

Comments on the Exposure Draft of the Proposed Actuarial Standard of Practice No. 4: Modeling Pension Obligations and Determining Pension Plan Costs or Contributions

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 *Modeling Pension Obligations and Determining Pension Plan Costs or Contributions*.

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. Section 4.4 Confidential Information is titled the same in proposed ASOP's 4, 27 and 35 but changes were added only in ASOP's 27 and 35. We think the intention was to have the same language in all three ASOP's. In ASOP 4, however, the section reads:

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

ACOPA recommends consistent language in all three ASOP's, such as in ASOP's 27 and 35, which reads:

“Confidential Information—Nothing in this standard is intended to require the actuary to disclose confidential information (as defined in the *Code of Professional Conduct* [Code]). Any confidential information shall be handled in a manner consistent with Precept 9 of the Code.”

2. 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.

3. Section 3.11 requires a quantitative disclosure of an investment risk defeasement measure. The concept of an investment risk defeasement measure is not defined so the actuary can neither calculate the measure nor provide meaningful commentary on its significance.

A more meaningful disclosure to plan sponsors would be a termination liability measure. *ACOPA recommends* that rather than require an additional calculation, either the ERISA section 4044 or PBGC liability calculations, in the actuary's professional judgement, should be sufficient a means of disclosure.

In the event that section 3.11 is finalized to nevertheless require a quantitative disclosure of an investment risk defeasement measure, ACOPA believes it would be helpful to include an appropriateness or materiality threshold for providing a defeasement measure. Considerations could include thresholds related to the size of the plan (either number of participants or asset level), whether the plan is in its first year or is in its early years, the time horizon remaining in the plan, and the investment mix of the plan. With respect to discount rates, considerations for different options could include whether it is more appropriate for smaller plans to use section 417(e) interest rates, market annuitization interest rates, or liability driven interest rates.

4. Section 3.21 has an example that infers a very limited scope where a gain loss analysis may not provide decision-useful information. *ACOPA recommends* instead a more meaningful example of a "limited group of individuals" that accounts for most of the actuarial accrued liability, rather than a "single individual".
5. Section 4.1 bb includes the phrases "if applicable" and "may meet" which implies that no disclosure is required if in the actuary's judgment a gain loss analysis would not provide decision-useful information. *ACOPA recommends* that the disclosure requirement be clarified or made explicit.

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,

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