July 31, 2018

ASOP No. 4 Revision
Actuarial Standards Board
1850 M Street, NW, Suite 300
Washington, DC 20036

Re: Comments on ASOP4 Exposure Draft

Dear Members of the Actuarial Standards Board,

Thank you for the opportunity to comment on the *Proposed Revision to Actuarial Standard of Practice (ASOP) No. 4* ("ASOP4"). The Pension Integrity Project at Reason Foundation offers pro-bono consulting to public officials, labor associations and other stakeholders to help them design and implement policies that improve public plan solvency and promote retirement security for public sector employees. As such, we frequently interact with public plan actuaries and are a robust user of public pension data from systems nationwide.

As individuals interested in advancing sound policymaking and the cause of public pension solvency, we write today in support of the proposed changes to ASOP4. The proposed changes would clearly enhance financial transparency and would facilitate a useful side-by-side analysis of even very disparate plans using a common set of assumptions. Further, implementing the proposed revisions would significantly advance the public's understanding of pension risks and liabilities, which will ultimately lead to better decision making.

While we do support the overall intent of ASOP4, in our view the best practice would be to use U.S. Treasury Yields as a proxy for the discount rate, not yields on highly rated fixed income securities in the calculation of the proposed Investment Risk Defeasement Measure (IRDM). Using Treasury Yields alone would result in a more standardized measurement across plans. Further, the proposed language allowing for use of fixed income securities runs against Congress' intent reflected in Section 939A of the Dodd-Frank law, which writes ratings out of federal regulations. The term "recognized rating agency" is not defined, but likely would be interpreted as an SEC-licensed nationally recognized statistical rating organization (NRSRO). There are ten such rating agencies which evaluate risk in different ways. As a result, yields on fixed income instruments carrying the top two NRSRO ratings will likely fall within a broad range, resulting in the possibility of large variance from one IRDM discount rate to the next depending on what definition the actuary selects for determining the IRDM.

Thank you again for the opportunity to submit comments in support of changes to ASOP4. Please do not hesitate to reach out if additional information would be useful.

Sincerely,

Leonard Gilroy
Senior Managing Director
Pension Integrity Project
leonard.gilroy@reason.org

Anthony Randazzo
Senior Fellow
Pension Integrity Project
anthony.randazzo@reason.org