



Office of the State Actuary

"Securing tomorrow's pensions today."

November 14, 2014

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

Sent via email to comments@actuary.org.

SUBJECT: 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 (ASB) request for comments on Actuarial Standards of Practice (ASOPs) and Public Pension Plan Funding. My comments follow and 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. Through their skill, training, and education, actuaries have expertise in identifying and quantifying risk. Generally speaking, however, actuaries are not experts in communicating risk to non-actuaries. Current ASOPs (and recently revised, but not yet effective ASOPs) provide a comprehensive and thoughtful framework for performing actuarial measurements, but offer little guidance on how to effectively communicate risk to our clients.

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

Communicating the risk and uncertainty inherent in actuarial measurements.

- 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?*

Incorporated within the existing ASOPs. As an example, Section 3.4.1 of ASOP No. 41 states "the actuary should consider what cautions regarding possible uncertainty or risk in any results should be included in the actuarial report" but does not appear to provide any additional guidance on possible risks and



uncertainties to consider nor does the ASOP appear to offer any guidance on how to communicate such risks.

The challenges of effectively communicating the risk and uncertainty inherent in actuarial measurements are not unique to public plan actuarial valuations. The entire actuarial profession could benefit from additional guidance derived from thought leaders and experts in this area.

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?*

No. Prescriptive ASOPs could impose a regulatory structure in this practice area. A typical regulatory structure attempts to eliminate the inappropriate practices or actions of the few, but at the expense and burden to the many. Regulatory structures can also have unintended consequences and can be difficult to keep up-to-date.

If the goal of prescriptive ASOPs is to attempt to eliminate the inappropriate practices or actions of the few, a potential alternative would be to expand the resources and reach of the Actuarial Board for Counseling and Discipline (ABCD) and have the ABCD provide counseling and discipline to those few.

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 nonpublic sector plans? Why or why not?*

Same response as my response to question three.

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?*

No. Such a change would be inconsistent with the fundamental purpose of ASOPs. ASOPs apply when rendering actuarial services to a principal.

According Section 3.1 of ASOP No. 1, “ASOPs identify what should be considered, done, documented and disclosed when rendering actuarial services.” Furthermore, Section 2.2 of ASOP No. 1 defines “actuarial services” as “professional services provided to a principal [emphasis added] by an individual acting in the capacity of an actuary. Such services include the rendering of advice, recommendations, findings or opinions based on actuarial considerations.”



With that said, actuaries, as a group of professionals, have an obligation to serve both our clients and the public interest. If the manner in which principals engage actuaries for actuarial services, in any practice area, unduly limits the distribution of information that would serve the public interest, actuaries should turn to the Code of Professional Conduct, rather than ASOPs, for applicable guidance.

Again, thank you for the opportunity to provide comments and please let me know if you have any questions concerning my comments.

Sincerely,

A handwritten signature in black ink, appearing to read "Matthew M. Smith".

Matthew M. Smith, FCA, EA, MAAA
State Actuary

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