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

RE: Proposed Revision of Actuarial Standard of Practice No.4

Dear Members of the Board:

My career as an actuary spans more than fifty years, including insurance company administration and consulting, large-firm actuarial consulting and more than twenty-five years as an independent consulting actuary. I understand the needs of clients and practitioners covering nearly the entire pension landscape, from the largest to the smallest single employer plans, multiemployer plans, plan sponsors and participants. I have observed the evolution of pension funding and accounting since the dawn of ERISA in 1974 and FAS 87 in 1986 and through the myriad of subsequent law and FAS/ASC changes.

I write to oppose the adoption of proposed Section 3.11, Investment Risk Defeasement Measure, to be added to ASOP No. 4. This requirement is ill-conceived, so much so that I am compelled to write to the Board for the first time.

It is difficult to see how the required disclosure of an Investment Risk Defeasement Measure (IRDM) is fundamentally different from other liability measures already disclosed. Single employer plans presently determine the funding target using segment rates derived from yields on investment grade fixed-income corporate debt securities. Multiemployer plans disclose “current liabilities” measured using U.S. Treasury yields. If these measures satisfy the newly required disclosure under proposed Section 3.11, then what is the purpose of that section? If not, it begs the question of “Why is yet another measure of essentially the same liability needed?” If the currently determined values already satisfy the ostensible purpose of Section 3.11, the section should be discarded.

The exposure draft does not provide a rationale for including newly drafted Section 3.11. The Board should explain the reasons why an IRDM is required and separately disclosed. In particular, the Board should address why the implications of computing an IRDM could not be included in the assessment and disclosure of risk under ASOP No. 51.

Adding one more measure of liability will only confuse. Clients are already coping with a dizzying array of such measures of the same accrued benefits; e.g., plan termination liability, funding target for minimum funding, benefit obligation for accounting disclosures, annual funding notice disclosures, PBGC variable premium liability, current liability for full funding, lump sum present values under Code section 417(e), liability for measuring restrictions on distributions to “25-highest” employees, to name a few.

One must also consider the cost of calculating and reporting additional measures of liability and discussing those measures with clients and other users of actuarial reports. There is a clear difference in the efficacy of adding information to reports for small plans (and very small plans in particular) compared to large plans. Very small plans, such as plans of family-owned businesses and professional service employers are established for one purpose only, for tax efficient retirement savings. Imposing additional costs on these plan sponsors, and indeed all plan sponsors, for esoteric actuarial disclosures of marginal utility will inevitably lead to even more plan terminations. The number of changes in pension legislation, accounting rules and actuarial standards since ERISA defies reason and is a significant factor causing the death of defined benefit plans. In any event, at a minimum, the Board should waive the Section 3.11 disclosure for small plans.

Respectfully submitted,

Michael R Gerard