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Comments on the Exposure Draft of the Proposed Revision of Actuarial Standard of Practice Number 4 Measuring Pension Obligations and Determining Pension Plan Costs or Contributions

May 31, 2012

The Actuarial Standards Board

The American Society of Pension Professionals & Actuaries (ASPPA) and the ASPPA College of Pension Actuaries (ACOPA) appreciates this opportunity to comment on the exposure draft of the proposed changes to Actuarial Standard of Practice (ASOP) Number 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*.

ASPPA is a national organization of more than 9,500 retirement plan professionals who provide consulting and administrative services for qualified retirement plans covering millions of American workers. ASPPA members are retirement professionals of all disciplines, including consultants, investment professionals, administrators, actuaries, accountants and attorneys. Our large and broad-based membership gives ASPPA unique insight into current practical applications of ERISA and qualified retirement plans, with a particular focus on the issues faced by small- to medium-sized employers. ASPPA's membership is diverse but united by a common dedication to the employer-sponsored retirement plan system. All credentialed actuarial members of ASPPA are members of ACOPA, which has primary responsibility for the content of comment letters that involve actuarial issues.

This response has been prepared by actuaries who work primarily on small to mid-sized plans, including a significant number of plans in which the principal employees are directly benefiting.

Overview of the Proposed Changes

We are concerned the proposed changes to ASOP 4 unilaterally and inappropriately expand the typical engagement between plan sponsors and actuaries, and would require calculations beyond the economic value such calculations would provide.

The authors of the May 25, 2012 Towers Watson comment letter convey our general concerns very well, and we repeat their central themes for the Committee:

"Our comments generally support four central themes that we believe apply to the Actuarial Standards of Practice.

- The ASOPs should be built upon the fundamental premise that an actuary needs to apply judgment based on the facts and circumstances of each particular situation. No written standard can anticipate every situation that actuaries will confront. In recognition of this fact, the standards should not be overly prescriptive and should not seek to substitute rules for the actuary's reasonable professional judgment.

- The ASOPs should set forth minimum professional standards, not best practices. The ASOPs can and will be used against members of our profession in litigation. Incorporating best practices into the ASOPs will inevitably lead to characterization of those practices as minimum acceptable standards in litigation and client disputes. This places actuaries at unnecessary and significant risk. While we support the efforts of the actuarial profession to encourage the use of best practices, we do not believe that the ASOPs are the appropriate means to achieve that objective.

- The ASOPs should not impinge upon the terms of the engagement between an actuary and his or her Principal. Actuarial services subject to the standards are already highly regulated by governmental and other authoritative bodies. The terms of engagement are based upon a mutual understanding of those requirements by the actuary and the Principal. The ASOPs should not require the actuary to perform additional work that is outside the scope of the engagement, is not requested by the Principal, and for which the actuary is unlikely to be compensated.

- The ASOPs should not be written or interpreted in a manner that allows readers to presume that actuaries serve the "general public." Our company's actuaries are engaged to serve the company's clients. While members of the public who are not our clients may benefit from our work, we nevertheless perform and deliver this work only for our client. No other person or entity can expect to rely on our work. We strongly believe that any ASOP that explicitly provides for or allows a presumption that actuaries perform work for the general public will expose actuaries to unwarranted and unmanageable risk."

ACOPA believes the comments presented in this letter are substantive, and the Pension Committee of the ASB should substantially re-write the proposed ASOP and present another exposure draft for comments.

Responses to the ASB Pension Committee's Questions

Question 1:
Is the new language regarding the purpose of the measurement clear, sufficient and appropriate? If not, how should the language be changed?

Response:
We believe the language is sufficient and appropriate

Question 2:
Is the language regarding actuarial present value types clear? Does the language provide actuaries with sufficient freedom to calculate an appropriate present value type? If not, how should the language be changed?

Response:
The language regarding the Present Values Based on Plan Assets and the Present Values Not Based on Plan Assets is sufficient. We question whether a definition of Market-Consistent Present Values should be included under this standard. We believe the definition of Present Values Not Based on Plan Assets incorporates Market-Consistent Present Values. Further, since this is an evolving area of practice, actuaries should not be constrained by a premature standard.

Question 3:
Is the disclosure requirement in section 4.1(i) regarding present value measurements clear and appropriate? If not, how can the disclosure language be improved?

Response:
The disclosures under 4.1(i) are clear, but we believe these disclosures are over reaching and inappropriate. The actuary should describe the basis of the calculations. However, we do not understand how an actuary's choice of a present value measurement might affect a sponsor's investment policy as the standard implies. Further, the standard requires the actuary to disclose the implications of the present value measurement. In order to comply with this standard, the actuary must perform additional calculations to justify the selection of the present value measurement type.

Question 4:
Is the lack of prescribed assumptions for determining a market-consistent present value a deficiency in the proposed standard? If so, what assumptions would you propose?

Response:
As stated earlier, the standard is premature in addressing these calculations.

Question 5:
Are the expanded definitions and disclosures of cost or contribution allocation procedure clear, sufficient, and appropriate? If not, how should they be changed?

Response:
The expanded definitions and disclosures of cost or contribution allocation leave the reader confused. The standard assumes an actuarial cost method determines a single cost or contribution for a period. In most instances, the actuarial cost method determines a range in costs or contributions. Section 3.13.1 then provides that the chosen method might not be appropriate in certain circumstances. The example in section 3.13.1a, where funding could continue

past the assumed retirement age for a plan that covers a single participant, concludes this funding method may not be appropriate. This conclusion ignores what actual funding has or will take place, given the range of potential contribution amounts.

Question 6:
Are the revised definitions regarding prescribed assumptions and methods, and the resulting disclosure requirements, clear, sufficient, and appropriate? If not, how should they be changed?

Response:
We believe the language is sufficient and appropriate

Question 7:
Are the new definitions regarding funded status, the term fully funded, and the new disclosure requirements, clear, sufficient, and appropriate? If not, how should they be changed?

Response:
We take exception to the additional disclosures for a plan that is "fully funded." Under ASOP 41, the actuary is charged with communicating his or her results in a manner that will be understood by the intended user. The standard requires additional disclosures if the actuary reports a plan is fully funded or words to that effect for no apparent reason. Each year the plan's actuary must certify the Adjusted Funding Target Attainment Percentage (AFTAP). If an AFTAP is 100% or more, these additional disclosures become mandatory. In addition, under 4.1r(1), additional calculations must be performed to determine the plan's settlement costs. We do not understand why the committee decided these disclosures are required for plans that are 100% funded and not 99% or 80% or 60%. In 4.1r(3), the actuary must determine if there is a significant risk the plan could cease to be fully funded. Again, this would entail multiple calculations on whether the plan would be fully funded based on a variety of future yield curves and investment performance.

Question 8:
Are the expanded requirements regarding plan provision valuation, including plan provisions that raise special valuation issues, sufficient and appropriate? What additional guidance (or educational material) would be valuable with regard to alternative valuation procedures, such as stochastic modeling, option-pricing techniques, or adjusting assumptions to reflect the asymmetric impact of variations in experience from year to year?

Response:
Section 3.1.1 of the Introduction to the Actuarial Standards of Practice defines the purpose of ASOPs as follows: "The ASOPs are not narrowly prescriptive and neither dictate a single approach nor mandate a particular outcome. ASOPs are intended to provide actuaries with a framework for performing professional assignments and to offer guidance on relevant issues, recommended practices, documentation, and disclosure. Each ASOP articulates a process of analysis, documentation, and disclosure that, in the ASB's judgment, constitutes appropriate practice within the scope and purpose of the ASOP."

We believe section 3.5.3 does not conform with the ASB's stated intent; the section is narrowly prescriptive. Based on the facts and circumstances of a particular assignment, an actuary may use other equally reasonable methodologies to determine an appropriate assumption.

ACOPA recommends this section be deleted and that ASOP 27 be revised to address this issue.

Question 9:
Is it appropriate to require the actuary to disclose whether the contribution allocation procedure or the contribution requirements established by contract or law are likely to result in either declining future funded status measures or increasing future contribution requirements? If not, what disclosure responsibility do you feel the actuary has in these scenarios?

Response:
No, it is not appropriate to require the actuary to disclose future contribution levels. Once again, the proposed standard requires an actuary to expand the engagement with the plan sponsor to estimate whether future contribution levels amounts will be different than the current year's amount. If a sponsor feels this information is needed, then the sponsor should engage the actuary to perform calculations on future contribution levels.

Other Comments

ACOPA offers the following additional comments:

- Section 2.9 should read as follows: "Cost – The portion of plan obligations assigned to a period without regard to actual payments made".

- Section 2.10 must use the same definition of investment expenses that is in ASOP 27. We reiterate our concern over ASOP 27: "The definition should take into account that many investment expenses are difficult, if not impossible to determine. One such example is the internal expenses in a mutual fund. The Committee should not create a burdensome requirement."

- Section 3.2e should read as follows: "identify plan provisions applicable to the measurement and any associated valuation issues, including any elections (section 3.5);"

- The first sentence of section 3.3.1 should read as follows: "The actuary should consider the anticipated needs of different intended users; to the extent such needs are known."

- Section 3.3.1 should read as follows: "Risk or Uncertainty—Consistent with section 3.4.1 of ASOP No. 41, the actuary should consider what cautions regarding possible uncertainty or risk in any results should be included in the actuarial report."

- Section 3.13.2-5 should be revised to recognize an actuarial cost method may produce a range of contributions and that range should be consistent with the need to fund the plan consistent with the assumption when payments are expected to be paid.

- Section 3.13.5 requires the actuary to assess the level of future contributions. This is an inappropriate and unilateral expansion of the typical engagement between a plan sponsor and an actuary.

- Section 4.1(f) requires "a summary of participant information." What information would comply with this section?

- Section 4.1(l) requires the actuary to determine if future funding levels will be sufficient to make benefit payments when due. In order to comply with this section, the actuary would have to perform multiple projections to determine if this is even an issue. Again, we believe this to be an inappropriate and unilateral expansion of the actuary's engagement.

- Section 4.1(n) requires the actuary to recalculate the funded status on market value. This is not a difficult nor time consuming task. However, once this disclosure is made, the actuary then has to explain the different computations and why the actuary has selected one measurement over another. Since actuaries will now be required to disclose two methodologies, actuaries will most likely only disclose the funded status on market value when another asset value might be a better indication of the plan's funded status.

- Section 4.1(r) requires a description of known changes in assumptions and methods. We request this section include the same language from section 4.1.3 of ASOP 27: "The general effects of the changes should be disclosed in words or by numerical data, as appropriate. The disclosure may be brief but should be pertinent to the plan's circumstances".

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This letter was prepared by the ASOP Task Force of the ACOPA Intersocietal Committee, Richard A. Block, Chair. The primary authors were Richard A. Block, MSPA; Thomas J. Finnegan, MSPA; Robert Mitchell, MSPA; Kurt Piper, MSPA, Karen Smith, MSPA, and Clifford Woodhall, MSPA.

Thank you for your consideration of these comments.

Sincerely,

/s/
Joseph A. Nichols, MSPA, President
ASPPA College of Pension Actuaries

/s/
Mark Dunbar, MSPA, President-Elect
ASPPA College of Pension Actuaries

/s/
Judy A. Miller, MSPA
ASPPA Chief of Actuarial Issues

/s/
Richard A. Block, MSPA, Chair
ASOP Task Force