

**Comment #1 – 5/18/18 – 5 p.m.**

This email presents my comments on the proposed revision to ASOP 35. I emphasize that my comments are personal and do not necessarily represent the views of my employer or of any actuarial body of which I am a member. I am a Fellow of the Institute of Actuaries (London), a Fellow of the Society of Actuaries, An Enrolled Actuary, and a member of the American Academy of Actuaries.

In general, I have presented my comments in the order in which an issue appears in the exposure draft and describe each issue as a “part,” regardless of if the wording applies to a section, paragraph, subparagraph, or text with another name.

1 The ability of myself, other actuaries, and other interested parties to comment on this proposed revision would be greatly enhanced – to a minimum acceptable level – if the ASB issued a red line version of the proposed revision, using strikeout font for text in the original that the ASB proposes to remove and by using *italic*/different color font for text the ASB proposes to add. Such a version is essential for us to make a reasonable review of the changes and to catch areas where the changes appear to need further revision or removal. I urge the ASB to provide red line versions for all future proposed revisions of ASOPs and to provide red line versions of all current draft ASOPs that are proposed revisions of existing ASOPs.

2 I urge removal of 1.1.d. – a new part that indicates a purpose being to supplement the guidance in ASOP No. 34 relating to the selection of economic assumptions for these reasons:

- The first paragraph of Part 1.2, which is unchanged, excludes the use of this ASOP for measurement of individual benefit calculations. The demographic assumptions used for calculations in Domestic Relations Orders almost always relate to individual benefit calculations. It is inappropriate to modify ASOP 35 to include a specific kind of individual benefit calculation when all other individual benefit calculations are excluded.
- Any revision in guidance on Domestic Relations Orders belongs solely in ASOP 34. If the ASB believes the ASOPs should include additional guidance on the selection of demographic assumptions for Domestic Relations Orders, it should propose changes to ASOP 34, not to any other ASOP.

3 I urge removal of the new penultimate paragraph of part 1.2 “The standard also applies whenever the actuary has an obligation to assess the reasonableness of an economic assumption that the actuary has not selected.” My reasons appear in my discussion of part 4.1.2.

4 I urge removal of part 3.4 ASOPs are intended for use by qualified actuaries. This addition is a “paint by the numbers” approach to guidance, appropriate for an actuarial textbook, blog, or informal presentation, but not appropriate for an ASOP. The wording of the existing ASOP requires the actuary to select reasonable assumptions at each measurement date; nowhere did it excuse an actuary from doing so for any reason. 3.4 adds nothing worthwhile to the ASOP; by omitting any reference to phasing in of assumptions chosen by a party other than the actuary, this new part suggests, contrary to later

wording, that the actuary need not be concerned about the reasonableness of assumptions at each measurement date when a party other than the actuary selects a phase in of assumptions. The part has no merit. Consistent with this comment on 3.4, I urge a thorough review and pruning of the entire ASOP to remove or shorten the many places where the ASOP provides guidance more suitable to a textbook for new actuaries than for a standard for qualified actuaries. In many places, the wording is prescriptive.

5 The proposed expansion of 3.5.3 on Mortality is unnecessary – the ASOP is better without it.

6 The proposed revision to 4.1.2 directly conflicts with ASOP 41 part 3.4.4 b. 1. , which reads: If a material assumption or method is selected by another party...[and] If the assumption or method does not conflict significantly with what, in the actuary’s professional judgment, would be reasonable for the purpose of the assignment, the actuary has no disclosure obligation.

- a. Nothing in ASOP 35 makes its wording override ASOP 41
- b. Any proposed change to any ASOP that conflicts with ASOP 41 should not appear without coincident proposed revision to ASOP 41
- c. A frequent situation where a party other than the actuary chooses demographic assumptions relates to the withdrawal rates, and retirement rates in actuarial measurements for accounting purposes. In many such situations, the party that sets the assumptions is the plan sponsor based on confidential information on planned changes in personnel, plant closures, windows, RIFs, and CICs. The ASOP maintains the absolute requirement to protect confidential information. If adopted, this proposed change will result in a sentence in many affected SAOs along the lines of “The actuary believes the demographic assumptions selected by NAME to be reasonable, but is prohibited from providing any rationale for such belief due to the confidential nature of the information provided to the actuary by NAME in support of such assumptions.”
- d. The proposed requirement is a fishing expedition, which increases the risk to every actuary subject to this ASOP of being sued by an interested party for having published two or more apparently contradictory rationales for considering different assumptions reasonable in different situations. This proposal is not so much the start of a slippery slope as a plank it forces actuaries to walk and almost inevitably fall from into a litigious swamp.
- e. Missing from the proposed revision is any change to 4.2.a. The ASOP should apply consistent rules on the an actuary’s obligation to provide a rationale for (a) considering an assumption reasonable and (b) considering an assumption not reasonable. So long as an actuary has no obligation to provide a rationale for considering an assumption chosen by another party to be not reasonable, so the actuary should have no obligation to provide a rational for considering an assumption chosen by another party to be reasonable.

Meetings of the ASB and of the ASB Pension Committee that will discuss the comments on this proposed revision will be under different rules from those that applied in the past. The meeting chair can now prohibit attendance by anyone for any reason and for no reason. The ASB should have sought input from the Academy membership before piggybacking on the changes adopted for Academy board and committee meetings. I urge the ASB, as a separate entity from the AAA, to sever its meeting attendance policy from the policy for the Academy meetings and adopt a modern web-based attendance policy that would make live webcasts of all ASB board and committee meetings (similar to C-Span) readily accessible to anyone, and to provide an accessible library of recordings of past such meetings. I am confident the ASB could provide appropriate rules for those rare situations where the confidential nature of some discussion merits in-camera treatment. The ASB refuses to post or consider anonymous comment communications on draft ASOPs. The ASB and its pension committee should not adopt a “do as I say, not as I do” approach, by holding meetings that those interested in the ASOP have no guarantee of attending (thereby, being unable to identify the people on the committee or board whose comments lead to welcome or unwelcome changes).

An unresolved conflict of interest could exist if an actuary’s work on the ASB or any ASB committee could affect (a) any client of the actuary, or (b) any other direct or indirect financial interest of the actuary. I urge the ASB to publish standard signed statements by each member of the ASB and of each of its committees prior to participating in any ASB-related meeting that attest to (a) having received approval from each client to perform work on the ASB or ASB committee at that meeting regardless of if that work affects that client and (b) having no material conflict of interest in any other matter in relation to ASB board or committee work.

Best Wishes

Jan Harrington



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July 19, 2018

Via e-mail [comments@actuary.org](mailto:comments@actuary.org)

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

Re: Comments on exposure drafts for Actuarial Standards of Practice (ASOPs) 4, 27 and 35

Dear Members of the Actuarial Standards Board (ASB) and the Pension Committee of the ASB

The Society of Actuaries (SOA) Board of Directors submits these comments to the exposure drafts of ASOPs 4 (*Measuring Pension Obligations and Determining Pension Costs or Contributions*), 27 (*Selection of Economic Assumptions for Measuring Pension Obligations*), and 35 (*Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations*). The SOA Board thanks the ASB and the Pension Committee of the ASB (Pension Committee) for their work in reflecting the recommendations of the *Report of the Pension Task Force of the Actuarial Standards Board*, dated February 29, 2016 in the exposure drafts for ASOPs 4, 27 and 35. The Pension Task Force report represented a significant amount of time spent by the ASB listening to the pension community and reflecting on the role of pension standards. It is heartening to see that work reflected in the exposure drafts of ASOPs 4, 27 and 35. The SOA Board urges the Pension Committee to substantively maintain these changes to these ASOPs.

The SOA Board acknowledges the importance of the newly defined Investment Risk Defeasement Measure disclosure for funding valuation reports (ASOP 4 Exposure Draft, section 3.11). The Pension Task Force report cited the importance of introducing a required market-based measure to provide clarity and context to funding values, provide information about risk not found in other measures, and incorporate into actuarial science the best practices of other professions. The Investment Risk Defeasement Measure provides important information to assess the degree of risk in a plan's funding and investment policy that, when accompanied by an actuarial report that provides context for its meaning, improves pension plan sustainability. The SOA Board recommends this measure not be removed or meaningfully changed as ASOP 4 is revised, including any changes that would allow an actuary or plan sponsor to opt out of its calculation.

Sincerely,

A handwritten signature in black ink that reads "M. Lombardi".

Mike Lombardi  
President, Society of Actuaries

July 27, 2018

ASOP No. 35 Revision  
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 revision of Actuarial Standard of Practice (“ASOP”) No. 35 Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations, as requested in the Exposure Draft (ED) of March 2018.

Willis Towers Watson is a leading global professional services company that employs over 40,000 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 <https://www.towerswatson.com/en/north-american-retirement-principles>.

### **Summary and General Observations**

We appreciate the opportunity to comment.

Before identifying comments on specific sections of the ASOP, we would like to make a few general observations for you to consider. First, revising ASOP No. 35 provides an opportunity to clarify the extent to which ASOP No. 35 applies to retiree group benefit programs as well as pension programs (e.g., sections 1.1a, 1.2, 2.2, 2.4, 3.1 and 3.2 refer exclusively to pension plans).

Second, we would like to highlight one of the principles from our four central themes linked above. We believe no written standard can anticipate every situation that actuaries will confront and therefore, the ASOPs should not seek to substitute rules for the actuary’s reasonable professional judgement (especially since most of our services are already highly regulated by governmental bodies). Due to the many current and forthcoming standards that now, or shortly will, provide guidance on actuarial assumptions, we believe that an actuary’s reasonable professional judgement has become subservient to satisfying standards that represent the Board’s view of “best practice”, rather than “basic professional standards”, and the actuary is no longer able to take a reasonable approach that, in the actuary’s professional judgement, meets the Principal’s needs. For this reason, in general we advise against adding additional requirements that may set an expectation as to the minimum an actuary could provide.

Lastly, we believe that, based on the definition of measurement date, the standard will be effective and apply immediately upon adoption to projections that are more than 12 months out (similarly for section 4.1.4 Changes in Circumstances). We recommend modifying the effective date provisions to avoid this result.

Our specific feedback on the ED by section follows.

Willis Towers Watson  
3001 Summer Street  
Stamford, CT 06905

[willistowerswatson.com](http://willistowerswatson.com)

Towers Watson Delaware Inc.

## Specific Comments

**Section 3.4 (Phase-In of Changes in Assumptions)** – Please clarify the meaning of a phase-in of changes in assumptions. We interpret this section as either referring to a select and ultimate assumption, or an assumption for which the implementation of a change (and therefore the effect) is smoothed over a number of measurement dates. Selecting reasonable assumptions is already addressed in section 3.2.5(c) and 3.8, which respectively indicate that an assumption is reasonable if “it takes into account historical and current demographic data that is relevant as of the measurement date” and “at each measurement date, the actuary should determine whether the assumptions selected by the actuary continue to be reasonable.” We suggest deleting section 3.4 as the rest of ASOP No. 35 makes it very clear that assumptions should be reasonable at the measurement date (regardless of any phase-in).

**Section 3.5.4 (Mortality Improvement)** – We believe the wording in this section implicitly and inappropriately limits the actuary’s ability to select a reasonable assumption reflecting their professional judgement. The discussion on mortality improvement conveys a level of bias by making no mention at all of the possibility of negative mortality improvement and by seeming to warn against the assumption of 0% improvement. There has been negative mortality improvement in some recent years and very low rates of improvement in others. This section of the ASOP would likely have made it difficult for an actuary to use assumptions that precisely matched what actually has transpired over the last several years. We also advise removing or revising the following warning to avoid any bias: “Note that the existence of uncertainty about the occurrence or magnitude of future mortality improvement does not by itself mean that an assumption of zero future improvement is a reasonable assumption.” While this statement is not untrue, its presence serves no purpose other than to discourage use of a specific assumption, and this is not appropriate for an ASOP.

**Section 3.8 (Reviewing Assumptions)** – We understand the need to assess assumptions, however we are concerned that this section makes no reference at all to the Principal. While the actuary will assess assumptions at each measurement at a high level, a more detailed assessment (including potential modifications to assumptions) is done at the discretion of the Principal. We believe the actuary should suggest experience studies to the Principal periodically, as well as at any point that the actuary has significant concerns regarding whether assumptions are reasonable. However, the detailed assessment and study are only done with the Principal’s consent. Clearly the actuary should not be required to perform a study without the Principal’s consent nor compensation and we are concerned that this section could be used against actuaries who do not do this. Instead, the actuary should resign from the work if he or she believes that a study is necessary to select reasonable assumption and the Principal does not consent.

**Section 3.10.6 (Views of Experts)** – We believe that the phrase “views of experts” is a misnomer. In some cases the sources listed would not be considered experts, and therefore we recommend revising this section to refer to “sources” of demographic data and analyses.

**Section 4.1.1 (Assumptions Used)** – This section (as well as 3.2.5(d)), has been consistent with ASOP No. 27 in referring to an assumption representing “an estimate of future experience, the actuary’s observation of the estimate inherent in market data, or a combination thereof.” Demographic assumptions should virtually always be an estimate of future experience. We believe the “observation of the estimates inherent in market data” is not meaningful or applicable for demographic assumptions (e.g. what is market data for a retirement or a termination assumption that is specific to a plan or plan sponsor?). We suggest removing the reference to market data throughout ASOP No. 35.

**Section 4.1.2 (Rationale for Assumptions)** – The ED refers to changes to this section as a clarification and we disagree with this characterization. We view the changes as a substantial expansion to which we strongly object. As proposed, Section 4.1.2 would require disclosure of the rationale for a Prescribed Assumption or Method Set by Another Party. Under the current standard, this section is not applicable to such assumptions. Currently, the actuary discloses only if a Prescribed Assumption or Method Set by Another Party significantly conflicts with what would be reasonable. Under this revision, a new responsibility would effectively be imposed on the actuary to evaluate the reasonableness of assumptions not selected by the actuary and for which applicable law, regulations or accounting guidance give the responsibility for selecting the assumption to a different party. There is no justification for imposing this on the actuary and satisfying it would require additional work which

would likely be uncompensated, have little use and could potentially put the actuary in conflict with the Principal. In addition, the assumption may be an assumption that the actuary does not have the expertise to evaluate.

We understand that the ASOPs already require the actuary to determine whether such assumptions significantly conflict with what would be reasonable. However, determining whether an assumption is reasonable and determining whether an assumption significantly conflicts with what would be reasonable are two very different things.

We believe the current requirement that the actuary disclose if he or she believes the assumption significantly conflicts with what would be reasonable is appropriate and sufficient, and strongly object to requiring the actuary to affirmatively determine whether such an assumption is reasonable. We do not believe the ASOP should effectively force the actuary's judgement on the Principal (or other party given the responsibility to select assumptions).

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

Sincerely,



Michael F. Pollack, FSA, EA, FCA  
Senior Director, Retirement

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Alan R. Glickstein ASA, EA  
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**Comment #4 – 7/27/18 – 1:41 p.m.**

Dear Members of the Actuarial Standards Board,

I write in support of the proposed changes to the pension actuarial standards of practice, ASOP 4, ASOP 27, and ASOP 35.

As background, I have spent my career researching and publishing on state and local government tax and fiscal issues and have spent much of the last five years researching the interplay between public pension plans and risks to government sponsors. Based upon modeling work that I have conducted with my colleague, Yimeng Yin, I have concluded that these risks are far greater than many policy makers realize. I have presented at numerous conferences and events on these topics (including at the 2017 Annual Meeting of the American Academy of Actuaries).

I support the expanded disclosure requirements (including the Investment Risk Defeasement Measure) contained within your proposals. These disclosures will improve the understanding of pension liabilities, costs, and risks by researchers and others seeking to develop a consistent outlook for public pension plans – which I hope will, in turn, contribute to an improved and more consistent financial outlook for state and local governments in general.

I also support the provisions specifically guiding actuaries to opine on legislated assumptions. I am always interested in understanding what actuaries think about prescribed assumptions.

Thank you very much for considering my views.

Sincerely,

Don Boyd

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Don Boyd  
Senior Research Fellow  
Center for Policy Research  
Rockefeller College, University at Albany, SUNY

## Comments on the Exposure Draft of the Proposed Actuarial Standards of Practice No. 35: Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations

July 31, 2018

### The Actuarial Standards Board

The American Retirement Association (ARA) and the ASPPA College of Pension Actuaries (ACOPA) appreciates this opportunity to comment on the exposure draft of the Actuarial Standard of Practice (ASOP) on *Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations*.

ARA is a national organization of more than 24,000 retirement plan professionals who provide consulting and administrative services for qualified retirement plans covering millions of American workers. ARA members are retirement professionals of all disciplines, including consultants, investment professionals, administrators, actuaries, accountants and attorneys. All credentialed actuarial members of ARA are members of ACOPA, which has primary responsibility for the content of comment letters that involve actuarial issues. The following are ACOPA's comments on the proposed actuarial standard of practice:

1. In the Background, the prior language in the first sentence of the Background stated the ASB provides "coordinated guidance". The word "coordinated" was removed in the Exposure Draft. **ACOPA recommends** the ASB should continue to refer to "coordinated guidance", as this better reflects the intention of the ASB to avoid conflicts between the ASOP's as well as to provide guidance on specific ASOP's.
2. Section 3.4 Phase-in of Changes in Assumptions uses the phrase "should select a reasonable economic assumption". **ACOPA recommends** this be replaced with "should consider a reasonable economic assumption" to indicate that the phase-in assumption is monitored along the phased path, but not necessarily changed each period.

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This letter was prepared by the ASOP Task Force of the ACOPA Professionalism Committee, Lynn Young, Chair. If you have any questions, please contact Martin Pippins, Executive Director of ACOPA, at (703) 516-9300 ext. 146.

Thank you for your consideration of these comments.

Sincerely,

/s/

Lynn Young, MSPA,  
Chair ASOP Task Force

/s/

Martin L. Pippins, MSPA,  
Executive Director  
ASPPA College of Pension Actuaries

/s/

Bill Karbon, MSPA, President  
ASPPA College of Pension Actuaries

/s/

John Markley, MSPA, President-Elect  
ASPPA College of Pension Actuaries

**Comment #6 – 7/31/18 – 11:08 a.m.**

July 31, 2018

Dear Members of the Actuarial Standards Board,

I was a member of the SOA's Blue Ribbon Panel on Public Pensions (BRP). Your proposed changes represent a healthy strengthening of standards. Also:

- Amortization periods should not extend beyond the average expected future working lives of employees so that plans are fully funded upon retirement.
- Actuaries should be required to provide the basis for their determination that assumptions are reasonable.
- The IRDM should also be applied to the calculation of contributions so that readers may assess the risk associated with the funding program.

David Crane

Lecturer, Stanford University

President, Govern For California

415-672-4402

**Comment #7 – 7/31/18 – 11:15 a.m.**

July 31, 2018

To the Actuarial Standards Board—I would like to offer a few thoughts with respect to ASOP's 4, 27 and 35 that are currently in exposure draft.

Let me begin with a bit of personal background. I am currently a retired actuary but was previously the Chairman, CEO and President of Principal Financial Group. I was fortunate to be the Academy President in 1995/1996 and have been involved in Academy work for more than 30 years. In the early part of my career, I was more involved in the pension industry but migrated to a more executive career for the past 20 years. I do NOT consider myself a subject matter expert with respect to choosing actuarial or economic assumptions. However, I was fortunate to be part of the Society of Actuaries Blue Ribbon Task Force on Public Pension Plans that was chaired by Bob Stein, FSA. That work is the primary basis of the comments that I offer today.

My comments are not specific to any of the ASOP's but are more general in nature. As we performed our research for the Blue Ribbon Task Force and started to formulate our recommendations, it was very clear to me that in broad and general terms, public plan actuaries needed to be much better at working with Trustees and plan sponsors at understanding how pension plan costs vary under a SERIES of actuarial and economic assumptions. Too often, public plan actuaries presented costs under a single set of actuarial and economic assumptions thereby not helping Trustees and plan sponsors to know how costs might change under conditions of high inflation, low inflation, high interest rates, etc. Said in a more general way, public plan actuaries were not (in my view) carrying out their important responsibilities to not only create the proper costs for the current plan year, but to educate plan sponsors and beneficiaries of how costs and funding levels vary across a range of actuarial and economic assumptions.

As I said, these comments are not with respect to any one of these ASOP's but I would hope that there might be a preamble or some other way of embedding this thought into each of the ASOP's overall. It is only by doing a better job of educating plan trustees, plan sponsors and beneficiaries that we can hope to help the general public understand the challenges of public plans and what solutions might exist to help align benefits and revenue.

I hope these comments will be of value to the ASB. I am deeply appreciative of the work that the ASB members do help the actuarial profession carry out it's important responsibilities to the public. If there are any follow-up questions, please feel free to contact me at: [Zimpleman.Larry@gmail.com](mailto:Zimpleman.Larry@gmail.com).

Regards,

Larry Zimpleman

**Comment #8 – 7/31/18 – 12:27 p.m.**

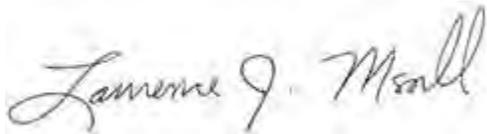
Dear Members of the Actuarial Standards Board:

The Civic Federation is writing in support of proposed revisions to Actuarial Standards of Practice (ASOP) Nos. 4, 27 and 35. The Civic Federation, founded in 1894, is a non-partisan government research organization that works to maximize the quality and cost-effectiveness of government services in the Chicago region and State of Illinois. For many years, the Civic Federation has written about our area's public pension plans and posted our reports on the Federation's website. Our research relies heavily on the actuarial valuations published by our region's retirement systems. As President of the Civic Federation, I served on the Society of Actuaries' Blue Ribbon Panel on Public Pension Plan Funding, which issued its report in February 2014.

The Civic Federation supports the expanded disclosure requirements contained in ASOP Nos. 4, 27 and 35 in order to increase transparency and comparability of public pension plans and improve public understanding of their financial condition. We note in particular that the proposed Investment Risk Defeasement Measure in ASOP No. 4 is in line with the Blue Ribbon Panel Report, which recommended disclosure of plan liability at a risk-free rate to quantify the risk inherent in plans' investment policies. As consumers of actuarial valuations, the Civic Federation would find comments from the actuary on the reasonableness of assumptions a useful supplement to work already being done by the Illinois State Actuary for the State funds and the Chicago Teachers' Pension Fund and would assist the Federation in making recommendations to sponsoring governments about pension-funding policies.

Thank you for the opportunity to comment on the proposed revisions. Please do not hesitate to contact me at 312-201-9044 if you have any questions.

Sincerely,

A handwritten signature in cursive script that reads "Laurence J. Msall". The signature is written in dark ink on a light-colored background.

Laurence Msall  
President

**Laurence Msall** | President  
The Civic Federation

July 31, 2018

Via e-mail: [comments@actuary.org](mailto:comments@actuary.org)

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

Re: Comments on exposure drafts for Actuarial Standards of Practice (ASOPs) 4, 27 and 35

Members of the Actuarial Standards Board (ASB) and the Pension Committee of the ASB:

As the former Chair of the SOA's Blue Ribbon Panel on Public Pensions (BRP), I would like to thank you for undertaking this significant update and upgrade of the ASOP's relevant to the practice of pension actuarial services. My view, which has not been considered by the former members of the BRP, is that, together with ASOP 51, the proposed changes represent a significant and desirable strengthening of the standards in this important area of actuarial work.

Specifically, I strongly support the requirement to disclose the investment risk being assumed by the plan through the calculation of the Investment Risk Defeasement Measure (IRDM) included section 3.11 of the ASOP 4 exposure draft. This measure is consistent with the recommendations of the BRP. I also suggest that this measure be extended to the calculation of the plan's contribution using the same measurement basis as the IRDM, i.e., funding method and discount rate. The availability of both the aggregate and the annual risk of assuming returns in excess of more readily achievable returns provide important, useful and understandable information regarding the level of risks embedded in the plan's funding program.

I also recommend that the guidance concerning the development of amortization methods (Amortization Method, section 3.14, ASOP 4 exposure draft) be strengthened to prohibit any negative amortization; currently the guidance only states that the actuary must consider the "length of time until amortization

payments exceed nominal interest” (3.14.b.i). In addition, I suggest that guidance concerning the period of amortization more strongly recommend that such period should be consistent with the average expected future working life of the employees so that promised benefits are fully funded upon retirement; again, currently, it is just a factor for consideration (3.14.b.ii, “duration of the actuarial accrued liability”).

Finally, I strongly support the requirement for the actuary to provide information and analysis used to support their determination that the assumptions are reasonable (Rationale for Assumptions, section 4.1.2, ASOP 27 exposure draft). The draft language states “For example, the actuary may disclose any specific approaches used, sources of external advice, and how past experience and future expectations were considered in determining the assumption to be reasonable.” I recommend that the language stating an actuary ‘may’ disclose specific approaches, sources of external advice, and other bases for their conclusion be strengthened to a ‘should disclose’ standard. In this regard, I believe it is critical that users have a full understanding of how the actuary reached their conclusion that assumptions are reasonable.

Thank you for making these important changes to the ASOPS covering pension practice. I hope that my suggestions will contribute to further improvement in practices and the transparency of the work being performed.

A handwritten signature in black ink, appearing to read "Robert Stein". The signature is fluid and cursive, with the first name "Robert" and last name "Stein" clearly distinguishable.

Robert Stein

Former Chair of the SOA Blue Ribbon Panel on Public Pensions

**Comment #11 – 7/31-18 – 3:25 p.m.**

July 30, 2018

ASOP No. 35 Revision  
Actuarial Standards Board  
1850 M Street, NW, Suite 300  
Washington, DC 20036

Dear Former Colleagues:

I first wish to congratulate you all on your ability to modernize the wording of ASOP 35, even though it had been revised only four years earlier. As a member of the Pension Committee at the time of the latest restatement of ASOP 35, I harbor no resentment toward the current members of the Committee that they saw fit to improve upon the earlier wording.

There is one area, however, that I feel is in need of further revisiting, and I would have voiced this opinion to the Committee if I were still a member. The Committee may recall that the State of Illinois has over 650 Police and Firefighter pension plans to value. There is a propensity of the municipalities of the State to “shop” for actuaries on the basis of (1) cost of services and (2) the ability to reduce plan liabilities and expenses. One such actuary, who controlled over 200 of these municipal pension valuations, has indeed been publicly reprimanded by the ABCD.

Unfortunately, another actuary has jumped into the void created by the departure of that individual. This actuary, a Member of the Academy, has decided to make his own mortality tables for Illinois Police and a *separate* one for Illinois Firefighters. Not only are those sample sizes too small to yield credible results, he is using a subset of them, namely, data only from his firm's clients, which consist of small municipalities. Because the sample size is far too small, Credibility Theory would indicate that there is no justification in modifying the RP-2014, much less allowing his Illinois tables to stand alone.

I attach a 2018 article for those curious enough to examine the accuracy of the previous paragraph: “Credibility Theory: An Application to Pension Mortality Assumptions” by Julie Curtis

<http://pensionsectionnews.soa.org/?issueID=14&pageID=12>

As you may imagine, his resulting tables show mortality rates much higher than the RP-2014, which in turn artificially ratchet down liabilities and expense. Taxes are kept low, but the disclosure is misleading.

I offer the following changes to ASOP 35 to protect against the questionable practices of the above-mentioned individual. As I noted in the first paragraph of this letter, there is no pride of authorship here. If you can come up with alternative language that protects the profession from these practices, I will wholeheartedly support it.

ASOP 35 comments  
Mitchell Serota

First, add a subsection “e” to Section 3.5.3

### **3.5.3 Mortality**

e. the use of relevant plan or plan sponsor experience, as sanctioned in §3.2.2, but only if at least one of the following two conditions are met:

- i. the sample size of the group is large enough to meet the confidence level criteria of Credibility Theory
- ii. the sample size of the group is large enough so that the Credibility Factor is at least 0.05.

Second, add a sentence to Section 4.1.1:

### **4.1.1 Assumptions Used**

4.1.1 [*Add the following where you deem appropriate.*] The disclosure of the mortality assumption should contain sufficient detail to permit another qualified actuary to understand any Credibility Theory basis to the adjustment of the underlying table.

You will undoubtedly notice that I capitalized “Credibility Theory” and “Credibility Factor” because both are terms of art with specific meaning. Definitions of both may be found in the Julie Curtis article. I fear that using “credibility” is too much of a short cut which could open the door to abuse. The Committee may wish to define Credibility Theory and Credibility Factor.

I further recommend that the two members of the ASB who have been assigned to the Pension Committee consult with their Life colleagues as to how they deal with Credibility Theory in their ASOPs.

I thank you for your time. I wish you all energy and mutual respect for dealing with the review process you are embarking upon. I recall the bowl of caramel corn used as a post-lunch snack. Not only did the sugar supply instant energy, but the caramel also contained a chemical that triggered the brain to sympathize with all those seemingly obstinate members who disagree.

Respectfully submitted,

Mitchell I. Serota, F.S.A., M.A.A.A.

July 31, 2018

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

**Subject: Comments on Proposed Revisions to ASOP 35**

Dear Actuarial Standard Board:

Thank you for the opportunity to comment on the proposed revisions to ASOP 35.

1. The reference to ASOP 34 was added to section 1.1 from the current version of the ASOP, and we believe this reference should be deleted or clarified. Nothing in the scope as articulated in section 1.2 would include the types of valuations normally done in conjunction with actuarial practice concerning retirement plan benefits in domestic relations actions, nor is ASOP 34 mentioned as one of the ASOPs related to measuring pension and retiree group benefit obligations in the background section. While in some ASOP 34 valuations, following concepts similar to the concepts articulated in ASOP 35 would be appropriate and Section 3.3.4 of ASOP 34 does reference ASOP 35, in many instances the guidance of ASOP 35 is not appropriate for valuations under ASOP 34.

Before the ASB changes guidelines on how economic assumptions for all purposes under ASOP 34 are determined, we urge the ASB consult with individuals with actual experience in the actual application of ASOP 34 in practice. Further, since the stated motivation of the changes to ASOP 35 are related to issues related to public plans, and ASOP 34 has nothing to do with valuing public plans, this seems well outside the scope of the intent of the changes being made.

Similarly, the ASB should harmonize including ASOP 34 in the scope with including ASOP 17 in the scope.

Lastly, if the reference to ASOP 34 is not deleted then the expression "...use of economic assumptions" should read "...use of demographic and noneconomic assumptions." I.e. there appears to be a typo and the language intended for ASOP 27 was included in ASOP 35.

2. In Section 1.1, should there be a reference to ASOP 51?
3. Section 2.3, the term demographic assumptions includes all other noneconomic assumptions. As discussed below, noneconomic assumptions could include items such as an anticipated plan termination date, or some other future event that cannot reasonably be called demographic in nature. At a minimum a comment should be added somewhere that for readability the ASOP uses the term demographic assumption even though it refers to assumptions that may not be demographic in nature.
4. Should the title of Section 3 more accurately be "Analysis of Issues and Appropriate Practices?" The inclusion of the word "Recommended Practices" may give the idea that the issues mentioned in Section 3 are literally recommendations which an actuary may follow or not follow.

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5. We believe that the list in section 3.2.1 should be expanded such that the actuary, depending upon the nature of the measurement, should reflect other factors, such as the probability that benefits payments may be triggered earlier than retirement due to a plan termination. For example, in selecting the assumption the actuary should reflect any likely timeframe for plan termination such as a plan sponsor articulated time frame to terminate the plan or is likely need to terminate the plan due to regulatory issues (such as IRC 401(a)(26)).
6. Section 3.2.2 b was changed to remove the requirement that the experience be credible to be relevant. We wonder whether this means that the actuary should consider experience data even if it is not credible. We would suggest reverting back to the current language.
7. The first sentence of 3.2.5 was changed. Unless there was some compelling reason for this change, we believe that the prior language was superior, and should be retained, as the proposed language is not clear. We believe that the next sentence is unclear as to whether the assumption should individually meet each requirement (i.e. the sentence should say "...has all the following characteristics...") or should meet some of these characteristics. Also, it would appear that this list is intended to be exhaustive, in other words, the ASOP is stating that an assumption is reasonable, if and only if, it meets these requirements. We do not believe this to be true, and can think of many counter examples (i.e. where an assumption is reasonable, but does not meet that set of requirements and conversely where it might meet that set of requirements but still is not reasonable).

An easy example of a problem with this list is an assumption regarding retirement or mortality in a small plan in which no participant has ever retired or died. If the response is "well the requirement is "that is relevant"" we would respond that if 3.2.5 requires all of these requirements to be met, but this requirement is not always applicable, then, at a minimum, it should say "if applicable" or "to the extent there is relevant data." In the alternative, we would suggest that the language should be changed to make clear that not all items are required (perhaps by saying "if applicable") and that an assumption is unreasonable if it does not meet these requirements (i.e. meeting the requirements is not conclusive that the assumption is reasonable).

8. Section 3.4 of the exposure draft contemplates that the phased-in assumption must be reasonable at each measurement date during the phase-in period. This requirement would be strengthened if there was also an explicit requirement that the phased-in assumption be consistent with other assumptions on each measurement date during the phase-in period.
9. In Section 3.5.1, with the number of Americans working to older ages, Section 3.5.1 would be enhanced by encouraging actuaries to use retirement rates that run beyond normal retirement age if appropriate to do so.
10. Section 3.5.2 should be updated to reflect that the actuary should consider automation, outsourcing abroad and other economic trends in choice of demographic assumptions.

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11. We believe that the logic of 3.5.4 needs to be improved.

First, in Sections 3.5.4 and 4.1.1, it should be clearer whether the actuary is required to make and disclose a mortality improvement assumption with respect to mortality assumptions which are plan provisions. As an example, it would be helpful if the actuary was required to explicitly disclose what mortality improvement assumption (if any) was applied to Section 417(e) mortality assumption if such a mortality assumption is part of the benefit calculation and as part of the particular valuation future lump sum payments are being valued. If the mortality improvement is inconsistent with the mortality improvement used for the decrements, it would be appropriate to include an explanation.

Second, the mortality table used for various government related purposes (IRC 430, 404 and PBGC) are usually based upon a table with a fixed mortality improvement, such that the level of improvement changes each year. It would appear that the use of the published table is not fully compliant with the standard if used for purposes unrelated to the prescribed purpose. Either, the ASOP should be changed to allow that use of tables under IRC 430 are considered compliant with this requirement, or the ASOP should be modified to allow a projection done in the manner that it is done for IRC 430 purposes.

Lastly, we have also heard of actuaries who make a mockery of this requirement by reflecting mortality improvement, but then adjusting the resulting mortality to return to what they would have used without regard to the requirement for reflecting mortality improvement.

12. Section 3.5.6 would be improved by explicitly considering the purpose of the measurement. For example, participants' behavior is different with respect to election of lump sums during a lump sum window than upon plan termination. Additionally, Section 3.5.6 would be clearer if it was clear that the actuary is to make an assumption regarding the timing of benefit receipt and that the assumption was consistent between actives decrementing and previously decremented participants.

13. Section 3.5.7 should be updated to reflect guidance about whether the expenses are to be borne by the plan or sponsor. I.e. for many valuations, there would be no need to make an expense assumption regarding expenses paid by the plan sponsor. We note that for some ASOPs the term expenses is defined and handles this issue, but it is not defined for this ASOP.

It should be clearer how expenses should be handled when there is no need for an investment return assumption.

14. Section 3.6.2 – Update to say that the actuary should consider making and disclosing an assumption with respect to same-sex marriages. Additionally, the actuary should consider making an assumption with respect to domestic partners if it affects benefit amounts or eligibility.

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15. Section 3.6.3 – Clarify whether the actuary should consider general demographic terms in the new entrants for the open group. As an example, should an open group valuation of a school district assume that the group remains the same size if publically available demographic data shows that the number of school age students in the district will decline by 20% in the next ten years. This is a separate concern from whether the school district is financially able to make contributions in the future.

Additionally Section 3.6.3 should be updated to reflect that the actuary should consider automation, outsourcing abroad and other economic trends in choice of demographic assumptions.

16. The language of section 3.7 is not consistent with section 3.12 of ASOP 27. Also please see our comments on section 3.12 of ASOP 27.
17. Section 3.8 references the actuary reviewing recent gain and loss analyses. However, as drafted the exposure draft does not contemplate that a gain/loss analysis is required. Further, it would require that “the actuary should consider reviewing recent gain and loss analyses” whether or not any such analyses exists. The ASB’s position may be that ASOP 4 would require a gain and loss analysis, but, under the current exposure draft of ASOP 4, a gain and loss analysis would not necessarily be required in all situations where ASOP 35 applies. Further, we would reference our comment on ASOP 4’s requirements regarding gain and loss analyses. We believe that the current language should be maintained.
18. Section 4 should generally be strengthened to reflect certain trends in private pension plan practice. First, the IRS is requiring that new actuaries replicate the prior actuary’s valuation within a very small tolerance to qualify for an automatic change in funding method. Second, some actuarial firms take the position that their test lives are proprietary and will not supply copies on takeover. The combination of these two trends means that more information should be disclosed as part of funding valuation.
19. On the disclosure requirement regarding old morality tables in Section 4.1.2, it might be clearer to have the actuary disclose adjustments (if any) that have been made to the table to reflect mortality improvement as part of the justification for using the table.

Additionally, for both the benefit of the user and to encourage more rigorous actuarial thought, it may be helpful to have the actuary disclose sample life expectancies under the assumed old table (after adjustments) and a more modern table. The names of tables and mortality rates are not meaningful for users, but at least some users will have an understanding and reaction to life expectancies.

These changes will re-inforce the ASBS’s goal of having actuaries use more up-to-date tables, adjust older tables as appropriate or have a strong rationale for using older tables.

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These comments represent our personal comments and do not represent the view of any actuarial organization to which we belong.

Sincerely,

DocuSigned by:  
*Larry Deutsch*  
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Larry Deutsch

DocuSigned by:  
*Karen N. Smith*  
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Karen Smith

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AMERICAN ACADEMY of ACTUARIES

*Objective. Independent. Effective.™*

July 31, 2018

Actuarial Standards Board  
1850 M Street, NW, Suite 300  
Washington, DC 20036  
Via email to [comments@actuary.org](mailto:comments@actuary.org)

**Re: Comments on Exposure Drafts of Proposed Revisions to ASOP Nos. 4, 27 and 35**

Members of the Actuarial Standards Board:

The Pension Committee, Public Plans Committee and Multiemployer Plans Committee of the American Academy of Actuaries<sup>1</sup> (the Committees) appreciate the opportunity to present the following comments to the Actuarial Standards Board (ASB) regarding the exposure drafts of the proposed revisions to ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*, ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*, and ASOP No. 35, *Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations*. We are providing comments relevant to each specific standard, and general comments applicable to the revision of all three standards collectively. Because of the interrelated nature of these revisions, we are providing our comments in one consolidated letter rather than responding with separate letters with comments on each exposure draft.

We greatly appreciate the efforts of the ASB to develop Actuarial Standards of Practice (ASOPs) for the profession, and we believe that these exposure drafts contain some substantive improvements to the ASOPs. While we believe much good work has been done to improve these three ASOPs, we also have some concerns about certain aspects of the proposed revisions.

Before offering comments on specific sections of the exposure drafts, we have several observations regarding issues that apply across the exposure drafts that we offer for the ASB's consideration. Throughout the remainder of this letter, unless otherwise noted, references to any of the three ASOPs are to the exposure drafts. When referring to the standards as in effect as of the issuance of this letter, we will refer to the "current standard(s)."

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<sup>1</sup> The American Academy of Actuaries is a 19,000+ member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

## General Comments on Proposed Revision of ASOP Nos. 4, 27, and 35

- The proposed revisions to ASOP Nos. 4, 27, and 35 may require substantial effort to implement. In addition to updating valuation processes and reports, actuaries will need to address these changes with the plan sponsors that they work with, possibly including discussions of expanded scopes of engagement. We thank the ASB for proposing a 12-month deferred effective date for these new ASOPs when finalized, since actuaries will need that time to implement any changes.
- Section 3.6.3 of ASOP No. 27 and Section 3.4 of ASOP No. 35 would permit the phase in of actuarial assumptions over a period of years, so long as the assumption in each year of the phase-in period is reasonable. While this approach does sometimes occur in practice, we are concerned that including this provision in the ASOPs might signal an endorsement of this practice. We believe it is better to fully reflect assumption changes when the actuary deems those changes appropriate, and consider use of an output smoothing mechanism if needed to manage cost or contribution levels.

If the effect of assumption changes needs to be smoothed, we believe the preferred approach would be to phase-in the effect in the outputs (i.e., the measured benefit obligations or costs), rather than the assumption inputs. The current standards already require assumptions selected by the actuary to be reasonable. It is unclear to the signatories how this change will improve actuarial practice. If the ASB decides to retain this provision, we suggest adding a requirement that the effect of full recognition of the assumption change (i.e., the benefit obligation, contribution, and/or cost using the ultimate assumption) be disclosed.

- The exposure drafts all refer to a concept that the assumption(s) selected by the actuary have “no significant bias (i.e., it is not significantly optimistic or pessimistic).” (ASOP No. 4, Sections 3.8 and 3.20(a), ASOP No. 27, Section 3.6(e), and ASOP No. 35, Sections 3.2.5(e) and 3.10.4) This requirement generally applies to both individual assumptions and the combined effect of all assumptions. We suggest that this concept be refined to provide that the assumption(s) selected by the actuary are not expected to have significant bias (i.e., it is not expected to be significantly optimistic or pessimistic). The actuary cannot know whether an assumption will turn out to be significantly biased without seeing how experience plays out and looking back at that experience versus the assumption. Therefore, we believe the ASOPs should clearly state that the actuary is only held to this standard with respect to what is expected when selecting the assumption.
- We appreciate the effort the ASB made in reviewing the wording in current ASOP Nos. 4, 27, and 35. We found that there were a significant number of subtle proposed wording changes in the exposure drafts and that it was difficult to find all of the small subtleties in the proposed changes. Therefore, we are concerned that actuaries may not notice all of the changes and suggest that a version that tracks all of the changes be posted for use by the US actuarial profession (not just potentially available upon request).

Also, it is not clear whether these subtle changes were intended to change actuarial practice, clarify the existing language, or improve the consistency of language across the various standards. In this letter, we point out some places where the ASB's intentions about future actuarial practice as a result of wording changes are not clear. However, there were many other changes that were unclear and are not mentioned in this letter. While we believe it is vital for these ASOPs to be written as clearly as possible, we ask that the ASB try to propose wording changes only when you envision a change in actuarial practice (which should be cited as a notable change in an exposure draft), when the current wording is inconsistent across the standards, or when the existing language has the potential to be substantively misleading. If changes are made solely to accomplish minor improvements in readability, clarity, or consistency, a general note to that effect in the release memorandum or an appendix summarizing key changes would be helpful.

- There was no change to the definition of "Measurement Date" in Section 2.16 of the ASOP No. 4 exposure draft. However, in Section 2.2 of the ASOP No. 27 exposure draft and Section 2.4 of the ASOP No. 35 exposure draft, the words "(sometimes referred to as the "valuation date")" were removed from the end of the definition. We think that the definition should be consistent in the three ASOPs and, if the phrase is removed from all three, we would like to understand the rationale for the change and the associated expected change in future actuarial practice, if any.

Also, certain actuarial tasks involve the determination of pension obligations as of several dates. Consider the following examples:

- Deterministic or stochastic forecasts involve the determination of pension obligations for a series of future dates
- Gain/loss analysis can involve the determination of pension obligations as of several dates.
- Back-testing to evaluate the effectiveness of alternative plan management approaches can involve the determination of pension obligations as of several past dates.

We suggest that the standards could be improved by recognizing that actuarial tasks that involve liability calculations at multiple dates may have a single measurement date. The actuarial task may also entail the calculation of pension obligations at other dates, but the economic data or estimate of future experience as of those dates may not be appropriate to use in the determination of these obligations, and may not always be based on assumptions that meet the reasonableness requirements (for example, stress-testing scenarios in a deterministic forecast).

- We support the change to the requirement of Section 4.1.2 of ASOP Nos. 27 and 35 regarding the rationale for actuarial assumptions selected by the actuary. We appreciate the clarification from the ASB as to the intent of these provisions in the current standards and believe this is as an appropriate strengthening of actuarial practice.

### **Specific Comments on Proposed Revisions to ASOP No. 4**

## Answers to ASB's Questions

As the ASB requested, following are our responses to the questions posed in the exposure draft to ASOP No. 4:

1. *Section 3.11, Investment Risk Defeasement Measure, requires the calculation and disclosure of an investment risk defeasement measure when the actuary is performing a funding valuation. The guidance allows for discount rates to be based upon either U.S. Treasury yields or yields of fixed income debt securities that receive one of the two highest ratings given by a recognized ratings agency. Are these discount rate choices appropriate? If not, what rate choice would you suggest?*

We believe that these discount rates would be appropriate for this purpose in many contexts, but would be inappropriate in others. Therefore, we do not believe that ASOP No. 4 should mandate any particular discount rate or rates. As discussed more fully in our comments on section 3.11 of the exposure draft, we believe that the ASB should employ a principle-based approach to defining this measurement.

2. *Under certain circumstances, section 3.20, Reasonable Actuarially Determined Contribution, requires the actuary to calculate and disclose a reasonable actuarially determined contribution. Do the conditions in this section describe an appropriate contribution allocation procedure for this purpose? If not, what changes would you suggest?*

Generally, we agree that the conditions outlined in Section 3.20 are appropriate in defining a contribution allocation procedure for an actuarially determined contribution (ADC). In particular, we note that the requirement in Section 3.20(b) that the normal cost is based on the plan provisions applicable to each participant precludes the use of the ultimate entry age cost method.<sup>2</sup> We agree with this provision and support its inclusion.

We have offered comments elsewhere in this letter regarding sections 3.13 through 3.16 which are incorporated by reference into the definition in 3.20. Those comments should be considered in the context of our response to this question.

We also note the disclosure requirements in Section 4.1 supplement the basic requirement to disclose an ADC by imposing other disclosures on specific components of the ADC, such as the requirements in Section 4.1(x) to describe any changes in the cost allocation procedure, the reasons for the change and the general effect of making the change. This disclosure requirement is important and addresses concerns raised by members of the Committees that an actuary could change the actuarial cost method, amortization period, or other components of the contribution allocation procedure annually to produce an ADC that closely matches the actual "fixed rate" contributions found in some public

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<sup>2</sup> Under the ultimate entry age cost method, the normal cost is based on an open tier of benefits even for members not in that tier as of the measurement date. This is not to be confused with an entry age cost method under which the normal cost is based on a member's current (but not historical) accrual rate.

sector plans.<sup>3</sup> For these “fixed rate” plans, the Committees believe the ADC should be determined on a consistent basis year-to-year. Requiring disclosure of any changes in the method of determining the ADC should be sufficient to achieve this consistency, while permitting the actuary to make changes when there is an appropriate reason to do so.

The Section 4.1 disclosure requirements also address the Committees’ concerns about rolling amortization methods by requiring either a disclosure that the method will not fully amortize the unfunded actuarial accrued liability (Section 4.1(v)) or that the method has been changed to reset the amortization period so it does not reduce annually, and the reason for such change (Section 4.1(x)). The ASB may want to consider further strengthening the disclosure requirements by requiring that the actuary disclose if past changes to the ADC calculation follow a consistent pattern, and if so, what the implications of that pattern are.

#### Additional Comments on Proposed Revisions to ASOP No. 4

- Section 1.2—The third sentence of the fourth paragraph from the end of Section 1.2 (i.e., “This ASOP addresses broader measurement issues including cost allocation procedures and contribution allocation procedures, and provides guidance for coordinating and integrating all of these elements of an actuarial valuation of a pension plan.”) seems to relate more to the purpose (Section 1.1) of the ASOP than the scope (Section 1.2). Also, the sentence doesn’t seem critical to the purpose of the paragraph, which is to clarify which standard governs in the event of a conflict between various ASOPs. Therefore, we suggest you consider deleting this sentence since the same concepts can be found in the last two sentences of Section 1.1.
- Sections 2.5 and 2.12—The new definition of “Funding Valuation” and the definition of “Actuarial Valuation” don’t refer to each other or have similar wording. In our view, a “Funding Valuation” is very closely related to an “Actuarial Valuation,” and better coordination between the definitions would help actuaries understand the distinction between these two terms as they impact the ASOPs.
- Section 2.18—We believe that the proposed definition is ineffective. As written, it describes the intention of the technique (reducing the volatility of results) and lists several examples. The first sentence in the definition could be read to include *any* techniques that are intended to reduce volatility, including those that smooth inputs. We use the term “output smoothing” to describe smoothing of results, not of inputs.<sup>4</sup> We believe that smoothing asset values, for example, would meet the proposed definition of an output smoothing method. Additionally, the first example of “phasing in the impact of assumption changes on contributions” is unclear as to whether it is describing phasing in the change in the assumption inputs (as addressed in Sections 3.6.3 of ASOP No. 27 and 3.4 of ASOP No. 35) or using the changed assumptions and blending those results with the pre-assumption change results. We consider smoothing of assumptions or asset values

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<sup>3</sup> In a “fixed rate” plan, the contribution rate per participant is “fixed” (often by statute) rather than driven by annual funding valuation results that would presumably be determined on a basis that would meet the definition of an ADC.

<sup>4</sup> American Academy of Actuaries, Issue Brief: “[The Pension Protection Act: Successes, Shortcomings, and Opportunities for Improvement](#),” April 2018.

to be input smoothing. When output smoothing is utilized, the assumptions and asset values used should be based on the actuary's observation of the estimates inherent in market data or the actuary's estimate of future experience, or a combination thereof.

The current version of ASOP No. 4 describes an output smoothing method as an approach to “adjust the *results* of a contribution allocation procedure”. [Emphasis added.] Although not perfect (in part because the output smoothing method was also included as part of the contribution allocation procedure), this avoided the confusion between input and output smoothing that exists in the exposure draft. We suggest that the definition describe output smoothing as an approach to “adjust the preliminary results of the contribution allocation procedure.”

Because the results of one calculation are often used in another calculation, the distinction between inputs and outputs is contextual. We suggest that the more specific term “Contribution Output Smoothing Method” be used in the ASOP. Moreover, although both the proposed and current wording in ASOP No. 4 refer to an output smoothing method only in the context of a contribution allocation procedure, similar approaches are also used to reduce volatility in other contexts. For example, an actuary may use output smoothing when allocating costs to divisions or companies within a controlled group sponsoring a plan. Using the term “Contribution Output Smoothing Method” would clarify that the actuary is not precluded from using output smoothing in contexts other than contribution allocation procedures.

- Sections 2.22 and 2.23—The wording in these sections does not exactly match the wording in Sections 2.5 and 2.6 of the ASOP No. 27 exposure draft and in Sections 2.6 and 2.7 of the ASOP No. 35 exposure draft. In the second sentence of Sections 2.22 and 2.23 of the ASOP No. 4 exposure draft, the definitions use the word “set” when “selected” is used in the other two exposure drafts. The definitions should be the same to avoid confusion and, although the defined term uses the word “set,” we suggest consistent use of the word “selected” in the definitions, since that word better describes the process used and other wording in the ASOPs.
- Section 3.2(u)—The wording was changed from the current ASOP to refer to the action to “assess” instead of “evaluate.” In addition, we note that both terms are used in all three of the ASOPs, but neither “assess” nor “evaluate” are defined terms in ASOP No. 1. It is unclear to us if the change was made so that there would be a change in future actuarial practice. If a change in actuarial practice is expected as a result of this wording change, it may be helpful to define “assess” and “evaluate” to help actuaries understand the distinction.
- Section 3.3—In rewording the examples of Section 3.3, one of the examples in the current standard was left off the list: “market value assessments.” It is not clear why this was removed as an example. We believe this is still a reasonable purpose of a measurement that is not eliminated due to the new Investment Risk Defeasement Measure (IRDM) provisions, especially since IRDM is only applicable to funding valuations. It would be helpful to understand why the ASB decided to eliminate this as a

purpose for measurement and to confirm that the ASB still believes this to be a valid purpose.

- Sections 3.4.2 and 3.5.1—The last sentence of these sections were reworded. However, when they were reworded, the fact that an actuary “may, but need not,” reflect post-measurement date events was removed. Although the new wording doesn’t preclude the inclusion of post-measurement date items, it is no longer clear. We believe it is important to be clear in the standard and include this option for the actuary to reflect post-measurement date events, similar to what is provided in the current standard.

Section 3.8—The current version of this section stops after the first sentence, which refers actuaries to ASOP Nos. 27 and 35. The exposure draft now has additional wording that addresses the “no significant bias” criteria with respect to the aggregate set of assumptions selected. This same language appears in Section 3.10.4 of ASOP No. 35, which cross-references to ASOP No. 27 to encompass the complete set of economic and demographic assumptions. We believe all guidance regarding the selection of actuarial assumptions should be found in ASOP Nos. 27 and 35 and not in ASOP No. 4. We suggest that Section 3.8 of ASOP No. 4 should remain as just the one sentence referring to ASOP Nos. 27 and 35 for assumption-setting guidance, and the guidance in Section 3.10.4 of ASOP No. 35 regarding consideration of the aggregate reasonability of the entire assumption set should be added to ASOP No. 27.

Section 3.11—Our comments on the IRDM fall into three categories. The first category focuses on the purpose of the measurement. The second category consists of observations regarding the potential value that could be provided by such a measure, together with the limitations it would have. The third category provides feedback on the details of how the exposure draft implements the IRDM.

### Purpose of the Measurement

Before requiring a specific disclosure that may involve additional liability calculations that an actuary may not already be providing, we believe it is critical to clearly define the purpose of the disclosure and assess expectations of the value of the disclosure

The purpose of the IRDM and expectations for how it should or would be used are not fully clear in the exposure draft. The name and the description provided of “an obligation measure to reflect the cost of effectively defeasing the investment risk of the plan” implies that the purpose is related to the plan’s investment risk. However, the methodology prescribed in the exposure draft appears to be intended to price a settlement for a fixed set of future payments, whether or not the pension obligation consists of a fixed set of future payments. We believe the goal of the IRDM is to provide information that improves stakeholders’ understanding of the investment risk present in pension plans, and that the exposure draft should more fully explain the purpose.

### Potential Value of the IRDM

The Committees believe that investment risk disclosures are critically important, and that

a measurement similar to the IRDM could help address this need. For this reason, we are generally supportive of the proposed requirement. However, we also note that within the actuarial community, there are a wide range of views on whether the IRDM is the optimal way to approach this issue, or whether the recently introduced risk disclosure requirements of ASOP No. 51 provides a better framework for improving stakeholder understanding of pension investment risk. The differing views on the usefulness of the IRDM are partially attributable to differing assumptions as to the purpose of requiring disclosure of this measure, which is not clearly stated in the exposure draft. The ASB may want to consider whether it is appropriate at this time for the standards to encourage the disclosure of the IRDM, while providing actuaries with the discretion to alternatively disclose certain quantitative analyses under ASOP No. 51.

While pension plans are subject to many risks, investment risk is noteworthy for two reasons. The first is that in a majority of pension plans, it is the largest source of risk. Second, in contrast with other risks such as uncertain retirement patterns and mortality rates, plan sponsors willingly choose to bring investment risk into their plans by investing in assets other than those that best match liabilities (generally bonds with minimal default risk). Plan sponsors can also reduce this risk at any time by increasing allocations to matching assets. Plan sponsors choose to accept investment risk because they believe that the resulting returns in excess of those attainable with matching assets will be sufficient to justify the uncertainty associated with risky assets.

The IRDM has the potential to help illustrate important information about investment risk in pension plans. For example, the IRDM represents an estimate of the amount of assets that the plan would need to hold in order to protect participant benefits that are attributable to past service<sup>5</sup> from investment risk without any further contributions. Additionally, a comparison of the IRDM and the plan liabilities calculated using the same actuarial cost method and an expected return discount rate is a measure of the gains that the plan sponsor expects to realize due to the investment in other than matching assets.

The IRDM provides important information about investment risk in pension plans, but it also has limitations. A significant factor in the evaluation of the level of investment risk that is affordable is the ability of the plan sponsor to offset adverse experience with additional contributions, and the IRDM provides no information about the plan sponsor's ability to pay any additional contributions that may be needed. The probabilities associated with various degrees of over and under performance are similarly outside the scope of the information that the IRDM can provide. The IRDM also does not quantify the higher benefit levels that the plan promises based on expected investment returns above bond yields, nor does it address the impact that adverse investment experience that the plan sponsor is unable to offset with additional contributions could have on benefit security. We also recognize that it may be optimistic to believe that simply disclosing an

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<sup>5</sup> As discussed later in our comments, we believe the IRDM should be defined using a principles-based approach that would permit the use of the same funding method that is used for other purposes. The portion of the present value of benefits that is attributable to past service would be determined by the funding method.

IRDM will change how the users of actuarial analyses view pension obligations and risks<sup>6</sup>.

Despite its limitations, the calculation and disclosure of an IRDM has the potential to enhance the transparency of investment risk in pension plans. By calling attention to the difference between the cost of eliminating investment risk and the actual funding target employed by the plan sponsor, the IRDM will encourage closer examination of the level of investment risk that is present in the plan. To the extent that it does not provide all relevant information related to this risk, it may serve to stimulate additional analysis and consideration that further improve understanding. We also note that various outside parties often attempt to estimate their own IRDM-type measurements where one is not disclosed, but due to a lack of information, these estimates may be inaccurate. Having such a measurement calculated by a plan actuary could provide greater accuracy in these situations.

### Implementation Concerns

While we recognize the potential value of the IRDM, we also have some concerns related to the details of how it is defined and communicated.

We recommend the adoption of a principle-based approach towards defining the IRDM in lieu of prescribing any particular discount rates or funding method. As currently defined, the IRDM specifies a specific actuarial cost method and a discount rate consistent with the yield on one of two hypothetical bond portfolios, whether or not these requirements are consistent with the purpose of the measure. This approach is contrary to the way standards have normally been set. In fact, Section 3.1.4 of ASOP No. 1 explicitly states that ASOPs are principles-based.

A better approach to providing guidance relating to an IRDM would be to clearly establish the purpose of the measurement and provide the actuary with factors to consider in selecting the assumptions and methods used to calculate the measurement. The current prescriptive approach could lead to the disclosure of meaningless or misleading results. For example, the benefit payments from hybrid benefit plans can be sensitive to changes in the economic environment (e.g., cash balance plans with variable interest credits, variable annuity plans, gain-sharing plans, plans that pay variable lump sums, and plans with variable cost-of-living adjustments). In these plans, simply discounting projected cash flows using rates derived from a yield curve may not produce a benefit obligation that provides useful information about the investment risk.

If, for example, the benefit obligation is to pay the accumulation of a notional amount assuming it is invested in the S&P 500, the minimal risk asset is not Treasuries or high quality fixed income securities, but an S&P 500 index fund. Section 3.5.3 of the current

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<sup>6</sup> For example, it is not clear that the mandatory disclosure of current liability for multiemployer plans, and the voluntary disclosure of measures similar to the IRDM by New York City and the State of Washington, have caused the sponsors of those plans to evaluate pension investment risk differently than other plans.

ASOP No. 4 recognizes the complexities presented by benefit structures that vary based on economic conditions and requires the actuary to consider alternative valuation procedures. However, when calculating the IRDM as currently defined, it may not be permissible to consider such alternative valuation procedures without deviating from the standard. A principle-based approach to defining the IRDM would enable the standard to more effectively address the full spectrum of plan designs.<sup>7</sup> Care would need to be taken to ensure that such a definition effectively captures the objective of the IRDM while being flexible enough to address a wide range of designs.

In addition to prescribing two acceptable discount rate bases, the IRDM prescribes the use of the unit credit actuarial cost method. If the purpose of the measurement is related to the investment risk of the plan, it is not necessary to define the actuarial cost method to be used. In fact, requiring an actuarial cost allocation method that differs from the one used to fund the plan may inadvertently cause confusion by introducing factors unrelated to the investment risk into the analysis. Section 3.4 of ASOP No. 51, for example, indicates that one method for the assessment of risk is “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.” [Emphasis added.] For a plan that uses the entry age actuarial cost method for its funding valuation, this method of assessing the risk would compare the entry age actuarial accrued liability from the funding valuation to the entry age actuarial accrued liability using a discount rate derived from minimal risk investments. It is noteworthy that ASOP No. 51 does not even suggest a comparison to a unit credit measure if such a measure is not used in the funding valuation. While this comparison does not actually assess the risks, it does estimate the cost to mitigate the investment risks, which we believe is the purpose of the IRDM.

There are numerous common measures applicable to certain types of pension plans that are already calculated and that are similar in nature to the IRDM, but it is not apparent they would meet the current definition. For example:

- Current Liability as defined in Internal Revenue Code (IRC) Section 431(c)(6)(D), which is calculated and disclosed for multiemployer pension plans, also uses accrued benefits, the traditional unit credit cost method, and the same actuarial assumptions used for funding other than discount rate and mortality table. This measure, however, uses a discount rate based on 30-year Treasury rates that would not necessarily be consistent with the rate derived from matching the Treasury yield curve with the pattern of benefits expected to be paid in the future. Additionally, it is unclear if the prescribed mortality table would be acceptable for this purpose, as it is neither used in the funding valuation nor is it based on estimates inherent in market data.
- The IRC Section 430 funding target for single-employer plans (without regard to the interest stabilization corridor) by definition meets the requirements of parts (a), (b) and (d), but it’s not clear that the Section 430 segment rates meet the

definition in part (c)(2), and, if they do, the use of a 24-month average adds further uncertainty that this measure would be considered an IRDM.

- The accumulated benefit obligation under Accounting Standards Codification (ASC) No. 715 determined for many single-employer plans (other than those that don't prepare US Generally Accepted Accounting Principles (GAAP) financial statements, such as many very small employers) is based on accrued benefits, the traditional unit credit cost method, and frequently a discount rate that would meet the definition of Section 3.11(c)(2). However, the actuarial assumptions used may not be the same as used in the funding valuation (e.g., mortality tables), or based on estimates inherent in market data.

A principle-based approach to defining the IRDM would provide actuaries with the discretion to decide whether any of the existing measures adequately satisfy the intent of the IRDM requirement, or whether a new liability measure must be calculated. To the extent that a readily available measure deviates only modestly from the IRDM requirement, we believe it would be reasonable to allow the actuary to use that readily available measure, along with commentary about the nature and magnitude of such deviation.

Defeasement is a term that is primarily used in the analysis of bond payment obligations, and may not effectively communicate the purpose of this measurement to pension actuaries, particularly with respect to benefit plans that incorporate hybrid or variable benefit designs. Section 3.4 of ASOP No. 51 discusses the calculation of “an actuarial present value using a discount rate derived from minimal-risk investments.” This definition appears to be consistent with the purpose of the IRDM, and could more easily be applied to nontraditional plan designs. Defining the purpose of the IRDM in a similar manner to the ASOP No. 51 minimal-risk concept, while eliminating any prescriptions related to specific discount rates or actuarial cost methods, would help ensure that the purpose of the measurement is clear.

An additional potential source of confusion is the interaction between the existing ASOP No. 51 requirements related to pension risks and the proposed, new ASOP No. 4 IRDM requirement. ASOP No. 51 addresses the assessment and disclosure of risks for pension plan funding valuations, clearly defining a process by which an actuary should identify, assess, and in certain circumstances recommend to the intended user of the actuarial communication that further analysis is warranted. If the purpose of the IRDM is related to investment risk, it is confusing to include it in ASOP No. 4 instead of ASOP No. 51. This confusion is compounded by the difference between the “minimal-risk” measure referenced in Section 3.4 of ASOP No. 51 and the IRDM requirement in ASOP No. 4. The “minimal-risk” measure would likely be a different measure than the IRDM as currently defined because it would be based on the same actuarial cost method as is used for funding and might take into account plan provisions for risk-sharing that the IRDM might not. If they are intended to be different measures, it would be helpful for the ASB to provide clarity as to the intended difference.

- We also recommend modifying Section 4.1(o) of ASOP No. 4 to include as a required disclosure the purpose of the IRDM, so the users of the actuarial communication have the necessary background to evaluate the relevance and implications of the IRDM.
- Section 3.13(a)—The term “normal cost” is defined to include both the actuarial present value of projected benefits and expenses, if applicable. However, the term “normal cost for benefits” is not defined. It is not clear what this term means as expenses paid from pension plans are generally used for services that support the payment of benefits. Instead of developing a new defined term, that we expect was meant to be the defined term of normal cost without expenses, we believe it would be more clear in the first sentence of the second paragraph of (a) to adjust the wording to refer to the fact that the normal cost for a plan without benefits accruing might just be the expenses, if applicable, and not the actuarial present value of projected benefits. In addition, we believe the “and” in that sentence should be “and/or” since one of those could be true or both could be true.

The last sentence of (a) provides for treatment of active participants who are no longer accruing benefits under a plan, and this provision is applicable through the entire standard. We agree this treatment is appropriate for the discussion of the actuarial cost method, but it may not be appropriate for other components of the contribution or cost allocation procedure. A common approach used by plan sponsors under ASC No. 715 when accounting for a frozen plan treats all of a plan’s participants as inactive, even active employees who are not accruing benefits, for purposes of determining the period over which to amortize prior service costs and actuarial gains/losses. This approach is generally considered to be consistent with the guidance provided by the Financial Accounting Standards Board (FASB). The determination of the amortization period for determining plan costs is outside the scope of Section 3.13, however use of the word “standard” in this sentence would appear to make this generally accepted approach inconsistent with the guidance in ASOP No. 4. We believe the scope of this provision should be limited to this section 3.13, rather than to the entirety of ASOP No. 4.

- Section 3.13(c)—This section refers to “normal cost for benefits” as did Section 3.13(a). It is not uncommon for an actuary to reflect some forms of expenses (for example, a contract expense) in normal cost while reflecting others, such as investment costs, in the investment return assumption. Therefore, we believe it would be clearer to indicate that expenses may be reflected “as a component of normal cost and/or” as an adjustment to the investment return or discount rate assumptions.
- Section 3.14—We support the principles outlined in this section, but we are concerned that the amortization method as defined does not anticipate the use of many common amortization methods, including methods that establish a new amortization base on each measurement date and those that separate the causes of the change in unfunded actuarial accrued liability (UAAL) at a measurement date.<sup>8</sup>

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<sup>8</sup> For example, a plan may measure the UAAL in year 1 and establish an amortization method that is compliant with this section. In subsequent years, the measured UAAL is compared to the unamortized balance of the base(s) established in the preceding year(s), with the difference (which may be positive or negative) established as a new

While the amortization period chosen for these methods is reasonable for the base(s) established for any given year, it is possible that the total amortization payments at a given measurement date could be greater than or less than interest on the total UAAL, violating the conditions outlined in the proposed ASOP language. To address this concern, we recommend adding an additional subsection 3.14(c) as follows:

*If the amortization method is applied separately to changes in unfunded liability (sometimes called layered amortization) then this section can be applied separately to each layer (and not applied just to the total amortization payment compared to the total unfunded liability). The amortization period applied to layers from the same source should be at least as great for decreases as for increases (e.g., gains should have the same or longer amortization period as losses).*

We note that as worded, section (b) requiring amortization over a reasonable period of time only applies when payments do not exceed nominal interest on the UAAL. Consider an amortization method that reflects nominal interest on the UAAL plus \$1. This method would not have to comply with conditions (a) and (b), but would also not fully amortize the UAAL over a reasonable period of time. We suggest restructuring this paragraph to say the payment must either exceed nominal interest on the UAAL or must not increase more rapidly than expected payroll growth, with the reasonable time period requirements currently in section (b) applying in all cases.

We also believe it would be prudent to modify Section 3.14(a) to state that payments do not increase, or do not increase more rapidly than the expected growth in plan sponsor payroll assuming no increase in the number of active employees. This language would be helpful in addressing the establishment of an appropriate method for closed plans. As currently worded, closed plans may be forced into level dollar amortization immediately upon plan closure in situations where a level percentage of payroll amortization may be an appropriate amortization method for at least some period of time.

Finally, these limitations are appropriate for a plan that is less than 100% funded to ensure that there is a reasonable plan to return to full funding. For plans in surplus, however, if Section 2.7 is interpreted to mean that a surplus is a negative unfunded actuarial accrued liability, then these limitations may force the rapid utilization of the surplus rather than reserving it as a cushion against future losses. We suggest that the ASB consider specifying that some or all of any surplus may be excluded from the amortization calculation.

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base in that subsequent year. The new base is amortized in accordance with this section, and may be further split into multiple bases that isolate actuarial gain or loss, changes in plan benefits, and assumption changes. The unamortized portion of each base is typically determined as a “write-down” of the previous year’s balance at the assumed interest rate, or as the present value of the remaining scheduled amortization installments using the current year interest rate.

- Section 3.16—This section uses the adjective “reasonable” several times but does not provide any guidance on how an actuary should evaluate what might be considered reasonable. We suggest the ASB consider adding wording about factors the actuary might consider in determining what might be reasonable. The considerations in Sections 3.14(b) and 3.17 are examples of the sort of guidance that might prove helpful.

The term “actuarially determined contribution” is defined to be the result of a “contribution allocation procedure,” which is in turn defined to optionally include an output smoothing method. All instances of actuarially determined contribution that are intended to exclude the output smoothing should therefore explicitly state this. We suggest adding the phrase “without output smoothing” to references to actuarially determined contribution in items (a) and (c).

We also suggest adding a new item (c) (and renaming the current item (c) as item (d)), worded as follows:

*When considering output smoothing in conjunction with the other components of the contribution allocation procedure (such as input smoothing and amortization methods), the total amount of smoothing contained in the smoothed contribution result is reasonable.*

- Section 3.17—We observe that the language in the current standard encouraging the actuary to consider “factors such as” was removed and instead a specific list that the actuary should consider is put forth. We think that the more open language should be restored, as there may be other factors that an actuary might wish to consider. We do not see the value in limiting the considerations to the factors listed.

Removing the example of “a desire to achieve a target funding level within a specified time frame” as a relevant “input received from the principal” removes valuable guidance from the ASOP, and we suggest that it be restored.

The items listed in (a) through (c)—benefit security, intergenerational equity, and stability or predictability of costs or contributions—are important and appropriate, and we are pleased to see them added. However, we suggest changing the listing to remove the separate listing of (a) through (c) and instead reword (d) to list a balance amongst these three items (with (a), (b), and (c) listed here) as the factor to consider. It would also be helpful to the profession to include examples of benefit security measures that might be considered, and how intergenerational equity might be reflected, as it is not feasible as an absolute measure (for example, funding unexpected mortality improvements for those participants already in pay status).

- Section 3.19—The language used in the first paragraph is confusing. In the first sentence, this section excludes funding valuations using a prescribed assumption or method set by law. But the second sentence provides that “contributions set by law” constitute a funding policy, which is part of what is to be assessed in the first sentence. It is not fully clear how contributions calculated using a prescribed assumption or method set by law differs from “contributions set by law” from the wording here. A more rigorous definition would

help avoid the possibility of confusion. Note that the same language is used in Section 4.1(v)—additional clarity would be helpful in both places.

- Section 3.23—This section was not changed from the current standard and does not acknowledge the new ASOP No. 51, which requires an identification of risks that could affect the plan’s future financial condition and an assessment of their effects when performing a funding valuation. Although ASOP No. 51 does not require a quantitative risk assessment, volatility is now in the scope of all funding valuations and costing valuations. Please clarify the interaction between this section and ASOP No. 51 and indicate when this section should or should not be invoked. The ASB may consider whether this section should be reworded to just refer to ASOP No. 51 instead of providing different requirements. We also note that there is no specific disclosure requirement tied to this Section 3.23, unless the disclosure in Section 4.1(dd) is meant to inform the intended user of the analysis in Section 3.23.
- Section 3.24—The first two sentences refer to language included in an actuarial communication about the party responsible for each “material” assumption and method. It is not consistent with the language in ASOP No. 27, Section 4.2 or ASOP No. 35, Section 4.2 and we think the references in ASOP Nos. 27 and 35 should be updated to be consistent. In addition, it does not seem to be in the right location within ASOP No. 4, and we suggest this concept be included in Section 4, since that outlines the communications and disclosures required.

We also suggest that the ASB consider that it is likely sufficient that this section just reference the appropriate sections in ASOP Nos. 27 and 35 with respect to the assessment of assumptions, instead of restating or summarizing the guidance in those ASOPs. This would help avoid confusion and make sure the actuary is focusing on just one ASOP for appropriate practice when assessing assumptions.

- Section 4.1(t)—This section is part of Section 4.1(k) in the current ASOP, but the final sentence in Section 4.1(k) of the current standard (i.e., “For purposes of this section, the actuary should assume that all actuarial assumptions will be realized and actuarially determined contributions will be made when due;”) is not in Section 4.1(t) (although it is found in Sections 4.1(u) and (v)). The caveat that assumptions will be realized and contributions made seems important and should apply to all of the requirements where the actuary must assess implications during future time periods. We suggest that the ASB consider placing it as a general condition that applies to all the assessments.
- Section 4.1(u)—This section requires a new determination of the period of time the actuarially determined contribution is expected to remain less than the normal cost plus interest on the unfunded actuarial accrued liability. We request the ASB clarify whether this requires a quantitative analysis or may be satisfied by a qualitative discussion. If a quantitative analysis was contemplated, we request that the ASB consider allowing the option for a qualitative analysis, based on the actuary’s judgment, due to the complexity that can be involved with a complete quantitative analysis.

The ASB may also want to consider whether an alternative measure might be more appropriate, such as evaluating the actual funding policy instead of the ADC. If the plan has a fixed statutory rate, disclosing that it is never expected to exceed normal cost plus interest on the unfunded actuarial accrued liability could be powerful and might have prevented or limited some of the current underfunding situations.

- Section 4.1(aa)—It is not clear whether the “corresponding funded status” referred to in this section should be the one used in determining the ADC. Also, it is not clear what components should be used to determine the funded status—for example, would a market value of assets be more appropriate than a smoothed value? This language should be clarified to indicate which funded status should be disclosed. We suggest adding something like the following to the end of this section:

*using the measure of plan assets and actuarial accrued liability used in the actuarially determined contribution*

### **Specific Comments on Proposed Revisions to ASOP No. 27**

- Sections 1.2 and 4.2—The ASB rewrote the following sentence in Section 1.2: “The standard also applies whenever the actuary has an obligation to assess the reasonableness of an economic assumption that the actuary has not selected.” Previously the sentence referred to “prescribed assumptions,” which refers to defined terms in Sections 2.5 (those set by another party) and 2.6 (those set by law). The reference to “prescribed assumptions” was clear in the original language. While the new wording is not unclear, the change raises a question as to whether there is an intended change in practice. If no such change is anticipated, we recommend restoring the original reference to “prescribed assumption.” A similar change in language was made in Section 4.2, and the same comment applies there.
- Section 3.1 (and elsewhere)—We observe that the term “evaluate” found in the current version of the ASOP has been changed to “assess.” Please see our comments above on this change in Section 3.2(u) of ASOP No. 4.
- Sections 3.5.2 and 3.5.3—The phrase “the actuary should consider” has been replaced by “the actuary should take into account”. “Should consider” is defined in ASOP No. 1. “Should take into account” is not. This is also found in Section 3.5.3 of ASOP No. 35. If the phrase “should take into account” is intended to convey different guidance to the actuary than “should consider,” then for clarity we recommend the ASB highlight the intended change in the summary of key changes when the final ASOP is issued.
- Section 3.6 –The first sentence of this section is awkward and appears to have no difference in meaning from the comparable sentence in Section 3.6 in the current version of ASOP No. 27. Please consider restoring the current language, or modifying it for clarity if intended to change current practice.

- Section 3.12—We observe the elimination of what had been the last paragraph of this section: “Assumption selected by the actuary need not be consistent with prescribed assumptions....” Although this can be inferred from other passages of the section, this explicit statement is helpful clarification. We suggest that this sentence be restored.
- Section 4.1.2—This section is clear regarding the disclosure requirements regarding the rationale for i) significant assumptions selected by the actuary and ii) assumptions selected by another party that the actuary determines to be reasonable. Please consider adding an explicit statement that this section does not apply to an assumption the actuary has not selected and made no determination of whether it is reasonable, as discussed in Sections 3.14 and 4.2 of ASOP No. 27 and ASOP Nos. 4, 6, and 41.
- Section 4.2—The guidance found in (a) and (b) each refers to Section 3.13. We believe that these references should be updated to 3.14, Assumptions Not Selected by the Actuary.
- Appendix 2—The exposure draft did not make any changes to the discussion in Appendix 3 of the current ASOP (referred to as “Appendix 2” herein) on the use of forward-looking expected arithmetic versus geometric returns as a discount rate. An Academy Practice Note that has been released as an [exposure draft](#) discusses this issue more fully. One of the important concepts from Appendix 2 that is discussed more fully in this Practice Note is that these approaches differ in focus between expected value outcomes versus median outcomes. We believe that Appendix 2 should include additional discussion of the possible consequences of these approaches related to their expected outcomes, as described in the practice note.

### **Specific Comments on Proposed Revisions to ASOP No. 35**

- Sections 1.2 and 4.2—Please see our comments regarding these same sections in the ASOP No. 27 exposure draft.
- Section 3.2.4—The language in this section has been modified to include the statement “In addition, the actuary should not give undue weight to experience that is not relevant.” While we agree irrelevant experience should not be given undue weight, we question whether it should be given any weight at all. We suggest changing the wording to something similar to the following:

*In addition, the actuary should give weight to experience that is appropriate to its relevancy to future expectations.*

- Section 3.2.5—The first sentence of this section is awkward and appears to have no difference in meaning from the comparable sentence in Section 3.3.5 in the current version of ASOP No. 35. Please consider restoring the current language, or modifying it for clarity if meant to change current practice.
- Section 3.6.2—In contrast with the current version of ASOP No. 35, the language in the exposure draft is not clear in saying the actuary may need to select a marriage

assumption. The language in the current ASOP No. 35 is clear and concise, and is substantively the same as the proposed language in the exposure draft. Please consider modifying the language to clarify that a marriage assumption—in addition to an assumption regarding beneficiary ages—may be necessary.

- Section 3.7—We observe the elimination of what is the last paragraph of this section in the current version of ASOP No. 35: “Assumption selected by the actuary need not be consistent with prescribed assumptions....” Although this can be inferred from other passages of the section, this explicit statement is helpful clarification. We suggest that this sentence be restored.
- Section 3.10.4—This section provides that the actuary should select assumptions “such that the combined effect of the assumptions has no significant bias...except when provision for adverse deviations are included.” Unlike the current version of ASOP No. 35, it is unclear whether this “no significant bias” requirement applies solely to the combined effect of assumptions selected by the actuary or to all assumptions (including the effect of individual prescribed assumptions combined with those selected by the actuary). We believe the intent is the former and request that section is reworded to be similar to Section 3.8 of the ASOP No. 4 exposure draft, which provides that “the combined effect of the assumptions selected by the actuary has no significant bias....”
- Section 4.1.2—This section is clear regarding the disclosure requirements applicable to the rationale for i) significant assumptions selected by the actuary and ii) assumptions selected by another party that the actuary determines to be reasonable. Please consider adding an explicit statement that this section does not apply to an assumption the actuary has not selected and made no determination of whether it is reasonable, as discussed in Sections 3.9 and 4.2 of ASOP No. 35 and ASOP Nos. 4, 6, and 41.

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We appreciate the ASB giving consideration to these comments. Please contact Monica Konate, the Academy’s pension policy analyst ([konate@actuary.org](mailto:konate@actuary.org); 202-223-7868), if you have any questions.

Respectfully submitted,

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July 31, 2018

Sent via e-mail to [comments@actuary.org](mailto:comments@actuary.org)

ASOP No. 35 Revision  
Actuarial Standards Board  
1850 M Street, NW, Suite 300  
Washington, DC 20036

Subject Proposed Revision of Actuarial Standard of Practice (ASOP) No. 35

To Members of the Actuarial Standard Board (ASB):

We appreciate the opportunity to comment. This letter documents the response of Principal Financial Group Retirement Actuarial Services to the proposed revision of Actuarial Standard of Practice (“ASOP”) No. 35 Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations, as requested in the Exposure Draft (ED) of March 2018.

Principal provides actuarial services and consulting to over 500 defined benefit plans based in the United States. Our Retirement Actuarial Services group is comprised of approximately 25 credentialed actuaries subject to the Actuarial Standards of Practice. This letter was prepared by the author in conjunction with thoughts and opinions from other actuaries within Principal.

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

***Question 1:*** Section 3.4, *Phase-In of Changes in Assumptions*, was added to provide guidance regarding the phase-in of assumptions.

- We request that the ASB provide examples of how a phase-in of assumption changes could be applied.
- We would like the ASB to provide clarification of how a phase-in can work with the requirement that assumptions must be reasonable at each measurement date per Section 3.2.5.

**For Example** – Does Section 3.3, Range of Reasonable Assumptions, essentially allow for a phase-in of a change in assumption even if the actuary has already determined the ultimate assumption as optimal?

***Question 2:*** Section 3.5.3, *Mortality*, was expanded to provide additional guidance regarding the selection of mortality assumptions.

- Does the removal of the phrase “such as the following” imply that the only factors that the actuary should consider are listed in items (a) through (d)?

***Question 3:*** Section 3.8, *Reviewing Assumptions*, was expanded to provide additional guidance regarding reviewing assumptions.

- No comment.

**Question 4:** Section 4.1.2, Rationale for Assumptions, was clarified regarding the disclosure requirement for the rationale of assumptions.

- For assumptions that the actuary selects and for non-prescribed assumptions that were selected by another party, disclosure of the information and analysis used to support that assumption is required if the actuary determines the assumption to be reasonable. The disclosure is to be pertinent to the plan's (specific) circumstances; however, in the case of a non-prescribed assumption selected by another party, are generalities involved in the phrase "the actuary's professional judgement" in Section 4.2a (which applies here to assumptions that conflict with reasonability) also acceptable for disclosing an assumption deemed reasonable?

We thank the ASB for the opportunity to comment on the exposure draft. Please contact us directly if you would like to discuss.

Sincerely,



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July 31, 2018

Actuarial Standards Board  
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RE: COMMENTS ON PROPOSED REVISIONS TO ASOP 4, 27, AND 35

Members of the Actuarial Standards Board,

Thank you for the opportunity to offer our comments and suggestions regarding the exposure drafts containing the proposed revisions to:

- ASOP 4 – Measuring Pension Obligations and Determining Pension Plan Costs or Contributions
- ASOP 27 - Selection of Economic Assumptions for Measuring Pension Obligations
- ASOP 35 – Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations

We are strongly supportive of these proposed revisions, which introduce important new disclosure requirements for pension actuaries performing funding valuations. Our comments and suggestions for your consideration follow:

#### **ASOP 4**

##### **Section 3.11, Investment Risk Defeasement Measure**

###### *Purpose*

We strongly support the concept of a required disclosure of a liability measure that is uniformly calculated on a market-consistent basis for all pension plans. Such a liability measure provides a meaningful, transparent, and trackable metric for the plan sponsor and/or the entity responsible for funding the plan, as well as to other stakeholders. By making the liability measure independent of the sponsor's investment strategy, it facilitates a better understanding and tracking of a plan's funded status, and facilitates a relevant comparison of a plan's funded status to that of other plans or systems. Currently, this critical information is generally unavailable in the published reports of public pension plans.

###### *Name*

In our view, the proposed name, Investment Risk Defeasement Measure (IRDM), does not capture the essence or the value of this additional liability measure. It can even be misleading because the real value of this liability is as a point-in-time, market consistent, transparent solvency measure.

We believe a more straightforward name like “market-consistent present value of accrued benefits” or “proxy settlement value” is more descriptive, as well as more indicative of the calculation methodology and the relevance of this required disclosure.

#### *Calculation elements*

We support the use of what is essentially a unit credit actuarial allocation method and agree that the measure should reflect low-risk discounting. This liability calculation method relies on a straightforward discounting of projected cash flows at an appropriate discount rate, much like typical market instruments. Among the array of different actuarial cost allocation methods, we believe that the method required for this important liability disclosure is the only method that will replicate a market process on a consistent basis. Further, particularly for disclosure purposes, we support this degree of prescription.

We note that in the public sector, future benefit accruals are often protected by the state’s constitution. In those situations, some might believe that such future benefits are already “accrued.” As such, it may be worth reinforcing that, under 3.11(a), “benefits accrued as of the measurement date” do not include the impact of future accruals, even if so protected.

#### **Section 3.14, Amortization Methods**

We support the added focus on amortization methods contained in section 3.14, which helps shine a light on the excessive deferral of costs/contributions.

#### **Section 3.16, Output Smoothing Methods**

We believe the expansion of the definition of output smoothing will be useful, and the added focus may encourage actuaries to consider the value of smoothing outputs over inputs.

#### **Section 3.20, Reasonable Actuarially Determined Contribution**

We support the disclosure of a reasonable actuarially determined contribution when the determination prescribed by the plan sponsor is not. In general, we would expect that actuaries would fulfill this requirement by bringing in line those elements that fall outside the actuary’s judgment of reasonable. However, flexibility in this determination is appropriate as in some cases the contribution is prescribed as an amount, not as the result of a calculation. Further, we could envision that some actuaries may prefer to use a standard, reasonable alternative across all their clients, irrespective of the particular methods or assumptions in question for a given client.

### **ASOP 27**

#### **Section 3.6.3, Phase-In of Changes in Assumptions**

We respect the desire to provide guidance on the phase-in of assumption changes over multiple measurement dates. But as we read it, the guidance merely reinforces that the “regular” rules apply at each measurement date. And given that the environment at a future measurement date cannot be known today, a phase-in merely becomes a statement of intent. As such, we question the value of giving this topic its own subsection, and suggest the reinforcement of the underlying principles be handled either in the appendix or embedded in a section such as 3.13

on reviewing assumptions. Alternatively, the subsection could be retained, but the structure changed to convey that a phase-in is acceptable if the assumptions at the current measurement date are reasonable, and the assumptions at each future stage of the phase-in are reasonable at the respective future measurement date.

**Section 4.1.2, Rationale for Assumptions**

We agree that an actuary should provide his or her rationale for supporting assumptions selected by another party. We believe it should be made more clear that the intent is that, with respect to a *significant* assumption selected by another party, the actuary should make a determination as to its reasonableness and disclose such determination.

**ASOP 35**

**Section 3.4, Phase-In of Changes in Assumptions**

See related section under ASOP 27 comments above.

**Section 4.1.2, Rationale for Assumptions**

See related section under ASOP 27 comments above. In addition, we support the added disclosure around the use of older mortality tables.

We appreciate your consideration of our comments. If you have questions, you may reach us via John Moore at 720-504-7974 or [john.moore@terrygroup.com](mailto:john.moore@terrygroup.com).

Sincerely,



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