

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

May 30, 2013

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 second draft of the proposed changes to Actuarial Standard of Practice (ASOP) number 4, Measuring Pension Obligations and Determining Pension Plan Costs or Contributions.

These comments include responses to the questions posed in the Request for Comments, as well as concerns about other issues. These comments are presented 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

The second exposure draft on ASOP 4 reflects many of our comments on the first exposure draft and we thank the Pension Committee for adopting our suggestions. Concerns remain, however, and ACOPA requests that a third exposure draft be offered for comment.

Responses to the ASB Pension Committee's Questions

Question 1:

Does the use of bold font to identify defined terms improve the readability and clarity of the standard? If not, what suggestions do you have to improve the recognition of defined terms in the standard?

Response:

The use of bold fonts does improve the readability and clarity of the standard. We suggest the Committee consider using hyperlinks as well as a different font to help the reader navigate to the section or standard that defines the term.

Question 2:

Are the revised disclosure requirements regarding funded status clear, sufficient, and appropriate? If not, how should they be changed?

Response:

The revisions addressed our concerns. The disclosures are clear, sufficient and appropriate.

Question 3:

Some disclosures now require a qualitative assessment rather than a quantitative assessment. Do you feel that a qualitative assessment requires less work for the actuary than a quantitative assessment and reflects an appropriate level of disclosure effort?

Response:

We commend the Committee's change from quantitative to qualitative disclosures. Actuaries may then make disclosures as narratives or include quantitative results when those calculations are deemed appropriate.

Question 4:

Is the coordination of guidance on market-consistent present value measurements in the second exposure draft of ASOP No. 4 and the working version of ASOP No. 27 appropriate?

Response:

The guidance is appropriate.

Question 5:

Is a future change in control of the plan sponsor an appropriate example of an event that can trigger valuation issues under section 3.5.3(d)?

Response:

It may prove to be a significant factor in a valuation, if the actuary has reason to believe a change in control is possible.

Other Comments

ACOPA offers the following additional comments:

- Section 2.11. Actuaries commonly analyze net investment performance and base economic assumptions on the net results. As a result, requiring determination and disclosure of investment expenses that are not direct payments from the trust does not serve a useful purpose, and should not be required. The Standard should be drafted to conform with this practice. We suggest 2.11 be modified by replacing “borne” with “paid directly”. The revised definition would read; “Expenses—Administrative and investment expenses that are paid directly, or expected to be paid directly, by the plan.”

- Section 3.3. The introductory comments anticipate the standard will not require actuaries to make additional disclosures for federally mandated funded status measurements. We feel this point is too important to be included only in the comments and should be included in the actual standard. We suggest the following be added to the end of Section 3.3: “This standard does not require actuaries to make additional disclosures for federally mandated funded status measurements. Thus, funded status measurements associated with Adjusted Funding Target Attainment Percentage (AFTAP) certifications or Annual Funding Notices will not trigger additional disclosures.”
- Section 3.3.1. The current wording allows for the interpretation that the actuary should know what the needs of his or her principal are. In many cases, the needs cannot be anticipated - they are only determined after the actuary releases an actuarial communication and receives feedback from the Principal. To clarify expectations, the first sentence of section 3.3.1 should be modified to read as follows: “The actuary should consider the anticipated needs of different intended users; to the extent such needs are known.”
- Section 3.3.3. It is not enough for the actuary to consider risks or uncertainties but also to consider whether these factors should be included in the communication. To address this concern, Section 3.3.3 should be modified to read as follows: “Risk or Uncertainty—Consistent with section 3.4.1 of ASOP No. 41, the actuary should consider the risk or uncertainty inherent in the measurement assumptions and methods, how the actuary’s measurement treats such risk or uncertainty, and what cautions regarding possible uncertainty or risk in any results should be included in the actuarial report.”
- Section 3.14.2. Section 3.14.2 assumes plan sponsors maintain a consistent funding policy that would allow the actuary to anticipate future contribution levels. In many cases the funding policy is to contribute at least the minimum required contribution but no more than the maximum deductible contribution, and employers will vary the contribution level depending upon its profitability. Given the variability of the contribution rate, an actuary will find it difficult if not impossible to determine the implications of a single year’s contribution. We suggest the following language: “Procedure—If **contributions** are based on a **contribution allocation procedure** or the actuary knows the plan sponsor’s (or other contributing entity’s) funding policy, the actuary should qualitatively assess the implications of that procedure or policy on the plan’s expected future **contributions** and **funded status**. If contributions are not based on a **contribution allocation procedure** or funding policy, but may be anticipated because of other demands, such as contributions set in law or by a contract such as a collective bargaining agreement, the

actuary should qualitatively assess the implications of those contributions on the plan's expected future **funded status**. In making either of these assessments, the actuary may presume that all actuarial assumptions will be realized and the sponsor (or other contributing entity) will make contributions anticipated by the **contribution allocation procedure** or otherwise. The actuary's assessment required by this section, if any, should be disclosed (section 4.1(m))."

- Section 3.17.3. Any expansion of an actuary's assignment should be left to the discretion of the actuary and the Principal. Therefore, the phrase "...a substantial amount..." should be deleted from Section 3.17.3.
- Section 4.1(f). Section 4.1(f) requires "a summary of participant information" but does not provide guidance as to how the requirement is satisfied. One set of information should not be required for all plans, but it would be helpful to include some elaboration on the requirement. The standard should be clear that in no event, is the actuary required to disclose, directly or indirectly, personal information on individual participants. (For example, for a very small employer, divulging total compensation could effectively be disclosing the owner's personal compensation.) We suggest the committee provide examples to assist actuaries in the proper interpretation of this section. For example, a summary of participant information for a large plan might contain averages of benefits, broken down by age, service and/or compensation.

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; Kurt F. Piper, MSPA, and Karen Smith, MSPA.

Thank you for your consideration of these comments.

Sincerely,

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