AMERICAN ACADEMY *of* ACTUARIES

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November 15, 2014

Actuarial Standards Board
1850 M Street NW, Suite 300
Washington, DC 20036-4601

Re: ASOPs – Public Pension Plan Funding Request for Comments

Dear Actuarial Standards Board:

The American Academy of Actuaries'[1] Pension Committee (PC) is pleased to present the following comments in response to the Actuarial Standards Board's (ASB's) request for comments on Actuarial Standards of Practice (ASOPs) and Public Pension Plan Funding. The Pension Committee provides independent and objective analysis, advice and education to stakeholders of public and private retirement plans. We appreciate the hard work of the ASB on the development of ASOPs for the actuarial profession.

Our comments are in direct response to the six questions in the July, 2014 request:

1. *Public plan funding and associated actuarial valuations are less uniformly regulated than those of private sector pension plans. Actuaries may be asked by their principal to advise on funding levels. Is additional guidance needed, beyond that in the recently revised pension ASOPs, regarding appropriate public plan actuarial valuation practice to assist actuaries in performing their work and advising their principal? Why or why not?*

   The Pension Committee believes the recently revised pension ASOPs contain a very good summary of principles that all retirement actuaries can use to guide their practice and see no compelling reason that additional guidance is needed at this time. For example, Section 3.14.2 of ASOP No. 4 addresses an actuary's responsibilities with regard to the analysis of funding policies and directs the

[1] The American Academy of Actuaries is an 18,000+-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists 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.

actuary to report his/her findings using the guidance in Section 4.1(m). However, we believe the ASOPs should not be static, but should continue to be monitored in future years to ensure that they address the needs of the profession.

2. *If yes to question 1, in what areas is additional guidance needed?*

   Although we answered no to question 1, the Pension Committee noted several items in our comments on the recent ASOP No. 4 exposure drafts that could be considered. For example, in our comment letter dated May 31, 2012[2], we suggested additional guidance on disclosure of amortization periods used (pages 7 and 8, section titled "*Amortization Methods*") to clarify the nature of certain methodologies commonly used by public sector retirement systems. While the Pension Committee believes that the current guidance is adequate for public sector plan actuaries, both this suggestion from the ASOP No. 4 comment letter and several ideas that the Pension Committee's Public Plans Subcommittee is developing in response to this question are examples of areas in which future ASOP guidance might help to meet the evolving needs of the profession.

3. *If yes to question 1, should that guidance take the form of a separate public plan actuarial valuation standard or be incorporated within the existing ASOPs? Why or why not?*

   Although we answered no to question 1, the Pension Committee believes that any additional guidance should be incorporated within the existing ASOPs. In particular, ASOP No. 4 already has substantial definitions and discussion on cost and contribution allocation procedures that were the subject of our earlier comments (see our response to question 2 above). Similarly, any additional guidance on asset smoothing or assumption selection would naturally fall within ASOP No. 44 or ASOPs Nos. 27 and/or 35, respectively.

   Please note that the related issue of whether any additional guidance should apply to all areas of pension practice or only to public sector plans is addressed in response to question 5, below.

4. *In general, the ASOPs are principles based and not rules based. As a result, the ASOPs are generally not highly prescriptive. Should the ASOPs related to public plan actuarial valuations be more prescriptive? If so, in what areas?*

   The Pension Committee believes that the ASOPs related to public sector actuarial valuations should not be more prescriptive. It is true that in preparing public plan valuations, the plan sponsor and actuary generally are not subject to an external regulatory framework comparable to what applies to most, although not all, other

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[2] http://actuary.org/files/PC_ASOP4_Letter_120531.pdf and http://actuary.org/files/ASOP_4_Revision_Comment_Letter_PC_130531.pdf .

pension valuations. But creating standards that focus on prescriptive rules rather than broad principles would represent a fundamental shift in how the ASOPs function. Such a shift should only be undertaken if it is impossible to accomplish the mission of the ASOPs as they currently exist. Any additional guidance that is necessary for public plan practitioners can be provided by ensuring that principles in the ASOPs have sufficient breadth, rather than by shifting their focus to prescriptive rules.

In areas where pension valuations are subject to comprehensive regulation, the ASOPs often have limited practical effect. Where the statutory regulations are more restrictive than the ASOPs, the actuary can ensure compliance with the standards simply by following the law. For example, in a traditional private single-employer valuation, the actuary can generally ensure compliance with ASOP 27 by applying an interest rate in accordance with Section 430 of the Internal Revenue Code. However, these valuations include considerations such as demographic assumptions, data quality, and actuarial communications, where the relevant ASOPs guide practice far more significantly than the regulatory structure. In these areas, the current principle-based ASOPs are sufficient to guide practice for these plans.

In contrast with private plans, where some components of the valuations are tightly regulated and some are not, public plan actuarial work frequently lacks a detailed regulatory structure in all components of the valuations. Just as principle-based ASOPs are sufficient for the areas of private plan valuations that are not subject to comprehensive regulation, principle-based ASOPs are also sufficient for public plan valuations. However, it is necessary to ensure that the scope of the ASOPs is adequately broad to provide public plan actuaries with guidance on areas that are tightly regulated for single-employer private plans.

We also observe that additional ASOP guidance that addressees funding policy options and disclosures would only have a practical effect if the plan sponsor wanted to follow a funding policy based on principles that differ from the regulatory structure (for example, a funding policy that is in excess of the statutory minimum).

An additional consideration is that, for a variety of reasons and influenced by a number of factors and interested groups both within and outside the profession, actuarial practice is evolving rapidly. We believe, therefore, that many of the objectives that may have led to this question about more prescriptive standards will be satisfied by allowing this evolution to continue. For this reason, we believe it is premature for the ASB to consider undertaking a new role by providing prescriptive guidance. Rather than undertaking a fundamental shift in the purpose and nature of the ASOPs by adopting prescriptive rules for public plan valuations, the ASB should evaluate the current principle-based standards and possibly expand them to ensure that they adequately address the areas where public plan actuaries and plan sponsors have greater discretion than are present in other practice areas.

5. *The ASOPs have provided guidance that has been applicable to all areas of practice in the pension community (for example, private sector, multiemployer, public sector). If you believe that additional guidance is needed for public plan actuarial valuations, should any of that additional guidance also apply to non-public sector plans? Why or why not?*

   The PC believes that any additional guidance should be applicable to all areas of pension practice and <u>not</u> only to public plans. Public pension plans are not the only pension plans that do not have explicit minimum funding and other valuation requirements mandated by a regulatory body; for example, church plans also do not have such requirements. There are too many different types of pension plans for it to be practical to produce separate standards for each type, and there is also no need for such separate standards. All work by actuaries in connection with pension plans should be subject to the same standards of practice. Any specific issues for a particular type of pension plan can be addressed in a standard applicable to all pension plans.

   In addition, it is valuable to have general principles available that cover all aspects of actuarial work, even areas where comprehensive regulations apply. For example, even though rigorous minimum funding requirements exist for some plans, actuaries for those plans may work with their clients to develop a funding policy or cost budget that differs from that minimum. In these cases the actuary can benefit from the same standards that are targeted towards plans that do not have explicit funding regulations.

6. *The current definition of an "intended user" of an actuarial communication is "any person who the actuary identifies as able to rely on the actuarial findings" (ASOP No. 41, Actuarial Communications, section 2.7). Should the ASOPs require the actuary for public pension plans to perform additional, significant work (which would be incorporated in the guidance provided in the ASOPs) that is not requested by the principal if that work provides useful information to individuals who are not intended users? Why or why not? If so, should this requirement be extended to all pension practice areas? Why or why not?*

   The Pension Committee believes that ASOPs should generally not require the public plan actuary to prepare information for other than intended users, such as additional significant work that is not requested by the principal. However, the ASOPs could recognize that there may be circumstances in which an actuary might provide additional significant work that is not requested by the principal but is needed by other intended users when, in the actuary's professional judgment, it is critical to the purpose of the measurement and provides important information and context.

   Public plan actuarial valuations are frequently public documents that are available for anyone to read. In this context, the relevant individuals who are not intended users could potentially include all of the participants in the plan, all of the taxpayers that support the plan sponsor, and all of the investors who have purchased, or may purchase, bonds issued by the plan sponsor. It is impractical for the actuary to be obligated to prepare additional work that the principal did not request solely because it might provide useful information given the broad range of individuals and entities that have access to the results.

Expanding the ASOPs to require information solely because it is useful to those who are not intended users has the potential to greatly increase the volume of required work. This problem is particularly acute for public plans, where the actuarial results are available to a large population of interested parties with widely varied perspectives. Funding projections, sensitivity analyses, and benefit improvement studies are all likely to be useful to members of this population in many circumstances where the principal has reasonably determined that engaging the actuary to perform them is unnecessary. If the ASOPs mandate work based on its usefulness, actuaries could be required to prepare all of these analyses. The Pension Committee believes that the ASOPs should focus primarily on what is necessary to ensure the quality of the actuarial work and include additional information that might be useful to those who are not intended users only if the additions are incremental rather than significant and if they are appropriate in the actuary's professional judgment.

The American Academy of Actuaries' Pension Committee appreciates the opportunity to comment on these issues and would be happy to discuss any of these items with you at your convenience. Please contact Matthew Mulling, pension policy analyst (mulling@actuary.org; 202-223-8196) if have any questions or would like to discuss these items further.

Sincerely,

Michael F. Pollack, FSA, MAAA, EA, FCA
Chairperson, Pension Committee
American Academy of Actuaries