

Comment#24 11/12/14–10:49 am.

Donald E. Fuerst

November 12, 2014

Actuarial Standards Board
1850 M Street NW, Suite 300
Washington, DC 20036-4601

Re: ASOPs – Public Pension Plan Funding Request for Comments

Dear Members of the Actuarial Standards Board:

Thank you for the opportunity to provide comments in response to the Actuarial Standards Board's request for comments on Actuarial Standards of Practice (ASOPs) and Public Pension Plan Funding. I am pleased to provide the following comments which reflect solely my own opinion.

- 1. Public plan funding and associated actuarial valuations are less uniformly regulated than those of private sector pension plans. Actuaries may be asked by their principal to advise on funding levels. Is additional guidance needed, beyond that in the recently revised pension ASOPs, regarding appropriate public plan actuarial valuation practice to assist actuaries in performing their work and advising their principal. Why or why not?**

Yes. The current guidance is inadequate because it does not require the actuary to disclose enough information to the principal to enable the understanding of the degree of risk and uncertainty associated with funding the pension obligation.

- 2. If yes to question 1, in what areas is additional guidance needed?**

Additional guidance should be provided concerning disclosures related to the level of risk and uncertainty associated with funding the pension obligation. In particular, actuaries should be required to disclose the pension obligation using a discount rate based on little or no default risk such as the US Treasury Yield Curve. This amount, when compared to the amount determined

for funding the plan, provides a useful measure of what the investment policy hopes to gain by including return-seeking assets in the plan's portfolio¹.

Very few pension plans currently provide this information. Multiemployer plans come closest through the required disclosure of current liability. The Pension Protection Act attempted to provide this information (and also comes close for the extremely few plans that chose to use the full yield curve), but the two year and twenty-five year averaging significantly distorts this measurement. Financial accounting in the US for private sector plans requires disclosure using a discount rate based on high-quality fixed-income investments available at the time of financial statement measurement, but is based on a different attribution method than the funding target thus making comparisons less meaningful.

Another useful disclosure to the principal, all intended users and other users is the cash flows associated with pension obligation. Such cash flows would enable any user of the information to determine the sensitivity to changes in interest rates. This disclosure would also enhance the understanding of future cash flow needs and the long duration aspects of the obligation.

There may be other additional disclosures concerning risk and uncertainty that could be useful to the principal. The above suggested disclosures are essential to understanding the risk and uncertainty of the pension obligation, but are not necessarily sufficient. The ASB should consider other disclosures that would enhance the principal's understanding of risk and uncertainty.

3. If yes to question 1, should that guidance take the form of a separate public plan actuarial valuation standard or be incorporated within the existing ASOPs? Why or why not?

The additional guidance would be useful to all sponsors of pension plans and should apply to all plans. These enhancements could be added to ASOPs 4 and 41.

4. In general, the ASOPs are principles based and not rules based. As a result, the ASOPs are generally not highly prescriptive. Should the ASOPs related to public plan actuarial valuations be more prescriptive? If so, in what areas?

The additional guidance suggested should apply to all pension plans, not just public plans. Generally, guidance should be principles based, but comparability would be greatly enhanced if all pension plans disclosed obligations on a comparable basis such as the US Treasury Yield Curve.

¹ The American Academy of Actuaries' Issue Brief *Measuring Pension Obligations* documents the usefulness of this measurement for all pension plans. See http://www.actuary.org/files/IB_Measuring-Pension-Obligations_Nov-21-2013.pdf

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- 5. The ASOPs have provided guidance that has been applicable to all areas of practice in the pension community (for example, private sector, multiemployer, public sector). If you believe that additional guidance is needed for public plan actuarial valuations, should any of that additional guidance also apply to non-public section plans? Why or why not?**

The additional guidance suggested should apply to all pension plans. The information is essential to the understanding of the risk and uncertainty involved in funding any pension plan.

- 6. The current definition of an “intended user” of an actuarial communication is “any person who the actuary identifies as able to rely on the actuarial findings” (ASOP No. 41, Actuarial Communications, section 2.7). Should the ASOPs require the actuary for public pension plans to perform additional, significant work (which would be incorporated in the guidance provided in the ASOPs) that is not requested by the principal if that work provides useful information to individuals who are not intended users? Why or why not? If so, should this requirement be extended to all pension practice areas? Why or why not?**

Actuaries should not be required to provide information merely because it might be useful to someone who is not an intended user. Doing so would place the actuary in the untenable position of having to determine what might be useful to many non-intended users. These non-intended users could have very divergent and conflicting views, and widely varying levels of understanding about pension plans.

Actuaries are currently required to provide significant amounts of information to the principal and intended users regardless of whether the principal requests such information. Additional disclosures to enhance the understanding of risk and uncertainty will benefit intended users and will not be excessively burdensome. Since many public pension plan actuarial reports are made public by the principal, this expanded disclosure would also provide other users of the actuarial information with much of the information that they sometimes request.

Sincerely,

Donald E Fuerst, MAAA, FSA, EA, FCA