

October 10, 2016

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

Dear Sir or Madam:

This letter documents the response of Willis Towers Watson to the proposed actuarial standard of practice (ASOP) on Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions, as requested in the Exposure Draft (ED) of June 2016.

Willis Towers Watson is a leading global professional services company that employs approximately 39,000 associates worldwide, over 1,100 of whom are members of U.S. actuarial bodies subject to the standards and approximately 600 of whom are enrolled actuaries. We provide actuarial and consulting services to more than 1,700 defined benefit plans in the U.S. The undersigned have prepared our company's response with input from others in the company.

Our comments generally support four central themes that we believe should apply to the ASOPs that can be found on our website at <http://www.towerswatson.com/en/north-american-retirement-principles>.

We appreciate the opportunity to comment.

Summary

We welcome some of the changes and clarifications that have been made since the first exposure draft. In particular, the changes that eliminate the required quantitative assessment of pension risk for large plans, and focus the required assessments on helping *intended* users understand the risks, are appropriate and helpful.

However, we continue to believe that this proposed ASOP is not needed or appropriate and will be counterproductive. We do not believe that an assessment of risk is a necessary component of "appropriate practice" for all, or even most, funding valuations, and we strongly object to the requirements the ED would impose on actuaries to do significant additional work beyond the usual scope of funding assignments. Current pension ASOPs already require disclosure of the fact that assumptions may not be realized, and that future results will differ as a result [ASOPs No. 4 (section 4.1r), and 41 (sections 3.4.1 and 4.1.3.d)]. In addition, plan sponsors are the intended users of funding and pricing valuations, and are already well aware that if their plan assets do not perform well, their participants live longer than assumed, discount rates move against them, or their business encounters difficulties that affect their ability to fund, the plan's underfunding and required contributions will increase. Actuaries consulting with such plan sponsors typically offer more detailed analyses, and plan sponsors will often request an analysis of one or more specific risks that they consider significant. We do not believe it is appropriate for the standards of practice to impose additional unwanted analyses.

We believe that the effect of the proposed required risk analyses will simply be to increase (i) the actuary's potential exposure in litigation whenever anything goes wrong with a pension fund, (ii) the cost of performing funding valuations and pricings and therefore the incentive to shift such work to actuaries who are not members of any of the U.S. based actuarial organizations or, in the case of pricings, to forgo actuarial advice, and (iii) the "boilerplate" language in actuarial reports which, due to the current

requirements of the ASOPs cited above and other ASOPs, are already so voluminous that intended users often do not read them.

However, we believe that the requirements to show historical information and plan maturity measures are less problematic, and provide a reasonable balance between highlighting the inherent variability of actuarial measurements and imposing unnecessary costs on plan sponsors and risks on the actuary.

Our specific feedback on the ED follows, beginning with the three questions listed in the *Request for Comments* section of the ED.

Responses to Specific Requests for Comments

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?*

We believe that the risk that future contributions that are explicitly or implicitly assumed by the funding methodology will not be made for various reasons (e.g., unwillingness or inability of the plan sponsor to make them, dwindling contribution base where contributions are based on payroll or hours, etc.) is consistent with the very broad and general definition of risk in section 2.3. However, “the potential that the plan’s funding policy is not consistent with an actuarially determined contribution” does not seem to fit within the definition of risk. In addition, we believe that this type of risk is already addressed by ASOP No. 4 sections 3.14.1, 4.1(l) and 4.1(m), and should not be included in this ASOP. Accordingly, we suggest that section 3.3(e) be changed to read as follows:

“contribution **risk** (i.e., the potential that future contributions are not made in accordance with the plan’s contribution allocation procedure as discussed in section 3.1.4 of ASOP 4 *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*, or that material changes occur in the anticipated number of covered employees, covered payroll, or other relevant contribution base).”

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?*

We believe this approach is a significant improvement over the requirement in the first ED to provide the more detailed assessment for large plans. However, we believe that section 3.6 will simply result in every actuary always recommending that a risk assessment be performed, as part of boilerplate language in the report.

Actuaries will recognize that, if something goes wrong, whether it was reasonable to have concluded that a more detailed risk assessment would not have been beneficial for the intended user to understand the risks will be judged in hindsight, and intended users may have an incentive to claim a lack of understanding. Accordingly, a charge is likely to be made that an actuary’s decision not to recommend a more detailed analysis was not reasonable. Thus boilerplate language will be added to protect the actuary, and the “recommendation” will have no greater effect than the offer to perform a risk analysis that is typical in many reports today (or worse will be viewed by plan sponsors as a self-serving sales pitch by actuaries).

Because we believe that if this recommendation requirement is added (i) it will have little to no effect on whether such more detailed risk assessments are performed (as they are already being offered in most cases) and (ii) it will expose any actuary who does not make such a recommendation to greater litigation risk, we oppose this requirement.

While we would prefer that this recommendation requirement be eliminated, if it is retained we have some suggestions. Under the proposal, a more detailed assessment would be required to be recommended if it would be “beneficial” to assist “intended users” in understanding the risks identified. “Beneficial” is too low a standard; almost any additional analysis could be beneficial, but that does not mean that any or all of the potential analyses are actually needed or would be worth the cost. We suggest that the criterion be changed to “necessary, in the actuary’s professional judgement, to assist intended users in understanding the risks involved”. This would enable the actuary to distinguish between risks that a particular plan sponsor is already very familiar with from past experience (e.g., volatility due to changes in discount rates and asset experience) and risks that may be less well understood (e.g., the increase in liabilities due to plan subsidies if employees should be terminated earlier than assumed).

Also, “intended user” is not defined, but we believe that in the context of an Employee Retirement Income Security Act (ERISA) qualified pension plan, the only intended user for a funding valuation report is the plan sponsor. Plan sponsors are sophisticated, are well aware of pension risk, already receive many risk-related disclosures under the requirements of ASOPs 4, 27, 35 and 41, and often request the sensitivity and other risk analyses that are most relevant to them. This recommendation requirement seems predicated on the assumption that plan sponsors are not aware of the risks, or, alternatively, that the intended users are a broader group that includes parties who are less well informed. With respect to U.S. qualified pension plans, we strongly oppose any suggestion that the term “intended user” extends beyond the plan sponsor. In particular, we note that plan participants typically would not see the full actuarial valuation report, and that ERISA already prescribes the information to be provided to participants in the Annual Funding Notice to advise them of the health of their pension plan and the Pension Benefit Guaranty Corporation (PBGC) guarantees (and their limitations) available to them. We would prefer that the standard make clear that the intended user is the principal, typically the plan sponsor or a board of trustees or similar body.

We also believe that it is inappropriate to include the “size of the plan” in section 3.6 as one of the factors to consider when determining whether further analysis would be beneficial. The risk of a plan to its sponsor (and to its participants for that matter) has little to do with the absolute size of the plan, and everything to do with the size of the plan relative to the size of the contributing sponsor.

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?*

We believe that the historical summary will be reasonably easy to provide for recent periods, and may be marginally useful in reinforcing to intended users the inherent variability from year to year in the measures shown. The proposed language helpfully permits the use of only information that is reasonably available and the actuary believes would be useful in understanding the plan’s risk. However, we do not believe that the requirement to include commentary to help the user understand the significance of the disclosed information is appropriate. To be useful, such commentary would need to describe the specific reasons for the fluctuations in year to year historical values. Such commentary may require significant research and a lengthy discussion, and would already have been provided in prior years’ actuarial reports when the experience occurred. We believe the language should be changed to “The actuary should consider providing commentary” so that the actuary can focus on general trends that may be important and avoid burdensome research and voluminous commentary.

Additional Specific Comments

Section 1.2 (Scope) – The scope has been expanded to include pricing valuations, to the extent the plan change being priced would affect the plan’s risks. However, the definition of “pricing valuation” includes valuations to determine the effect on “periodic cost” of proposed changes to plan provisions (i.e., in addition to the effect on actuarially determined contributions). We believe this expansion of scope to include accounting results in the case of a pricing valuation is not appropriate and would necessitate consideration of baseline periodic benefit costs and obligations under accounting assumptions and methods in addition to funding assumptions and methods. We believe that this is a significant expansion in scope that does not appear to have been a result of any specific comments on the first exposure draft and we request that it be removed, so that only pricing valuations related to funding requirements would be in scope.

Section 3.3 (Identification of Risks to be Assessed) – We continue to believe that the reference to the actuary not being required to evaluate “the ability of the plan sponsor or other contributing entity to make contributions” should be changed to “the likelihood that contributions will be made”. We note that section 3.6(g) appropriately focuses on the plan sponsor or contributing entity not making contributions, without limiting it to a failure to contribute for a particular reason (e.g., inability vs. unwillingness).

Section 4.1 (Disclosures) – We believe that the disclosures required by section 4.1.b are unduly burdensome and appear to implicitly require quantification of risks. Specifically:

- We believe that a disclosure of the rationale for selecting a particular risk to be assessed is not useful. The results of that assessment are required to be disclosed under section 4.1.a. Under section 3.3 the actuary is charged with identifying risks that “may reasonably be anticipated to significantly affect the plan’s financial condition”, and that will be the rationale for the inclusion of any such risk identified. This will lead to a boilerplate disclosure that will add no value.
- It is not clear what type of disclosure is needed to satisfy the requirement to disclose “the actuary’s view of the significance of each identified risk”. The actuary is not required to provide a quantitative analysis, and the actuary has already decided that the risk may be significant enough to require assessment under section 3.3, and the results of that assessment have already been disclosed under section 4.1.a. We do not see how the actuary would further express a view of the significance of each such significant risk without (a) additional, non-helpful boilerplate or (b) quantification (or additional quantification) of risks.

In summary, we strongly recommend that the Actuarial Standards Board reconsider the entire premise of this standard. We believe that the guidance in pre-existing ASOPs should be recognized as more than sufficient in most cases, particularly for funding valuations that are already heavily regulated.

Thank you for this opportunity to comment on the Exposure Draft. If you have any questions concerning our comments, please contact either of us directly.

Sincerely,



Michael F. Pollack, FSA, EA, FCA
Senior Consulting Actuary
203 326 5469
mike.pollack@willistowerswatson.com



Maria M. Sarli, FSA, EA, FCA
U.S. Retirement Resource Actuary
404 365 1708
maria.sarli@willistowerswatson.com