



AMERICAN ACADEMY *of* ACTUARIES

May 31, 2012

ASB Comments
Actuarial Standards Board
1850 M Street NW, Suite 300
Washington, DC 20036

Re: Comments on Proposed Revision of ASOP No. 4

To Whom It May Concern:

Thank you for the opportunity to comment on the proposed revision to Actuarial Standard of Practice (ASOP) No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*. On behalf of the American Academy of Actuaries' ¹ Joint Committee on Retiree Health, I would like to provide the following comments for your consideration.

Our comments related to a standard dealing exclusively with pensions will be limited, since our committee focus is on retiree group benefits. We believe clarification is needed, however, as to whether ASOP No. 4 will govern issues of retiree group practice. In addition to these comments from the Joint Committee on Retiree Health, other Academy comment letters will be submitted separately by the Pension Committee and the Pension Finance Task Force.

ASOP No. 4 and Retiree Group Benefits

We note in the exposure draft for ASOP No. 4 that the opening sentence of the background section states: "The ASB provides coordinated guidance for measuring pension *and retiree group benefit obligations* through the series of ASOPs listed below." [Emphasis added.] Five ASOPs are then listed—Nos. 4, 6, 27, 35, and 44. This is followed immediately by the statement: "ASOP No. 4 is considered the umbrella standard for pension obligations measurements. If ASOP No. 4 and another standard conflict, ASOP No. 4 will govern."

There is a notable difference between these statements and those in the background sections of the *current* ASOP No. 4 and the *exposure draft* of ASOP No. 27, which both state, "The ASB has provided coordinated guidance through a series of ASOPs for measuring pension obligations and determining pension plan costs or contributions." Four ASOPs are then listed—Nos. 4, 27, 35, and 44—followed by language that ASOP No. 4 would govern in case of conflict.

The new references in the ASOP No. 4 exposure draft to retiree group benefit obligations and ASOP No. 6—as contrasted with the current ASOP No. 4—raises questions about whether the

¹ The American Academy of Actuaries is a 17,000-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 qualifications, practice, and professionalism standards for actuaries in the United States.

ASB intends the standard for retiree health under ASOP No. 6 to be subordinate to that for pension obligations under ASOP No. 4. Would ASOP No. 4 govern if in conflict with ASOP No. 6? Our committee does not arrive at such a conclusion, particularly after reading the background section of the recently released ASOP No. 6 exposure draft, which describes both ASOP Nos. 4 and 6 as umbrella standards serving different plans. We do conclude, however, that there is ambiguity in the background section of the ASOP No. 4 exposure draft that should be clarified.

It is our impression that the ASB does not intend for ASOP No. 4 to govern in retiree group benefit situations. For example, as defined in Section 1.2 of ASOP No. 4, the scope does not include retiree group benefit practice. If the ASB does not intend ASOP No. 4 to govern in matters of retiree group benefit measurement, there would be little reason for the background section to refer to retiree group benefits or ASOP No. 6 as it does. While some of the recommended practices of ASOP No. 4 may have applicability to retiree group benefit measurement, others may not. The interests of practitioners and the ASB will be served best by having separate standards for each practice area. The relevance of ASOP No. 4 to retiree group benefit measurement is best articulated in a standard that is considered the primary resource for retiree group benefit measurement (i.e., ASOP No. 6).

If, however, the ASB intends ASOP No. 4 to be considered the governing standard for retiree group benefit measurements (e.g., retiree health benefits), that should be stated clearly. In addition, the ASB should highlight this substantial change in the various communications about the current exposure draft of ASOP No. 4 and/or re-expose the ASOP for further review.

ASOP No. 4 and the Exposure Draft for ASOP No. 6

We recommend that the ASB not finalize ASOP No. 4 before considering any related comments on ASOP No. 6—regardless of the intended relation between the two standards. The need for consistent language between the two standards should be the primary goal, despite the difference in comment period deadlines.

The Joint Committee on Retiree Health appreciates the continued efforts of the Actuarial Standards Board in ensuring that the standards of the actuarial practice are current. If you have any questions about these comments or if you need additional information, please contact Heather Jerbi, staff liaison to the Joint Committee on Retiree Health (Jerbi@actuary.org; 202.785.7869).

Sincerely,

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Chairperson, Joint Committee on Retiree Health
American Academy of Actuaries