benefits. If assets are 100% of the present value of future benefits, there could be a “significant risk” that the plan will cease to be fully funded on that basis but the implication of item 4 is that additional contributions would not be required. This seems contradictory. I suggest that this section could be improved by requiring the actuary to disclose the possibility and implications of ceasing to be fully funded and leave the specific details to the actuary’s professional judgment.

Section 4.1 r. requires disclosure of changes in assumptions and methods but not plan provisions. Changes in plan provisions often are the most material changes from one valuation to the next. I believe it would be reasonable to require disclosure of changes in plan provisions here as well.

Thank you for the opportunity to provide comments on the ASOP Exposure Draft. These views are my own and do not necessarily represent the views of Gabriel, Roeder, Smith & Company.

Sincerely,

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