ACTUARIAL STANDARDS BOARD

● SECOND EXPOSURE DRAFT ●

Proposed
Actuarial Standard
of Practice

Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions

Comment Deadline:
October 31, 2016

Developed by the
Pension Committee of the
Actuarial Standards Board

Approved for Exposure by the
Actuarial Standards Board
June 2016

T A B L E O F C O N T E N T S

<u>SECOND EXPOSURE DRAFT—June 2016</u>

June 2016

TO: Members of Actuarial Organizations Governed by the Standards of Practice of the Actuarial Standards Board and Other Persons Interested in the Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions

FROM: Actuarial Standards Board (ASB)

SUBJ: Proposed Actuarial Standard of Practice (ASOP), *Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions*

This document is a second exposure draft of a proposed ASOP titled *Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions.*

Please review this exposure draft and give the ASB the benefit of your comments and suggestions. Each written response and each response sent by e-mail to the address below will be acknowledged, and all responses will receive appropriate consideration by the drafting committee in preparing the final document for approval by the ASB.

The ASB accepts comments by either electronic or conventional mail. The preferred form is e-mail, as it eases the task of grouping comments by section. However, please feel free to use either form. If you wish to use e-mail, please send a message to **comments@actuary.org**. You may include your comments either in the body of the message or as an attachment prepared in any commonly used word processing format. **Please do not password protect any attachments. If the attachment is in the form of a PDF, please do not copy protect the PDF.** Include the phrase “ASB COMMENTS” in the subject line of your message. Please note: Any message not containing this exact phrase in the subject line will be deleted by our system’s spam filter. Also please indicate in the body of the e-mail if your comments are being submitted on your own behalf or on behalf of a company or organization.

If you wish to use conventional mail, please send comments to the following address:

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

The ASB posts all signed comments received to its website to encourage transparency and dialogue. Unsigned or anonymous comments will not be considered by the ASB nor posted to the website. The comments will not be edited, amended, or truncated in any way. Comments will be posted in the order that they are received. Comments will be removed when final action on a proposed standard is taken. The ASB website is a public website, and all comments will be available to the general public. The ASB disclaims any responsibility for the content of the comments, which are solely the responsibility of those who submit them.

Deadline for receipt of responses in the ASB office: **October 31, 2016**

Background

The Pension Committee has been reviewing all of the pension-related standards and has been working on potential guidance regarding the assessment, disclosure, and management of pension risk as part of the larger review project. The Pension Committee believes that a new standard should be considered, with such standard to provide guidance on the assessment and disclosure of pension risk. Section 3.16 of ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*, revised December 2013, provides guidance to an actuary whose assignment includes an analysis of the potential range of future pension obligations, costs, contributions or funded status. Section 4.1(r) of the revised standard requires disclosure that future pension measurements may differ significantly from current measurements, possibly resulting from a number of factors. This section also requires the actuary to provide results of the analysis of the potential range of future measurements if the scope of the actuary's assignment included such analysis, or a statement indicating that because of the limited scope of the assignment, such an analysis was not performed.

Section 3.4.1 of ASOP No. 41, *Actuarial Communications,* indicates that "the actuary should consider what cautions regarding uncertainty or risk in any results should be included in the actuarial report." Section 3.3.2 of ASOP No. 4 says, "In conjunction with the related guidance in ASOP No. 41, the actuary should consider the uncertainty or risk inherent in the measurement assumptions and methods and how the actuary's measurement treats such uncertainty or risk."

The Pension Committee believes that additional guidance that expands on section 3.4.1 of ASOP No. 41 and section 3.3.2 of ASOP No. 4 would be helpful. Additionally, the Pension Committee believes that providing additional disclosures will help the intended users of the actuarial findings to have a better understanding of risks inherent in the measurements of pension obligations and actuarially determined pension plan contributions. Given the significance of the new guidance, the Pension Committee feels that such guidance should come in the form of a new standard of practice that adds to the requirements set forth in existing standards.

First Exposure Draft

In December 2014, the ASB approved a first exposure draft with a comment deadline of May 29, 2015. Fourteen comment letters were received and considered in making changes that are reflected in this second exposure draft. For a summary of issues contained in these comment letters, please see the appendix.

In July 2014, the ASB issued a Request for Comments on ASOPs and Public Pension Plan Funding and Accounting. After comments were received, the ASB appointed a Pension Task Force to review this and other input and to develop recommendations for consideration by the

ASB. In July 2015, the ASB held a public hearing on public plan issues that have arisen during this process. In its announcement of the public hearing, the ASB specifically requested that comments related to the first exposure draft on the assessment and disclosure of risk be submitted in writing prior to the comment deadline. As such, the aforementioned fourteen comment letters constituted the comments considered by the Pension Committee. As the ASB considers the issues investigated by the Pension Task Force, additional changes to one or more of the pension standards of practice could be proposed.

Key Changes

1. The scope of the proposed ASOP was expanded from applying only to actuaries when performing a funding valuation of a pension plan to applying also to actuaries when performing a pricing valuation of a proposed pension plan change that would, in the actuary's professional judgment, significantly change the types or levels of risks of the pension plan.

2. The scope of the proposed ASOP was modified to exclude actuarial services performed in connection with applications for benefit suspensions under the Multiemployer Pension Relief Act of 2014.

3. The definition of risk was changed in section 2.3 to the potential of actual future measurements deviating from expected future measurements resulting from actual future experience deviating from actuarially assumed experience.

4. The list of examples in section 3.3 was expanded to include contribution risk.

5. Section 3.4 was modified to indicate that one or more assumptions selected for the assessment of risk should differ from the assumptions used to determine expected future measurements and should result in one or more plausible outcomes.

6. In section 3.6, a requirement was added that if, in the actuary's professional judgment, a more detailed assessment would be beneficial for the intended user to understand the risks identified by the actuary, the actuary should recommend to the intended user that such an assessment be performed.

7. Section 3.7 of the first exposure draft requiring a mandatory quantitative assessment for large plans was removed.

8. A new section 3.8 was added to require that the actuary identify and disclose relevant historical values of the plan's actuarial measurements, and consider identifying and disclosing other historical information, that the actuary believes are significant to understanding the risks associated with the plan.

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Request for Comments

The ASB would appreciate comments on all areas of the proposed standard and draws the reader's attention, in particular, to the following questions:

1. Do you believe that the addition of contribution risk in section 3.3 is consistent with the risk definition in section 2.3? If not, how would you modify the definition in section 2.3?

2. Do you agree with the proposed guidance in section 3.6 that if, in the actuary's professional judgment, a more detailed assessment would be beneficial for the intended user to understand the risks identified by the actuary, the actuary should recommend to the intended user that such an assessment be performed?

3. Do you believe that the guidance in section 3.8 regarding the disclosure of historical actuarial measurements or potential disclosure of other historical information to assist in understanding the risks associated with the plan is appropriate? If not, what changes would you suggest?

The ASB reviewed the draft at the June 2016 meeting and approved its exposure.

The Actuarial Standards Board (ASB) sets standards for appropriate actuarial practice in the United States through the development and promulgation of Actuarial Standards of Practice (ASOPs). These ASOPs describe the procedures an actuary should follow when performing actuarial services and identify what the actuary should disclose when communicating the results of those services.

SECOND EXPOSURE DRAFT—June 2016

PROPOSED ACTUARIAL STANDARD OF PRACTICE

ASSESSMENT AND DISCLOSURE OF RISK ASSOCIATED WITH MEASURING PENSION OBLIGATIONS AND DETERMINING PENSION PLAN CONTRIBUTIONS

STANDARD OF PRACTICE

Section 1. Purpose, Scope, Cross References, and Effective Date

1.1 Purpose—This actuarial standard of practice (ASOP) provides guidance to actuaries when performing certain actuarial services with respect to measuring obligations under a pension plan and calculating actuarially determined contributions for such plans, with regard to the assessment and disclosure of the **risk** that actual future measurements (for example, of pension obligations, actuarially determined contributions, or funded status as applicable) may differ significantly from expected future measurements. Throughout this standard, the terms "plan" and "pension plan" refer to a defined benefit pension plan.

Other actuarial standards of practice address measuring pension obligations, calculating plan costs or contributions, selecting actuarial assumptions for measuring pension obligations, and selecting and using asset valuation methods for pension valuations.

1.2 Scope—This standard applies to actuaries when performing a **funding valuation** of a pension plan. This standard also applies to actuaries when performing a **pricing valuation** of a proposed pension plan change that would, in the actuary's professional judgment, significantly change the types or levels of **risks** of the pension plan.

This standard does not apply to actuaries performing services in connection with applications for benefit suspensions under the Multiemployer Pension Relief Act of 2014. This standard also does not apply to actuaries performing services in connection with other post-employment benefits, such as medical benefits. In addition, this standard does not apply to actuaries performing **funding valuations** or **pricing valuations** for social insurance programs as described in section 1.2, Scope, of ASOP No. 32, *Social Insurance* (unless an ASOP on social insurance explicitly calls for application of this standard).

This standard does not require the actuary to evaluate the ability of the plan sponsor or other contributing entity to make contributions to the plan when due.

For assignments where the actuary has been engaged to perform a **risk** assessment of the pension plan, the actuary should apply the guidance presented in this ASOP to the extent relevant. In some circumstances, the actuary's assignment might include advising the plan sponsor on the management or reduction of **risk**; this standard does not provide guidance on such **risk** management.

If the actuary departs from the guidance set forth in this standard in order to comply with applicable law (statutes, regulations, and other legally binding authority), or for any other reason the actuary deems appropriate, the actuary should refer to section 4.

1.3 Cross References—When this standard refers to the provisions of other documents, the reference includes the referenced documents as they may be amended or restated in the future, and any successor to them, by whatever name called. If any amended or restated document differs materially from the originally referenced document, the actuary should consider the guidance in this standard to the extent it is applicable and appropriate.

1.4 Effective Date—This standard will be effective for any actuarial work product with a measurement date on or after twelve months after adoption by the Actuarial Standards Board (ASB).

Section 2. Definitions

The terms below are defined for use in this actuarial standard of practice.

2.1 Funding Valuation—A periodic measurement of pension obligations performed by the actuary that the plan sponsor may use to determine plan contributions or the benefit levels supportable by specified contribution levels. A funding valuation includes the determination of the minimum required contribution, as defined by the Employee Retirement Income Security Act of 1974 (ERISA).

2.2 Pricing Valuation—A measurement of pension obligations performed by the actuary to estimate the impact on the periodic cost or the actuarially determined contribution of proposed changes to plan benefit provisions.

2.3 Risk—The potential of actual future measurements deviating from expected future measurements resulting from actual future experience deviating from actuarially assumed experience.

2.4 Scenario Test—A process for assessing the impact of one possible event, or several simultaneously or sequentially occurring possible events, on a plan’s financial position.

2.5 Sensitivity Test—A process for assessing the impact of a change in an actuarial assumption on an actuarial measurement.

2.6 Stochastic Modeling—A process for estimating distributions of potential outcomes by allowing for random variations in one or more inputs over time.

2.7 Stress Test—A process for measuring the impact of adverse changes in one or relatively few factors affecting a plan’s financial condition.

Section 3. Analysis of Issues and Recommended Practices

3.1 Overview—Measuring pension obligations and calculating actuarially determined contributions require the use of assumptions regarding future economic and demographic experience. However, an intended user of such measurement may not understand the effects of future experience differing from the assumptions used in the **funding valuation** or **pricing valuation**, or the potential volatility of future measurements resulting from such differences.

Guidance regarding methods and assumptions for measuring and determining pension costs, contributions, obligations, and funded status is provided in ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*; ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*; ASOP No. 35, *Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations*; and ASOP No. 44, *Selection and Use of Asset Valuation Methods for Pension Valuations*. In the event of a conflict between the guidance provided in this ASOP and the ASOPs listed above, this ASOP would govern.

3.2 Assessment of Risk—The actuary should include an assessment of each of the **risks** identified by the actuary in accordance with section 3.3, when performing an assignment covered by this standard. The standard does not require the assessment to be based on numerical calculations.

The assessment should take into account circumstances applicable to the plan (for example, funding policy, investment policy, funded status, plan demographics, etc.). This standard provides guidance on conducting such assessments, as well as on related communications and disclosures.

3.3 Identification of Risks to be Assessed—The actuary should identify **risks** that, in the actuary's professional judgment, may reasonably be anticipated to significantly affect the plan's future financial condition. Such **risks** may include the following:

a. investment **risk** (i.e., the potential that investment returns will be different than expected);

b. asset/liability mismatch **risk** (i.e., the potential that changes in asset values are not matched by changes in the value of liabilities);

c. interest rate **risk** (i.e., the potential that interest rates will be different than expected);

d. longevity **risk** (i.e., the potential that mortality experience will be different than expected); and

e. contribution **risk** (i.e., the potential that the plan's funding policy is not consistent with an actuarially determined contribution, that actual contributions are not made in accordance with the plan's funding policy, or that material changes occur in the anticipated number of covered employees, covered payroll, or other relevant contribution base).

This standard does not require the actuary to evaluate the ability of the plan sponsor or other contributing entity to make contributions to the plan when due. In addition, the actuary is not expected to provide investment advice.

3.4 Assumptions for Assessment of Risk—If the nature of the actuary's assessment of **risk** requires the selection of assumptions, the actuary should use professional judgment in selecting these assumptions. One or more assumptions selected for the assessment of **risk** should differ from the assumptions used to determine expected future measurements and should result in one or more plausible outcomes.

The assumptions used for assessment of **risk** may be based on economic and demographic data and analyses. This information is available from a variety of sources, including representatives of the plan sponsor and administrator, investment advisors, demographers, economists, and other professionals. The actuary may benefit from becoming familiar with a range of views on the factors underlying each assumption. Views of experts or principals may be considered but the selection of assumptions for the assessment of **risk** should reflect the actuary's professional judgment.

3.5 Methods for Assessment of Risk—If the nature of the actuary's assessment of **risk** requires the selection of methods, the actuary should use professional judgment in selecting these methods. Methods may include, but are not limited to **scenario tests**, **sensitivity tests**, **stochastic modeling**, **stress tests**, and a comparison of a market-consistent present value to a corresponding present value from the **funding valuation** or **pricing valuation**.

The actuary should take into account the degree to which the methods and models reflect the nature, scale, and complexity of the plan. In using professional judgment, the actuary may take into account practical considerations such as usefulness, reliability, timeliness, and cost efficiency.

3.6 Additional Assessment of Risk—If, in the actuary's professional judgment, a more detailed assessment would be beneficial for the intended user to understand the **risks** identified by the actuary, the actuary should recommend to the intended user that such an assessment be performed. In making this judgment, the actuary should take into consideration factors including, but not limited to, the following:

a. findings of the **risk** assessment that the actuary has performed;

b. the size of the plan;

c. the maturity of the plan;

d. the funded status of the plan;

e. the plan's asset allocation;

f. any relevant characteristics of the contribution allocation procedure, such as a significantly backloaded contribution allocation procedure;

g. to the extent known by the actuary, indications that the plan sponsor or other contributing entity may not make current or future recommended contributions to the plan, whether based on recent history, new developments, external analyses, or other known factors;

h. the length of time since the last such assessment; and

i. any significant changes in circumstances since the last such assessment.

3.7 Plan Maturity Measures—In addition to the requirements of section 3.2, the actuary should calculate and disclose plan maturity measures that, in the actuary's professional judgment, are significant to understanding the **risks** associated with the plan. Examples include the following:

a. the ratio of market value of assets to payroll;

b. the ratio of retired life actuarial accrued liability to total actuarial accrued liability;

c. the ratio of net cash flow to market value of assets;

d. the ratio of benefit payments to contributions; and

e. the duration of the actuarial accrued liability.

The actuary also should provide commentary to help the intended user understand the significance of the disclosed plan maturity measures when assessing **risk**.

Since various plan maturity measures may convey similar information about **risk**, the actuary should use professional judgment in selecting the plan maturity measures to calculate and disclose.

3.8 Historical Information—If historical values of the plan's actuarial measurements are reasonably available, the actuary should identify and disclose relevant historical values of the plan's actuarial measurements that, in the actuary's professional judgment, are significant to understanding the **risks** associated with the plan. Examples of such actuarial measurements include the following, expressed as dollar amounts, percentages, or in some other form, as appropriate:

a. funded status;

b. actuarially determined contribution;

c. actuarial gains and losses;

d. normal cost; and

e. plan settlement liability.

Since various plan historical actuarial measurements may convey similar information about **risk**, the actuary should use professional judgment in selecting the historical actuarial measurements to disclose.

If other historical information relevant to the actuarial measurements is reasonably available, the actuary should consider identifying and disclosing such historical information that the actuary believes is significant to understanding the **risks** associated with the plan. Examples include a comparison of actual contributions to actuarially determined contributions, plan participant count, and covered payroll.

The actuary also should provide commentary to help the intended user understand the significance of the disclosed historical actuarial measurements and the disclosed other historical information when assessing **risk**.

3.9 Reliance on a Separate Report—The actuary may rely on a separate report that the actuary has not produced, if that report contains the results of a **risk** assessment that, in the actuary's professional judgment, is consistent with what the actuary would have produced for the given **risk**.

Section 4. Communications and Disclosures

4.1 Disclosures— Any actuarial communication prepared to communicate the results of work subject to this standard should comply with the requirements of ASOP Nos. 4; 23, *Data Quality*; 27; 35; 41, *Actuarial Communications*; and 44. In addition, such communication should contain the following disclosures when relevant and material:

a. the results of the **risk** assessment performed in accordance with section 3.2, including commentary about the specific circumstances applicable to the plan taken into account;

b. the **risks** identified, in accordance with section 3.3, including the rationale for selecting the **risk** and the actuary's view of the significance of each identified **risk**;

c. if applicable, a description of each significant assumption or method upon which the actuary's **risk** assessment depends, in accordance with sections 3.4 and 3.5;

d. if applicable, a recommendation to the intended user that a more detailed assessment be performed, in accordance with section 3.6;

e. the values of any plan maturity measures selected in accordance with section 3.7, including related commentary to help the intended user understand the significance of the plan maturity measures when assessing **risk**. Examples of these plan maturity measures and related commentary include the following:

    i. if the actuary discloses the ratio of market value of assets to payroll, the actuary could describe the significance of this ratio with respect to contribution volatility;

    ii. if the actuary discloses the ratio of retired life actuarial accrued liability to total actuarial accrued liability, the actuary could describe the significance of this ratio with respect to the plan's asset/liability mismatch;

    iii. if the actuary discloses the ratio of net cash flow to market value of assets, the actuary could describe how negative cash flow may amplify investment **risk**; or

    iv. if the actuary discloses the ratio of benefit payments to contributions, where contribution rates are fixed, the actuary could describe the dependence upon stable investment returns to continue to provide benefits.

f. the historical values of any actuarial measurements and any other historical information relevant to the actuarial measurements selected in accordance with section 3.8, including related commentary to help the intended user understand the significance of this information when assessing **risk**.

An actuarial communication can comply with some or all of the specific requirements of this section by making reference to information contained in another actuarial communication or in a separate report that the actuary has relied on (in accordance with section 3.9). As discussed in ASOP No. 41, any referenced actuarial communication or separate report should be available to the intended users.

4.2 <u>Deviation from Guidance in the Standard</u>—If the actuary departs from the guidance set forth in this standard, the actuary should include the following where applicable:

a. the disclosure in ASOP No. 41, section 4.2, if any material assumption or method was prescribed by applicable law (statutes, regulations, and other legally binding authority);

b. the disclosure in ASOP No. 41, section 4.3., if the actuary states reliance on other sources and thereby disclaims responsibility for any material assumption or method selected by a party other than the actuary; and

c. the disclosure in ASOP No. 41, section 4.4, if, in the actuary's professional judgment, the actuary has otherwise deviated materially from the guidance of this ASOP.

4.3 Confidential Information—Nothing in this standard is intended to require the actuary to disclose confidential information.

Appendix

Comments on the First Exposure Draft and Responses

The first exposure draft of the proposed ASOP, *Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions,* was issued in December 2014 with a comment deadline of May 29, 2015. Fourteen comment letters were received, some of which were submitted on behalf of multiple commentators, such as by firms or committees. For purposes of this appendix, the term "commentator" may refer to more than one person associated with a particular comment letter. The Pension Committee carefully considered all comments received, and the ASB reviewed (and modified, where appropriate) the proposed changes.

Summarized below are the significant issues and questions contained in the comment letters and the responses to each.

The term "reviewers" includes the Pension Committee and the ASB. Unless otherwise noted, the section numbers and titles used below refer to those in the first exposure draft.

GENERAL COMMENTS	
Comment	One commentator suggested that it was inappropriate to mandate more disclosure than is already required in ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*; ASOP No. 35, *Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations*; and ASOP No. 41, *Actuarial Communications*. Another commentator believed that risk assessment may often be best practice, but should not be required by the ASOPs.
Response	The reviewers disagree with the commentators and believe the proposed ASOP provides additional guidance that is appropriate actuarial practice when funding and pricing valuations are performed.
Comment	One commentator suggested additional guidance on risk/reward analysis.
Response	The reviewers believe this type of guidance is beyond the scope of the proposed ASOP at this time and made no change.
SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECITVE DATE	
Section 1.1, Purpose	
Comment	One commentator suggested that this section and section 1.2 are inconsistent in the way they describe the scope of the standard in that section 1.1 would seem to include accounting valuations whereas section 1.2 limits the scope to funding valuations.
Response	The reviewers note that section 1.2 may limit the scope of the ASOP beyond the description in section 1.1, and that section 1.2 is the section that defines the scope. The reviewers believe the guidance in sections 1.1 and 1.2 is clear to the purpose and scope of the proposed ASOP, and made no change in response to this comment.

Comment Response	One commentator suggested that the definition of pension plan needs to clearly include all pension plans other than defined contribution pension plans. The reviewers note that the meaning of "pension plan" or "plan" as a defined benefit pension plan is common throughout the pension ASOPs and believe the pension community understands which types of plans are covered, and made no change.
Section 1.2, Scope	
Comment Response	Several commentators believed that the scope was too narrow, and suggested expanding it to various degrees: OPEB valuations, asset/liability studies, or all assignments related to pension plans. Several other commentators were generally comfortable with the scope as drafted, and did not support expanding it significantly, but felt that the standard should at least cover the pricing of plan changes. One commentator requested that the scope specifically be clarified to exclude pricing work. In response to the comments, the reviewers expanded the scope in section 1.2 to apply to actuaries when performing a pricing valuation of a proposed pension plan change that would, in the actuary's professional judgment, significantly change the types or levels of risks of the pension plan. The reviewers did not further expand the scope to include other assignments, but note that practice is emerging in this area.
Comment Response	One commentator suggested that restricting the scope of the ASOP to funding valuations should not limit the actuary from doing similar assessments and disclosures for other work. The reviewers do not believe that the proposed ASOP precludes an actuary from doing similar assessments for other assignments and made no change in response to this comment. In accordance with ASOP No. 1, *Introductory Actuarial Standard of Practice*, section 4.3, an ASOP should not be interpreted as having applicability beyond its stated scope and purpose.
Comment Response	One commentator suggested that the scope should be expanded to include all assignments related to pension plans with the burden on the actuary who does not include at least a qualitative discussion of risk to document why risk is not relevant to the assignment or that the work involved would be onerous with respect to plan size. The reviewers believe the proposed scope definition would be too broad, but did expand the scope to apply to actuaries when performing a pricing valuation of a proposed pension plan change that would, in the actuary's professional judgment, significantly change the types or levels of risks of the pension plan.
Section 1.4, Effective Date	
Comment Response	Two commentators suggested that the effective date of four months after adoption is not sufficient for major changes in the required work for a funding valuation. The reviewers agree and changed the proposed ASOP to be effective for any actuarial work product with a measurement date on or after twelve months after adoption by the Actuarial Standards Board.
SECTION 2. DEFINITIONS	
Section 2.1, Funding Valuation	
Comment Response	Two commentators suggested that the definition is not clear as to whether pricing work is included. The commentators requested clarification that pricing work not be included. The reviewers agree that the definition was not clear and included an additional definition for pricing valuation in section 2.2 of this exposure draft. As noted above, the reviewers expanded the scope in section 1.2 to apply to actuaries when performing a pricing valuation of a proposed pension plan change that would, in the actuary's professional judgment, significantly change the types or levels of risks of the pension plan.

Section 2.2, Risk (now section 2.3)	
Comment Response	One commentator suggested that it was not clear what type of risk was being covered by the proposed ASOP. The reviewers agree and modified the definition of risk to make it more clear what type of risk was being covered by the proposed ASOP.
Comment Response	One commentator suggested that the ASOP should require the assessment and disclosure of both sponsor and participant risk. The reviewers note that section 3.3 of this exposure draft states that the actuary should identify risks that, in the actuary's professional judgment, may reasonably be anticipated to significantly affect the plan's future financial condition. The reviewers believe that risks that significantly affect the plan's future financial condition are more directly related to the assignments included in the scope. However, nothing in the proposed ASOP would constrain the actuary from assessing and disclosing plan sponsor and participant risk. Therefore, the reviewers made no change.
Comment Response	One commentator suggested that risk should be defined as negative experience. The reviewers disagree and made no change in response to this comment.
SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES	
Section 3.1, Overview	
Comment Response	Two commentators suggested the term "user" be changed to "intended user." The reviewers agree and changed the term "user" to "intended user."
Section 3.2, Risks to be Assessed (now section 3.3, Identification of Risks to be Assessed)	
Comment Response	Several commentators suggested that the actuary should be required to at least qualitatively assess the ability of the plan sponsor or other contributing entity to make contributions to the plan when due. The reviewers believe that the actuary may not have the necessary information or qualifications to assess the ability of the plan sponsor or other contributing entity to make contributions to the plan when due. Therefore, the reviewers made no change.
Comment Response	Several commentators suggested adding certain risks to the list of examples such as contribution risk, demographic risk, embedded option risk, plan sponsor risk, governance risk and funding policy risk. Another commentator suggested that the list of examples indicates that the listed risks are the only important risks to be assessed. The reviewers believe that many additional risks could be added to the list of examples in this section. The reviewers agree that contribution risk would be a particularly helpful addition to the list of examples and added this risk as item 3.3(e).The reviewers also note that the list provides examples and is not intended to be all inclusive.
Comment Response	Two commentators suggested changing the guidance from "This standard does not require the actuary to evaluate the ability of the plan sponsor or other contributing entity to make contributions to the plan when due" to "This standard does not require the actuary to evaluate the ability or willingness of the plan sponsor or other contributing entity to make contributions to the plan when due." The reviewers disagree with the suggested changes and note that the current language is the same as that included in ASOP No. 4. Therefore, the reviewers made no change.

Comment Response	One commentator felt that the exposure draft implied that each risk was to be assessed individually, and suggested clarifying that it is also appropriate for the actuary to assess overall risk reflecting multiple factors. The reviewers note that section 3.2 of this exposure draft requires that the actuary should include an assessment of each of the risks identified by the actuary in accordance with section 3.3 of this exposure draft.
Section 3.3, Assumptions for Assessment of Risk (now section 3.4)	
Comment Response	Several commentators suggested that the guidance referring to moderately adverse but plausible outcomes is too restrictive and should allow use of assumptions that reflect favorable or severely adverse outcomes, depending on the judgment of the actuary. The reviewers agree and changed the guidance to indicate that one or more assumptions selected for the assessment of risk should differ from the assumptions used to determine expected future measurements and should result in one or more plausible outcomes.
Comment Response	Some commentators suggested that the guidance should require use of assumptions that reflect extreme outcomes. The reviewers believe that the wide range of plans for which actuaries may provide services requires flexibility in determining the severity of outcomes reflected in the assumptions used in assessment of risk, and therefore made no change to the guidance requiring the actuary to use professional judgment in selecting the assumptions.
Comment Response	One commentator suggested that the term "plausible" was not well defined in the context of the guidance. The reviewers believe that the term "plausible," combined with the requirement for the actuary to use professional judgment, is appropriate for this standard.
Section 3.4, Methods for Assessment of Risk (now section 3.5)	
Comment Response	One commentator suggested that the methods explicitly recognize that the assessment of risk includes projections of a plan's funded status and funding results for future years under alternative scenarios. The commentator also suggested the wording of section 3.4 could be read as only applying to changes in the current year's measurements. The reviewers note that section 3.4 (now section 3.5) includes sensitivity tests, scenario tests, and stochastic modeling. Therefore, the reviewers made no change.
Comment Response	One commentator suggested that another useful approach to assessing and disclosing risk is to calculate and disclose the difference between the pension liability based on an expected-return discount rate and the liability based on a solvency market rate, divided by the solvency liability. The reviewers added "a comparison of a market-consistent present value to a corresponding present value from the funding valuation or pricing valuation" as a possible method, in response to this comment.

Section 3.5, Assessment of Risk (now section 3.2, Assessment of Risk and section 3.6, Additional Assessment of Risk)	
Comment	One commentator suggested that the distinction between qualitative and quantitative analysis is ambiguous. The commentator suggested adding a sentence to section 3.5 to indicate that a qualitative analysis could include calculations and that it should be left to the actuary's professional judgment to determine whether the analysis is qualitative or quantitative. Another commentator suggested that a quantitative analysis should only be required subject to the scope of the work agreed to with the principal. Some commentators suggested mandatory quantitative assessments should not be required for a plan of any size. Another commentator suggested the ASOP should require some type of quantitative assessment of risk when an actuary performs a funding valuation. Several commentators supported the notion of disclosing an assessment of risk but suggested that a quantitative analysis should not be required by the ASOP. In addition, the commentators suggested the actuary should recommend a more detailed analysis if the actuary believes it is warranted. Several commentators suggested adding guidelines for the application of professional judgment when determining the type and extent of assessment to perform.
Response	The reviewers agree that there is not always a clear distinction between qualitative and quantitative assessments and, therefore, removed the use of these terms in this exposure draft. In addition, the reviewers added language in section 3.2 of this exposure draft to indicate the standard does not require the assessment to be based on numerical calculations but should take into account circumstances applicable to the plan. The reviewers also added language to section 3.6 of this exposure draft to require that if, in the actuary's professional judgment, a more detailed assessment would be beneficial for the intended user to understand the risks identified by the actuary, the actuary should recommend to the intended user that such an assessment be performed. Section 3.6 of this exposure draft includes factors the actuary should take into consideration.
Comment	One commentator suggested that the guidance be modified to require that the actuary "provide" a risk assessment rather than "perform" a risk assessment.
Response	The reviewers clarified the language now in section 3.2 of this exposure draft.
Comment	One commentator suggested that the requirement to include commentary about the risk assessment specific to the plan, the extent of which is commensurate with the actuary's view of the significance of each assessed risk in relation to the plan, should be reworded to clarify its intent.
Response	The reviewers agree and clarified the language in section 4.1.
Section 3.6, Plan Maturity Measures (now section 3.7)	
Comment	Several commentators indicated that the examples of potential measures of plan maturity were appropriate. Other commentators suggested additional examples. Other commentators indicated that the items listed would not be appropriate for many types of plans, and that what constituted an appropriate measure of plan maturity was best determined by the actuary.
Response	The reviewers clarified the language to indicate that the actuary should calculate and disclose plan maturity measures that, in the actuary's professional judgment, are significant to understanding the risks associated with the plan. The reviewers note that the listed measures of plan maturity are only examples.

Comment Response	Two commentators suggested that "net cash flow" be defined. The reviewers note that "net cash flow" is a generic term and that the components of "net cash flow" may be different depending upon the circumstance, and therefore made no change.
Section 3.7, Quantitative Assessment of Risk for Large Plans	
Comment Response	Most commentators did not agree with the use of a threshold for requiring quantitative assessments. Most commentators suggested that the term "large plan" was not sufficiently clear. Most commentators suggested that every five years was not an appropriate period for the mandatory quantitative assessment for "large plans." One commentator suggested that plan size measures should include measures that compare the absolute size of the plan to the funding resources of the plan sponsor. The reviewers removed section 3.7 of the first exposure draft that required a quantitative assessment for large plans.
SECTION 4. COMMUNICATIONS AND DISCLOSURES	
Section 4.1, Disclosures	
Comment Response	Some commentators suggested that the ASOP permit the risk assessment to be delivered in a separate report. The reviewers added language in this section and section 3.9 of the proposed ASOP to address these comments. The reviewers also note that an actuarial report, as defined in section 2.4 of ASOP No. 41, may consist of multiple documents.
Comment Response	Two commentators suggested that the actuary be required to disclose whether the ability or willingness of the plan sponsor to make contributions was assessed. The reviewers agree that contribution risk is a potential significant risk to a plan and added contribution risk as an example in section 3.3 of the proposed ASOP. The reviewers note that section 3.3 of the proposed ASOP requires the actuary to identify risks that, in the actuary's professional judgment, may reasonably be anticipated to significantly affect the plan's future financial condition, and also note that section 4.1 requires the actuary to disclose the risks so identified. The reviewers did not add a specific disclosure requirement as to whether contribution risk, or any other specific source of risk, was not identified as being reasonably anticipated to significantly affect the plan's future financial condition.
Comment Response	One commentator suggested that the actuary be required to disclose any history of actual contributions being less than recommended contributions, if it conveys the potential of future contribution shortfalls. The reviewers added section 3.8 of this exposure draft to indicate the actuary should consider identifying and disclosing such historical information that the actuary believes is significant to understanding the risks associated with the plan.