



ACTUARIAL STANDARDS BOARD

**Actuarial Standard
of Practice
No. 51**

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

**Developed by the
Pension Committee of the
Actuarial Standards Board**

**Adopted by the
Actuarial Standards Board
September 2017**

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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: Actuarial Standard of Practice (ASOP) No. 51

Background

This document is the final version of ASOP No. 51, *Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions*.

The Pension Committee has been reviewing all of the pension-related standards and has developed this standard to provide guidance regarding the assessment and disclosure of pension risk as part of the larger review project. 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, periodic costs, actuarially determined contributions, or funded status. Section 4.1(r) of ASOP No. 4 requires disclosure that future pension measurements may differ significantly from the current measurement. 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 the additional guidance in this new standard expands on section 3.4.1 of ASOP No. 41 and sections 3.3.2, 3.16, 4.1(r) of ASOP No. 4. Additionally, the Pension Committee believes that the additional disclosures required by this standard will help the intended users of the actuarial findings gain a better understanding of risks inherent in the measurements of pension obligations and actuarially determined pension plan contributions.

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 were reflected in the second exposure draft.

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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 had 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.

Second Exposure Draft

The second exposure draft of this ASOP was issued in June 2016 with a comment deadline of October 31, 2016. The Pension Committee carefully considered the seventeen comment letters received. For a summary of issues contained in these comment letters, please see the appendix. Key changes made to the final standard in response to comment letters received on the second exposure draft include the following:

1. In section 2 of this standard, various definitions were copied from ASOP Nos. 4 and 41 for such terms that were used in this standard.
2. Contribution Risk was made a defined term and the definition was expanded.
3. The definition of a Funding Valuation in section 2.7 was clarified.
4. The guidance in section 3.2, Identification of Risks to be Assessed, was clarified to indicate that the actuary is not required “to evaluate the ability or willingness of the plan sponsor or other contributing entity to make contributions to the plan when due,” and is not required “to assess the likelihood or consequences of potential future changes in applicable law.”
5. Guidance was added in section 3.3, Assessment of Risk, to address a funding valuation or pricing valuation that includes multiple measurements.
6. The language in section 3.6, Additional Assessment of Risk, was modified, replacing “beneficial” with “significantly beneficial.”
7. The guidance in section 3.9, Reliance on a Separate Report, was clarified.
8. The disclosure requirements regarding the risks identified and the results of the risk assessment were clarified.
9. Section 4.1(f) was added, requiring the actuary to disclose “any limitations or constraints on the comprehensiveness of the risk assessment.”

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The Pension Committee thanks former committee chairperson Mita D. Drazilov and former committee members Fiona E. Liston, Mitchell I. Serota, Judy K. Stromback, and Virginia C. Wentz for their assistance with drafting this ASOP.

The ASB voted in September 2017 to adopt this standard.

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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.

ACTUARIAL STANDARD OF PRACTICE NO. 51

**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 defined benefit pension plan (hereafter referred to as “plan” or “pension plan”) and calculating **actuarially determined contributions** for such plans, with regard to the assessment and disclosure of the **risk** that actual future measurements may differ significantly from expected future measurements. Examples of future measurements include pension obligations, **actuarially determined contributions**, and **funded status**.

This standard supplements the guidance in actuarial standards of practice 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* addressing 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 also applies to actuaries when performing a **risk** assessment that is not part of a **funding valuation** or **pricing valuation**.

This standard does not apply to actuaries performing services in connection with applications for plan partitions or 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).

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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 November 1, 2018.

Section 2. Definitions

The terms below are defined for use in this actuarial standard of practice. Certain terms embedded within these definitions, and not used elsewhere in this ASOP, are defined in ASOP No. 4.

- 2.1 Actuarial Accrued Liability—The portion of the **actuarial present value** of projected benefits (and expenses, if applicable), as determined under a particular actuarial cost method that is not provided for by future **normal costs**. Under certain actuarial cost methods, the **actuarial accrued liability** is dependent upon the actuarial value of assets.
- 2.2 Actuarial Present Value—The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions with regard to future events, observations of market or other valuation data, or a combination of assumptions and observations.
- 2.3 Actuarially Determined Contribution—A potential payment to the plan as determined by the actuary using a **contribution allocation procedure**. It may or may not be the amount actually paid by the plan sponsor or other contributing entity.
- 2.4 Contribution Allocation Procedure—A procedure that uses an actuarial cost method, and may include an asset valuation method, an amortization method, and an output smoothing method, to determine the **actuarially determined contribution** for a plan. The procedure may produce a single value, such as **normal cost** plus an amortization payment of the unfunded **actuarial accrued liability**, or a range of values, such as the range from the ERISA minimum required contribution to the maximum tax-deductible amount.

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- 2.5 Contribution Risk—The potential of actual future contributions deviating from expected future contributions, for example, that actual contributions are not made in accordance with the plan’s funding policy, that withdrawal liability assessments or other anticipated payments to the plan are not made, or that material changes occur in the anticipated number of covered employees, covered payroll, or other relevant contribution base.
- 2.6 Funded Status—Any comparison of a particular measure of plan assets to a particular measure of plan obligations.
- 2.7 Funding Valuation—A measurement of pension obligations or projection of cash flows performed by the actuary intended to be used by the **principal** to determine plan contributions or to evaluate the adequacy of specified contribution levels to support benefit provisions.
- 2.8 Intended User—Any person the actuary identifies as able to rely on the actuarial findings.
- 2.9 Measurement Date—The date as of which the values of the pension obligations and, if applicable, assets are determined.
- 2.10 Normal Cost—The portion of the **actuarial present value** of projected benefits (and expenses, if applicable) that is allocated to a period, typically twelve months, under the actuarial cost method. Under certain actuarial cost methods, the **normal cost** is dependent upon the actuarial value of assets.
- 2.11 Participant—An individual who satisfies the requirements for participation in the plan.
- 2.12 Prescribed Assumption or Method Set by Another Party—A specific assumption or method that is selected by another party, to the extent that law, regulation, or accounting standards gives the other party responsibility for selecting such an assumption or method. For this purpose, an assumption or method set by a governmental entity for a plan that such governmental entity or a political subdivision of that entity directly or indirectly sponsors is deemed to be a **prescribed assumption or method set by another party**.
- 2.13 Pricing Valuation—A measurement of pension obligations or projection of cash flows performed by the actuary to estimate the impact of proposed changes to plan benefit provisions on the plan contributions or to determine whether the proposed benefit provisions are supportable by specified contribution levels.
- 2.14 Principal—A client or employer of the actuary.
- 2.15 Risk—The potential of actual future measurements deviating from expected future measurements resulting from actual future experience deviating from actuarially assumed experience. For purposes of this ASOP, **risk** includes **contribution risk**.
- 2.16 Scenario Test—A process for assessing the impact of one possible event, or several

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simultaneously or sequentially occurring possible events, on a plan's financial condition.

- 2.17 Sensitivity Test—A process for assessing the impact of a change in an actuarial assumption on an actuarial measurement.
- 2.18 Stochastic Modeling—A process for generating numerous potential outcomes by allowing for random variations in one or more inputs over time for the purpose of assessing the distribution of those outcomes.
- 2.19 Stress Test—A process for assessing 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** requires 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 Nos. 4, 27, 35, and 44. In the event of a conflict between the guidance provided in this ASOP and the ASOPs listed above, this ASOP would govern.

- 3.2 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. Examples of **risks** 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 and other demographic **risks** (i.e., the potential that mortality or other demographic experience will be different than expected); and
 - e. **contribution risk**.

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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. This standard does not require the actuary to assess the likelihood or consequences of potential future changes in applicable law. In addition, the actuary is not expected to provide investment advice.

- 3.3 Assessment of Risk—The actuary should assess the **risks** identified by the actuary in accordance with section 3.2, including the potential effects of the identified **risks** on the plan’s future financial condition. The assessment should take into account circumstances specific to the plan (for example, funding policy, investment policy, **funded status**, or plan demographics). This standard does not require the assessment to be based on numerical calculations.

A **funding valuation** or **pricing valuation** as of a particular **measurement date** may include multiple measurements that may be prepared at the same time or at different times. The actuary may perform a single **risk** assessment for such **funding valuation** or **pricing valuation** if, in the actuary’s professional judgment, that **risk** assessment is appropriate for all measurements in the **funding valuation** or **pricing valuation**.

- 3.4 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 an **actuarial present value** using a discount rate derived from minimal-risk investments to a corresponding **actuarial 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.

- 3.5 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. 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.

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- 3.6 Additional Assessment of Risk—If, in the actuary’s professional judgment, a more detailed assessment would be significantly 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 size of the plan relative to the size of the plan sponsor;
 - d. the maturity of the plan;
 - e. the **funded status** of the plan;
 - f. the plan’s asset allocation;
 - g. any relevant characteristics of the **contribution allocation procedure** or other method for determining contributions, such as a significantly backloaded **contribution allocation procedure**;
 - h. 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;
 - i. the length of time since the last such assessment; and
 - j. any significant changes in circumstances since the last such assessment.
- 3.7 Plan Maturity Measures—In addition to the requirements of section 3.3, 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 active **participant** payroll;
 - b. the ratio of retired life **actuarial accrued liability** to total **actuarial accrued liability**;
 - c. the ratio of a cash flow measure (such as benefit payments, or contributions less benefit payments) to market value of assets;
 - d. the ratio of benefit payments to contributions; and

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- 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, if any, 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** identified in accordance with section 3.2. Examples of such actuarial measurements include the following, expressed as dollar amounts, percentages, or in some other form, as appropriate:

- a. plan maturity measures;
- b. **funded status**;
- c. **actuarially determined contribution**;
- d. actuarial gains and losses (investment and non-investment);
- e. **normal cost**; and
- f. 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 and historical period 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—One or more **risks** identified by the actuary in accordance with section 3.2 may have been assessed by another party (for example, by

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another actuary or by an investment advisor). In these situations, the actuary may rely on the assessment of **risk** prepared by another party to partly or fully satisfy the requirements of this standard if, in the actuary's professional judgment, such assessment is consistent with applicable requirements of this standard.

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 **risks** identified in accordance with section 3.2 and the results of the **risk** assessment performed in accordance with section 3.3, including plan-specific commentary on the potential effects of the identified **risks** on the plan's future financial condition and the specific circumstances applicable to the plan that were taken into account;
 - b. if applicable, a description of each significant method or assumption upon which the actuary's **risk** assessment depends, in accordance with sections 3.4 and 3.5;
 - c. if applicable, a recommendation to the **intended user** that a more detailed assessment be performed, in accordance with section 3.6;
 - d. 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 active **participant** 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 a cash flow measure to market value of assets, the actuary could describe how negative cash flow may amplify investment **risk**;
 - iv. if the actuary discloses the ratio of benefit payments to contributions, where contribution rates are fixed, the actuary could describe the

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dependence upon stable investment returns to continue to provide benefits;
and

- v. if the actuary discloses the duration of the **actuarial accrued liability**, the actuary could describe the sensitivity of the liability to changes in interest rates.
- e. 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**; and
- f. any limitations or constraints on the comprehensiveness of the **risk** assessment.

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

- 4.2 Disclosure about Prescribed Assumptions or Methods—The actuary’s communication should state the source of any prescribed assumptions or methods used in the assessment of **risk**.

With respect to **prescribed assumptions or methods set by another party**, the actuary’s communication should identify the following, if applicable:

- a. any **prescribed assumption or method set by another party** that significantly conflicts with what, in the actuary’s professional judgment, would be reasonable for the purpose of the measurement; or
- b. any **prescribed assumption or method set by another party** that the actuary is unable to evaluate for reasonableness for the purpose of the measurement.

- 4.3 Additional Disclosures—The actuary should also include the following, as applicable, in an actuarial communication:

- a. 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 set by a party other than the actuary; and
- b. 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.

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

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Appendix

Comments on the Second Exposure Draft and Responses

The second exposure draft of the ASOP, *Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions*, was issued in June 2016 with a comment deadline of October 31, 2016. Seventeen 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 changes proposed by the Pension Committee.

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

The term “reviewers” in the appendix includes the Pension Committee and the ASB. Also, unless otherwise noted, the section numbers and titles used in the appendix refer to those in the second exposure draft.

GENERAL COMMENTS	
Comment	Two commentators stated that the standard requires work that is either not sufficiently useful or too difficult to be appropriate practice.
Response	The reviewers disagree and believe that the requirements of the standard strike an appropriate balance between practical considerations and detailed analyses. Therefore, the reviewers made no change in response to these comments.
Comment	Two commentators suggested that the standard should require more detailed and numerical assessment of risks.
Response	The reviewers disagree and believe that the standard strikes an appropriate balance between the costs and the benefits of the assessment and disclosure of risks. Therefore, the reviewers made no change in response to these comments.
Comment	Two commentators suggested that the requirements of the standard will result in boilerplate language that provides no benefit to intended users.
Response	The reviewers believe that the requirements of the standard will result in the provision of useful information and made no change in response to these comments.
Comment	One commentator suggested that the standard will increase the actuary’s potential exposure in litigation.
Response	The reviewers believe that the requirements of the standard are appropriate and made no change in response to this comment.

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Comment	Several commentators noted that the balance between practical considerations and detailed analyses in this standard is improved from the first exposure, that aspects of this standard strike an appropriate balance, or that portions of the standard provide useful guidance.
Response	The reviewers agree and left these aspects of the guidance substantively unchanged.
Comment	One commentator suggested that the standard acknowledge how risk varies for smaller plans.
Response	The reviewers acknowledge that risks may vary depending on multiple factors including plan size, but believe that the standard provides appropriate guidance for practice relating to all sizes of pension plans and made no changes in response to this comment.
Comment	One commentator suggested that the scope of the standard should include actuarial valuations prepared exclusively for financial reporting.
Response	The reviewers believe that the limitation of the scope to funding valuations and pricing valuations strikes an appropriate balance between the costs and the benefits of the assessment and disclosure of risks. The reviewers note that accounting valuations were included in the scope in the first exposure draft and were removed in response to comments.
Comment	Two commentators requested that the definition of “intended user” be expanded for the purpose of this standard.
Response	The reviewers believe that the meaning of “intended user” in ASOP No. 41, <i>Actuarial Communications</i> , is appropriate for this standard and incorporated that definition into this standard.
Comment	One commentator requested examples of assessment and disclosure of risk.
Response	The reviewers believe that codification of examples of compliance is beyond the intended purpose of this standard and made no change in response to this comment.
Comment	One commentator suggested development of a similar standard for OPEB plans.
Response	The reviewers note that future standards may address the assessment of risk for OPEB plans.
SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE	
Section 1.1, Purpose	
Comment	One commentator suggested adding language clarifying whether the ASOP applies to public plans, private plans, or both, and suggested adding a definitive statement that the ASOP does not apply to OPEB valuations.
Response	The reviewers note that the ASOP applies to “defined benefit pension plans,” and that section 1.2 states that the standard “does not apply to actuaries performing services in connection with other post-employment benefits such as medical benefits.” Accordingly, the reviewers made no changes in response to this comment.
Section 1.2, Scope	
Comment	Several commentators requested clarification that the ASOP does not apply to valuations for the purposes of accounting for the plan under the appropriate accounting standards.
Response	The reviewers agree and deleted the reference to “periodic cost” in the definition of pricing valuation.

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Comment	One commentator suggested that an evaluation of the ability of the plan sponsor or other contributing entity to make contributions to the plan when due is a credit risk, and the actuary should receive a reliance letter stating that the party responsible for making contributions agrees with the contribution assumptions included in the funding or pricing valuation.
Response	The reviewers disagree and made no change.
Comment	One commentator 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.”
Response	The reviewers agree and made the change in section 3.2 of this standard, Identification of Risks to be Assessed.
Comment	One commentator noted that the standard excludes services in connection with benefit suspension applications under the Multiemployer Pension Relief Act of 2014 (MPRA), and suggested that the consulting work prior to the preparation of such an application would greatly benefit from risk assessments and disclosures. The commentator went on to suggest that if the rationale for the exclusion is that the format of the application itself is prescribed, then it would be appropriate to exclude all funding valuations and pricing valuation where the format is prescribed by law.
Response	The reviewers note that the benefit suspension submission under MPRA already requires a risk assessment and made no change to the ASOP.
Comment	Two commentators suggested that the purpose and scope of the ASOP should make it clear that a risk assessment is not required when an actuary communicates results that are solely intended to satisfy a government filing requirement.
Response	The reviewers agree and clarified the definition of a funding valuation in section 2.1, Funding Valuation (now section 2.7).
Comment	One commentator suggested alternative language to resolve any ambiguity regarding the required risk assessments and prevent unnecessary repetition of disclosures and analyses when a valuation consists of multiple calculations and certifications that occur during a year.
Response	In response to this comment, the reviewers modified section 3.3 of this standard, Assessment of Risk, by adding “A funding valuation or pricing valuation as of a particular measurement date may include multiple measurements that may be prepared at the same time or at different times. The actuary may perform a single risk assessment for such funding valuation or pricing valuation if, in the actuary’s professional judgment, that risk assessment is appropriate for all measurements in the funding valuation or pricing valuation.”
Comment	One commentator requested an explicit statement in section 1.2, Scope that excludes withdrawal liability valuations from the scope of the standard so as to remove any ambiguity on this issue.
Response	The reviewers disagree that withdrawal liability measurements should be explicitly excluded from the scope of the ASOP and did not make a change in response to this comment. However, the reviewers modified language in section 3.3, Assessment of Risk, to read “A funding valuation or pricing valuation as of a particular measurement date may include multiple measurements that may be prepared at the same time or at different times. The actuary may perform a single risk assessment for such funding valuation or pricing valuation if, in the actuary’s professional judgment, that risk assessment is appropriate for all measurements in the funding valuation or pricing valuation.”

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SECTION 2. DEFINITIONS	
Comment	Two commentators suggested that for terms used in this standard that are defined in ASOP No. 4, <i>Measuring Pension Obligations and Determining Pension Plan Costs or Contributions</i> , the definitions from ASOP No. 4 be incorporated in this standard.
Response	The reviewers agree and included additional definitions in the standard.
Section 2.1, Funding Valuation (now section 2.7)	
Comment	One commentator suggested that if multiple funding valuations are delivered to the plan sponsor as part of the same report, an actuary should generally not be required to perform risk assessments on each funding valuation and any required risk assessment should be performed on the funding valuation that the plan sponsor relies on the most to determine the employer contribution.
Response	The reviewers agree and modified section 3.3, Assessment of Risk, to read “A funding valuation or pricing valuation as of a particular measurement date may include multiple measurements that may be prepared at the same time or at different times. The actuary may perform a single risk assessment for such funding valuation or pricing valuation if, in the actuary’s professional judgment, that risk assessment is appropriate for all measurements in the funding valuation or pricing valuation.”
Comment	Two commentators suggested that the definition should make it clear that the scope of the ASOP includes a report that is a periodic review of a fixed-rate contribution level (e.g., where the contribution is fixed by law and the effective amortization period is calculated).
Response	The reviewers agree and modified the definition to include evaluation of “the adequacy of specified contribution levels to support benefit provisions.”
Comment	Several commentators suggested clarifying the definition of funding valuation to include cash flow projections used to determine contributions or the solvency of the plan.
Response	The reviewers agree and modified the definition.
Comment	Several commentators suggested that the reference to determination of minimum required contributions under ERISA should be clarified or deleted to avoid limiting the scope to such valuations.
Response	The reviewers agree that the reference to ERISA did not improve the guidance and deleted that reference.
Section 2.2, Pricing Valuation (now section 2.13)	
Comment	Several commentators requested clarification on whether the ASOP applies to valuations for the purposes of accounting for the plan under the appropriate accounting standards, noting that the definition included the term “periodic cost.”
Response	The reviewers clarified the language by deleting the reference to “periodic cost.”
Comment	One commentator suggested a clarification that cash flow projections may be considered a pricing valuation.
Response	The reviewers agree and modified the definition.
Section 2.3, Risk (now section 2.15)	
Comment	One commentator made extensive suggestions regarding the definition of risk, proposing multiple specific types of risk.
Response	The reviewers believe that the current structure is appropriate and did not incorporate the proposed changes. The reviewers note that a separate definition of contribution risk is now included in the ASOP.

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Comment	One commentator suggested that the definition of risk should include the risk that contribution increases may be large and difficult for the plan sponsor and that a plan sponsor's contribution behavior may be different than expectations.
Response	The reviewers believe that the definition of contribution risk is sufficiently broad, and made no change in response to this comment.
Section 2.6, Stochastic Modeling (now section 2.18)	
Comment	One commentator suggested replacing “estimating distributions” with “assessing the range and probabilities” to make the section parallel to the definitions of scenario test, sensitivity test, and stress test.
Response	The reviewers considered the language in this section in response to this comment but did not believe it needed to be made parallel. However, the reviewers modified the definition to read “A process for generating numerous potential outcomes by allowing for random variations in one or more inputs over time for the purpose of assessing the distribution of those outcomes.”
Section 2.7, Stress Test (now section 2.19)	
Comment	Several commentators suggested replacing “measuring” with “assessing” to make the section consistent with the definitions of scenario test, sensitivity test, and stochastic modeling.
Response	The reviews agree and made the change.
Comment	Two commentators noted that the definition in the exposure draft is the only one that focuses only on adverse changes instead of both favorable and unfavorable outcomes. One of these commentators suggested changing “adverse” to “significant” accordingly.
Response	The reviewers agree that stress test is the only method discussed in the standard that focuses on adverse outcomes, but believe the definition is appropriate, and made no change.
SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES	
Section 3.2, Assessment of Risk (now section 3.3)	
Comment	One commentator suggested that this section should include additional commentary regarding quantitative versus qualitative assessments.
Response	The reviewers note that the ASOP does not require the assessment to be based on numerical calculations, leaves the methods for assessing risk to the actuary's professional judgment, and makes no distinction between qualitative and quantitative assessments. Such distinctions were removed in response to comments on the first exposure draft. Therefore, the reviewers made no change in response to this comment.
Comment	One commentator suggested that risks should be prioritized as to their impact on the balance sheet.
Response	The reviewers believe that the guidance is appropriate, and made no change.
Comment	One commentator suggested that the requirement that the “assessment should take into account circumstances applicable to the plan” required consideration of each of the circumstances that followed in the parenthetical list.
Response	The reviewers note that the parenthetical list contains examples, not requirements, and made no change.

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Comment	Two commentators suggested that the order of section 3.2 and 3.3 be reversed so that the actuary is directed to identify the risks before being directed to assess them. One commentator also suggested that the first sentence be revised to require the actuary to assess the risks (rather than “include an assessment”) so that this section is not a disclosure requirement.
Response	The reviewers agree and made the changes.
Section 3.3, Identification of Risks to be Assessed (now section 3.2)	
Comment	One commentator suggested removing from the definition of contribution risk the potential that the funding policy is not consistent with an actuarially determined contribution and noted that ASOP No. 4 already requires the actuary to qualitatively assess the implications of the funding policy.
Response	The reviewers agree that the ASOP No. 4 requirement is sufficient, and removed the phrase from the definition of contribution risk.
Comment	Several commentators suggested that contribution risk be separately defined in section 2, and that the definition of risk in section 2.3 (now section 2.15) should be expanded to explicitly cover contribution risk.
Response	The reviewers agree with the suggestions, and made the changes.
Comment	One commentator suggested that the definition of risk should be expanded to include unpaid withdrawal liability.
Response	The reviewers agree and included withdrawal liability assessments in new section 2.5, Contribution Risk.
Comment	One commentator suggested that the definition of risk should be clarified to indicate whether or not model risk is included, given that there is an exposure draft on modeling and the possibility that the two standards could conflict.
Response	The reviewers believe that the actuary should use professional judgment in selecting the risks to be assessed and made no change in response to this comment. The reviewers note that the proposed Modeling ASOP (if adopted by the ASB) may provide additional guidance concerning assessment and disclosure of model risk.
Comment	Several commentators suggested that the language “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” be revised so that the actuary is not required to assess “the ability or willingness” to make a contribution when due or the “likelihood that contributions will be made.”
Response	The reviewers agree and modified the language accordingly.
Comment	One commentator suggested that the list of examples in this section be moved outside the body of the standard or deleted entirely to avoid limiting actuaries’ considerations to the risks included in the list.
Response	The reviewers believe that the inclusion of examples in the standard is appropriate and clarified the language.
Comment	One commentator suggested replacing contribution risk with legislative risk in the list of examples.
Response	The reviewers disagree. In addition, the reviewers modified the language in new section 3.2, Identification of Risks to be Assessed, to include the following: “This standard does not require the actuary to assess the likelihood or consequences of potential future changes in applicable law.”

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Comment	One commentator noted that another ASOP already requires the actuary to disclose if the contribution allocation procedure is inconsistent with accumulating sufficient assets to make benefit payments when due and requested clarification about the distinction between that requirement and the assessment of contribution risk.
Response	As the commentator notes, ASOP No. 4 requires the actuary to disclose if the “contribution allocation procedure is significantly inconsistent with the plan accumulating adequate assets to make benefit payments when due.” Section 2.5, Contribution Risk, of this ASOP, defines contribution risk to include the potential “that actual contributions are not made in accordance with the plan’s funding policy.” The reviewers believe the distinction between the two is clear and made no change in response to this comment.
Comment	One commentator suggested that the only way to determine whether risks are material is to perform a robust stochastic analysis.
Response	The reviewers disagree and made no change in response to this comment.
Comment	One commentator suggested that the ASOP specify that each assumption used in the valuation should be reviewed to determine whether variance in that assumption could affect the plan’s funded status in an important way. The commentator also proposed adding a list of factors the actuary might consider in determining the relevance of a risk.
Response	The reviewers believe the use of professional judgment in identifying significant risks is appropriate, and made no change in response to this comment.
Comment	One commentator noted that ASOP No. 1, <i>Introductory Actuarial Standard of Practice</i> , indicates “significance can have different meanings” and suggested that “significance” should be clarified to emphasize relevance instead of size.
Response	The reviewers believe that the identification of risks that “may reasonably be anticipated to significantly affect the plan’s future financial condition” should be based on the actuary’s professional judgment, and made no change.
Comment	One commentator suggested that it may be appropriate for the actuary to specifically identify assumptions the actuary believes to be insignificant.
Response	The reviewers believe the guidance requiring actuaries to identify significant risks is appropriate and made no change.
Comment	One commentator suggested that the last sentence in the first paragraph be clarified to indicate that the listed risks are only examples.
Response	The reviewers agree and revised the language.
Comment	Several commentators suggested adding demographic risk to the list of examples.
Response	The reviewers agree and made the change.
Comment	One commentator suggested that it would be appropriate to disclose that multiple individual risks may combine to produce an extreme result or that leveraging might result in a small change in one measurement leading to a large change in contributions or other measurements.
Response	The reviewers note that nothing in the standard precludes the actuary from identifying the impact of risks in combination. In regards to leveraging, the reviewers note that section 3.2 reads “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 added section 4.1(f), which states that the actuary disclose “any limitations or constraints on the comprehensiveness of the risk assessment.”

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Section 3.4, Assumptions for Assessment of Risk (now section 3.5)	
Comment	One commentator suggested that empirical data be used to select assumptions rather than using professional judgment.
Response	The reviewers note that the section Assumptions for Assessment of Risk reads “The assumptions used for assessment of risk may be based on economic and demographic data and analyses,” but believe “the actuary should use professional judgment in selecting [these] assumptions” and made no change in response to this comment.
Comment	Two commentators suggested the term “plausible” is not clear and also that implausible outcomes should be considered.
Response	The reviewers believe the term “plausible,” combined with the requirement for the actuary to use professional judgment, is appropriate for this standard and made no change in response to this comment.
Comment	Two commentators suggested the order of sections 3.4 and 3.5 be reversed.
Response	The reviewers agree and made the change.
Comment	One commentator suggested removing the sentence “The actuary may benefit from becoming familiar with a range of views on the factors underlying each assumption.”
Response	The reviewers agree and made the change.
Section 3.6, Additional Assessment of Risk	
Comment	Several commentators agreed with the proposed guidance on additional assessment of risk.
Response	The reviewers left section 3.6 substantially the same as in the second exposure draft but made edits to reflect specific suggestions from other commentators, as described in the remainder of these responses.
Comment	One commentator opposed the requirements of this section and believed that the recommendations for additional assessments will have little effect on whether more detailed risk assessments are performed.
Response	The reviewers disagree and made no change in response to this comment.
Comment	One commentator suggested the term “intended user” should not extend beyond the plan sponsor.
Response	The reviewers clarified the term by adding the definition of “intended user” from ASOP No. 41.
Comment	Several commentators suggested softening the requirement to state that the actuary should recommend “consideration” of a more detailed assessment instead of recommending the assessment.
Response	The reviewers believe the current language is appropriate and made no change.
Comment	Several commentators suggested changing “beneficial” to something that would reduce the frequency of such recommendations.
Response	The reviewers changed “beneficial” to “significantly beneficial” in response to these comments.

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Comment	One commentator suggested that the absolute “size of the plan” is not an appropriate factor to consider, one commentator suggested that “size of the plan” should be replaced with “size of the plan relative to the plan sponsor,” and a third commentator requested clarification of how size should be determined.
Response	The reviewers believe that plan size is an appropriate factor for the actuary to consider in determining whether a more detailed assessment would be significantly beneficial to the intended user and that the measurement of plan size should be left to the professional judgment of the actuary. Therefore, the reviewers did not alter or remove plan size from the factors to be given consideration. The reviewers added “size of the plan relative to the size of the plan sponsor” to the list of considerations.
Comment	One commentator suggested expanding the reference to contribution allocation procedure to include “any other method for determining actual contributions, such as a significantly backloaded contribution allocation procedure.”
Response	The reviewers agree and modified the language.
Section 3.7, Plan Maturity Measures	
Comment	Several commentators suggested prioritizing certain plan maturity measures, providing flexibility regarding the selection of plan maturity measures to be disclosed, or additions to, deletions from, or reordering of the list of examples.
Response	The reviewers note that the listed measures are labeled “examples,” clarified some, and modified the language in the standard to “Since various plan maturity measures may convey similar information about risk, the actuary should use professional judgment in selecting the plan maturity measures, if any, to calculate and disclose.” The reviewers believe this language provides appropriate flexibility.
Comment	One commentator suggested “plan maturity” be defined.
Response	The reviewers believe the examples provide sufficient guidance and made no change.
Comment	One commentator suggested “payroll” be clarified.
Response	The reviewers agree and clarified the example.
Comment	One commentator suggested “net cash flow” be clarified.
Response	The reviewers agree, changed “net cash flow” to “a cash flow measure,” and provided examples.
Comment	One commentator asked if plan maturity measures can be provided orally and whether commentary is required if the actuary believes that no plan maturity measures are relevant to understanding the risks in the plan.
Response	The reviewers believe that ASOP No. 41 provides sufficient guidance on oral communications. The reviewers added “if any” to encompass the possibility that no plan maturity measures are relevant to understanding the risks associated with the plan.
Comment	One commentator believed that the requirement to disclose plan maturity measures provides a reasonable balance between highlighting the inherent variability of actuarial measurements and imposing unnecessary costs on plan sponsors and risks on the actuary.
Response	The reviewers agree and retained the requirement.

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Section 3.8, Historical Information	
Comment	Several commentators indicated that disclosure of the historical information in section 3.8 is appropriate to assist intended users in understanding the risks associated with the plan. One commentator indicated that the requirement to disclose historical information provides a reasonable balance between highlighting the inherent variability of actuarial measurements and imposing unnecessary costs on plan sponsors and risks on the actuary.
Response	The reviewers agree and retained the requirement.
Comment	One commentator suggested that there should be commentary relating to the investment returns of the assets supporting the plan.
Response	The reviewers agree that investment returns may be relevant historical information and added the parenthetical phrase “(investment and non-investment)” following “actuarial gains and losses” in the list of examples.
Comment	One commentator disagreed that professional judgment should be used to select which historical measures to disclose.
Response	The reviewers disagree and made no change in response to this comment.
Comment	Several commentators suggested that maturity measures should be included among the examples of historical information that might be disclosed.
Response	The reviewers agree and added maturity measures to the examples.
Comment	One commentator felt that the disclosure of historical values should only be required if such disclosure was significant to understanding material risks associated with the plan.
Response	In response to this comment, the reviewers clarified the language to refer to historical values that, “in the actuary’s professional judgment, are significant to understanding the risks identified in accordance with section 3.2 [Identification of Risks to be Assessed],” which refers to “risks that, in the actuary’s professional judgment, may reasonably be anticipated to significantly affect the plan’s future financial condition.”
Comment	One commentator believed that the term “normal cost” should be expanded to include service cost and target normal cost.
Response	The reviewers note that the list in this section is of examples and that other examples not included may also be appropriate. Therefore, the reviewers made no change in response to this comment.
Comment	One commentator believed that a requirement to include commentary about the significance of the disclosed information may lead to burdensome research and voluminous commentary, and the actuary should only be required to consider providing such commentary.
Response	The reviewers disagree and made no change in response to this comment.
Comment	Two commentators requested guidance on determining the length of the historical period to be disclosed. One of them suggested that professional judgment should be used.
Response	The reviewers agree and clarified the guidance to indicate that the actuary should use professional judgment in selecting the historical period to disclose.
Comment	One commentator requested guidance on reliance on historical information that was not prepared by the actuary.
Response	The reviewers note that ASOP No. 41 provides guidance if the actuary relies on other sources and made no change in response to this comment.

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Comment	One commentator suggested that other historical information should be limited to quantitative and not behavioral information and should relate specifically to the plan.
Response	The reviewers believe the guidance is appropriate and made no change in response to this comment.
Section 3.9, Reliance on a Separate Report	
Comment	Two commentators asked for clarification that an actuary can also rely on a previous or separate report prepared by the actuary.
Response	The reviewers did not change section 3.9 in response to this request for clarification because section 3.9 addresses a separate report in which risks “may have been assessed by another party.” The reviewers believe the guidance in section 3.2, Actuarial Report, of ASOP No.41 is sufficiently clear. However, the reviewers clarified the language in section 4.1, Disclosures, by moving the reference to “information contained in another actuarial communication” to follow the reference to “a separate report that the actuary has relied on (in accordance with section 3.9).”
Comment	Several commentators stated that it was not clear what type of report would meet this requirement, how the actuary would determine what would be consistent with what the actuary would have produced for a given risk, and whether the actuary could rely on a separate report.
Response	In response to these comments, the reviewers revised the language in this section to read “One or more risks identified by the actuary in accordance with section 3.2 may have been assessed by another party (for example, by another actuary or by an investment advisor). In these situations, the actuary may rely on the assessment of risk prepared by another party to partly or fully satisfy the requirements of this standard if, in the actuary’s professional judgment, such assessment is consistent with applicable requirements of this standard.”
SECTION 4. COMMUNICATIONS AND DISCLOSURES	
Section 4.1, Disclosures	
Comment	One commentator suggested that the disclosures required were unduly burdensome and appear to implicitly require quantification of risks.
Response	The reviewers note that the disclosures are required only when relevant and material, and that the standard does not require that the assessment be based on numerical calculations. Therefore, the reviewers made no change in response to this comment.
Comment	Several commentators believed that the requirement to provide a rationale for selecting each risk is not useful or that that the requirement to disclose the actuary's view of the significance of each identified risk is unclear.
Response	The reviewers agree and removed the language referring to the rationale for selecting a risk and the actuary’s view of the significance of each identified risk. The reviewers added a statement to section 4.1(a) that reads “including plan-specific commentary on the potential effects of the identified risks on the plan’s future financial condition and the specific circumstances applicable to the plan that were taken into account.”
Comment	One commentator suggested that an additional disclosure be added to make it clear that the actuary will not know in advance which assumptions will have the largest effect on future measurements and that the descriptions of risks are not intended to be exhaustive or precise.
Response	In response to this comment, the reviewers added a requirement that the actuary disclose “any limitations or constraints on the comprehensiveness of the risk assessment.”

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Comment	One commentator suggested that the examples of plan maturity measures in section 4.1(d) be deleted due to the cost of maintaining all of these measures.
Response	The reviewers note that the measures and related commentary are examples. The reviewers also note that section 3.7, Plan Maturity Measures reads “Since various plan maturity measures may convey similar information about risk, the actuary should use professional judgment in selecting the plan maturity measures, if any, to calculate and disclose.” Therefore, the reviewers retained examples.
Comment	One commentator suggested that the standard include commentary about who computed the maturity measures if they were provided by another party.
Response	The reviewers added language at the end of section 4.1, Disclosures, to clarify references to other reports or communications. The reviewers also note that ASOP No. 41 provides guidance when an actuary relies upon the work of another party.
Section 4.2, Deviation from Guidance in the Standard (now Disclosure about Prescribed Assumptions or Methods)	
Comment	Several commentators suggested that the distinction in ASOP No. 4 between “prescribed assumption or method set by law” and “prescribed assumption or method set by another party” should be carried over to this standard.
Response	The reviewers agree and made the suggested changes.
Comment	One commentator requested clarification of the treatment of prescribed assumptions and methods.
Response	The reviewers modified the language regarding prescribed assumptions or methods to be consistent with ASOP No. 4.