

**Comment #6 – 5/30/12 – 7:36 p.m.**

Actuarial Standards Board  
Via email  
May 30, 2012

Dear Sirs:

In review of the proposed ASOP 4, please note the following observations:

The Pension Committee asked for specific response on 9 points.

1. The general intent is good, and attempts to set a standard that discloses when a funding method fails to adequately fund a plan. It does over-reach on the Communications in section 4.1.
2. The actuarial present values language is sufficiently broad for my range of practice.
3. I do not support the position that an actuarial present value is related to the funds held for that purpose. The standard attempts to give more credit to the spread-gain methods than they deserve. For example, a plan with zero assets and no recognized supplemental liability could falsely claim that there was no unfunded actuarial accrued liability, because all costs are going to be paid from future normal costs. For this purpose, it is appropriate to modify the proposed standard by defining "SPREAD-GAIN ACTUARIAL ACCRUED LIABILITY" (SGAAL) as a distinct term from ACTUARIAL ACCRUED LIABILITY, and requiring a note that SGAAL is only a device for allocating pension costs between periods and has no value in measuring sufficiency.
4. The world of Financial Economics has a lively debate on the issue of a market-consistent present value. That debate continues in this ASOP draft. One position is that market-consistent value is what a willing buyer would charge for taking over the liability payments. Another position is that large plans can make a better deal by self-insuring those issues and can take a more optimistic view. Both viewpoints are represented in the ASB Pension Committee. I do not recommend a specific measure here, unless it is made by a principal party with a firm quote and a substantial asset base to make such claim - as the PBGC can do, and as some insurers can do, or based on legally mandated 417e lump sum rules. Otherwise, a market rate is just speculation.
5. The expanded definitions are clear to me.
6. The definitions on prescribed assumptions and methods are also addressed in ASOP 27 draft, and are sufficiently clear to me.
7. The language on funded status could use some additional language. The concept that a plan has received the scheduled contributions (e.g., no 430 funding deficiency in a plan covered under ERISA) is currently being used in the public arena in a misleading manner by stating that all Annual Cost payments have been made timely. If a public plan has made the annual contribution as required, with no unpaid amounts past due, that fact does not make the plan properly funded or adequately funded. And that distinction should be noted in the ASOP 4 standard.
8. While the proposed standard can be burdensome, reasonable practitioners should be able to comply in substantial form. The related methods for risk measurement, including option-pricing,

are useful, and further educational materials may be needed for the user of a report to understand them within the scope of the assignment.

9. The actuary who knows that a funding method will result in a failure to pay benefits has a moral issue. I feel strongly that such knowledge is important to the users of that information. I could grant a limited exception for actuaries who are engaged in a narrowly framed assignment that does not address the issue of insolvency. Such an example might be the pricing of a new feature or a new group added to a plan.

Here are some other issues:

Section 2.2 substitute "expected to be paid" for the word "due"

Section 2.9 substitute "without regard to actual funding contributions" for "for purposes other than funding"

Section 2.10 add the phrase "or the minimum funding standards under IRC 430"

Section 3.3 add the phrase "including elections already effective as of the measurement date, such as accounting methods or application of funding standard balances" at the end.

Section 3.5.1 should add a new section "c" to read "Binding elections adopted or effective on or before the measurement date should be reflected for accounting treatment and for application of applicable laws."

Section 3.10 f uses the words "not be appropriate" and would be better with a substitute "be misleading"

Section 3.12 d should reflect my previous comment that SGAAL is not a measurement of adequacy.

Section 3.13 c would require a disclosure under PPA when lump sum distributions would be restricted, and I believe that is a useful disclosure.

Section 3.13.2 and 3.13.3 have headings which confuse the reader.

Section 3.16.1 highlights an ethical concern about misleading use of an actuarial work product. Does the actuary have a duty to respond when presented with examples where the work was misrepresented?

Section 4.1 attempts to create a standard which is exceptional, burdensome and more of a "best practice" issue. Much of this information is beyond the need of plan principals and normal services.

These notes are in addition to the concerns expressed by ASPPA ACOPA, which I also endorse.

Respectfully Submitted,

NATIONAL RETIREMENT SERVICES, INC.

Robert R Mitchell, Chief Actuary