Principal® Financial Group

Sent via e-mail to comments@actuary.org

Assessment and Disclosure of Risk
Actuarial Standards Board
1850 M Street, NW, Suite 300
Washington, DC 20036

May 29, 2015

RE Proposed ASOP - Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions, Exposure Draft December 2014

To Members of the Actuarial Standard Board:

I am writing on behalf of the retirement consulting actuaries at Principal Financial Group® (The Principal®). The Principal® is a global investment management leader including retirement services, insurance solutions and asset management. The Principal is one of the leaders in the retirement industry providing full-service solutions for defined contribution, defined benefit, employee stock ownership and nonqualified plans. As a leading provider of total defined benefit (DB) plans serviced, we service nearly 2,300 DB plans - including over 740 actuarial clients. These include privately held, publicly traded and non-profit organizations ranging from small to large plan sizes.

We appreciate the opportunity to comment on the Exposure Draft. Risk management became an important aspect of pension plan governance, and we believe the guidance in this ASOP can be helpful to the pension actuarial profession. As part of evolving best standards of practice, we routinely assess and disclose pension risks to our clients. We strongly feel that communications regarding pension risk should accompany pension actuarial valuations. If the actuary judges it appropriate and beneficial to the client's facts and circumstances, he or she should offer such quantitative assessment that need not be restricted by prescription. In our experience, a "one-size-fit-all" approach to risk assessment is not appropriate for all situations. How an actuary quantifies risk should be based on their professional judgment, the facts and circumstances of the measurement and the scope of the client project. We also believe in the communication regarding risk, the actuary should disclose the lack of quantitative assessment of risk, if none was performed due to the scope and engagement of the project.

Our overall comment to the exposure draft relates to an overly prescriptive nature of the proposed ASOP. Mandating a particular approach (such as 10-year forecasts) to risk assessment for any situation is not only inappropriate but has a potential of burdening the actuaries to perform work for which they will not be compensated. We believe in the fundamental premise that actuaries apply professional judgment based on the facts and circumstances of each particular situation. Therefore, the standards should not substitute rules for the actuary's reasonable professional judgment.

We will respond to some questions under the request for comments below.

<u>Question 1: The discussion draft that preceded this proposed ASOP indicated that a risk assessment should be performed for substantially all pension assignments. The exposure draft has limited the assessment to funding valuations, as defined in section 2.1. Do you believe this limitation is appropriate? Why or why not? If not, what other types of valuations should include risk assessments?</u>

We agree that funding is the most basic yet fundamental aspect for risk management for pension plan. The ultimate consequence of underfunding leads to participants' loss of benefits. However, there are other actuarial valuations that may require assessment and disclosure of risk. As mentioned earlier, we believe that it should be left to the actuary's professional judgment to determine when an assessment is needed and what type of the assessment and disclosure to perform.

Question 4: Do you agree that the guidance in section 3.3 regarding assumptions used for the assessment of risk should include moderately adverse but plausible outcomes? If no, what guidance would you propose?

The statement "Assumptions used for assessment of risk should reflect moderately adverse but plausible outcomes" seems overly prescriptive for all cases. Stress testing and value-at-risk techniques are common methodologies to assess financial risks for many actuarial practices. These methods call for what may be considered "severely adverse" assumptions to illustrate risk.

Question 5: As discussed in section 3.5, for a funding valuation of a plan, the actuary should perform a risk assessment, which may be quantitative, qualitative, or both. Should the guidance require the actuary to use professional judgment in choosing which type of assessment (quantitative, qualitative, or both) to use? For example, if an actuary believes a quantitative assessment should be performed, do you believe providing a qualitative assessment instead of a quantitative assessment should be considered appropriate actuarial practice?

The guidance states that the risk assessment may be quantitative, qualitative, or both. Given that Section 3.4 permits the actuary to choose the methods of assessment with practical considerations such as usefulness, reliability, timeliness, and cost efficiency with his or her professional judgment, professional judgment wording is not needed again under Section 3.5.

The last paragraph of Section 3.5 states that "the actuary may rely on a separate report that the actuary has not produced, if that report contains a risk assessment that, in the actuary's professional judgment, is consistent with what the actuary would have produced for the given risk." In helping our clients to understand pension risks, we often utilize case studies that demonstrate risks for a similar sample plan in the similar situation. We find that the use of a research paper presenting a sample case risk assessment can be an effective way to communicate pension risks. Accordingly, we would like the ASOP to include this as an option, if judged appropriate by the actuary.

Question 6: Plan maturity measures have been included as a potential disclosure item to assist intended users in understanding the risks associated with the plan. Are there additional measures that may be disclosed that are significant to understanding the risks of the plan? If yes, what measures would you recommend as a disclosure item?

The maturity measures listed in Section 3.6 can be examples of potential disclosure. We don't think such details will be meaningful with regard to risk in all situations. Other measures, such as duration of the plan, can be more useful for certain situations. The ASOP language should be revised from "the actuary should calculate" to "the actuary should consider" calculating maturity measures. Section 4.1 also requires the actuary to disclose the value of any plan maturity measures calculated under Section 3.6. We believe these maturity measures should not be a mandatory disclosure under Section 4.1.

Question 7: Do you agree with the use of a threshold for requiring mandatory quantitative assessment that is based on the actuary's professional judgment? If not, what threshold do you believe should be used?

We do not believe the mandatory quantitative assessment should be required for a plan of any size. Instead of determining the threshold, the actuary's professional judgment should be used to determine if such quantitative assessment is appropriate for a particular situation. If the actuary judges it appropriate and beneficial to the client's facts and circumstances, he or she should offer such quantitative assessment that need not be restricted by prescription.

Question 8: Do you believe that the term "large plan" in section 3.7 is sufficiently clear that an actuary will be able to apply it in practice? If not, what clarification would you suggest? Are there other characteristics that should be specified in determining "large plan"?

Risk to a pension plan is not limited to plan size. A pension plan can face significant risk, for example, if its relative size to the company's size is large, regardless of the plan's size. As mentioned earlier, we are opposed to mandatory quantitative assessment for any size plan.

Question 9: Is every five years an appropriate period for performing a mandatory quantitative assessment for a "large plan" in the absence of significant changes, as described in section 3.7?

We feel that **a recommendation** to perform long-term financial forecasts for a plan to help assess risk is an appropriate one. In this case, three to five-year period is an appropriate time between forecasts in the absence of significant changes.

Section 4.1 Disclosures of risk

In their communication regarding risks, the actuary should disclose the lack of quantitative assessment of risk, if none was performed due to the scope and engagement of the project.

We thank the ASB for the opportunity to comment on the exposure draft.

Sincerely,

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