July 24, 2020

ASB Comments
American Academy of Actuaries
1850 M Street, NW, Suite 300
Washington, DC 20036

RE: Comments to ASOP No. 4 Second Exposure Draft

Members of the Actuarial Standards Board:

The Colorado Public Employees' Retirement Association (Colorado PERA) is pleased to have the opportunity to respond to the Second Exposure Draft of a proposed revision to Actuarial Standard of Practice (ASOP) No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*. The views shared in this comment letter are those of the staff of Colorado PERA and do not represent the views of the Board of Trustees of Colorado PERA (Board), which has not taken a position on the Exposure Draft.

Colorado PERA was first formed in 1931 and now administers five defined benefit pension plans [State Division Trust Fund, School Division Trust Fund, Local Government Division Trust Fund, Judicial Division Trust Fund, and Denver Public Schools (DPS) Division Trust Fund], two defined benefit other postemployment benefit (OPEB) plans [Health Care Trust Fund and DPS Health Care Trust Fund], three defined contribution plans, and a private purpose trust fund.

Colorado PERA's five division trust funds include close to 600 employer reporting units with approximately 213,300 active members, 283,400 inactive members and 125,300 retiree members. In addition to Colorado PERA's annual actuarial valuation, the Board requires its external actuaries to produce actuarial projections for each division and health care trust fund and also a Signal Light Report regarding the five division trust funds which forecasts the likelihood of Colorado PERA meeting its economic and demographic assumptions based on the most recent actuarial valuation results. Copies of Colorado PERA's most recent actuarial valuations and Comprehensive Annual Financial Reports are available at http://www.copera.org.

We appreciate the Actuarial Standards Board (ASB) for allowing public comments to this proposed revision and believe public comments are an integral part of the process to determine standards and related authoritative guidance. Below are our comments to the Second Exposure Draft of ASOP No. 4.

Our comments focus on the required measurement calculation under Section 3.11, previously named *Investment Risk Defeasement Measure*, (IRDM) in the ASOP No. 4 Exposure Draft and renamed "Low-Default-Risk Obligation Measure" ("LDROM) within the Second Exposure Draft.

We commend the ASB for the two most significant revisions from the initial Exposure Draft, now included in the Second Exposure Draft regarding Section 3.11. From the sole perspective of a governmental defined benefit plan, we appreciate the recognition that a true defeasement measurement is not applicable nor appropriate for public pension plans. We also appreciate the change from the narrow requirement of the use of the Unit Credit Actuarial Cost Method to calculate an IRDM, to allowing any Spread Gain Actuarial Cost Method to be used to calculate an LDROM, as the change recognizes that the use of an attribution method, such as the Entry Age Actuarial Cost Method, is more appropriate and acceptable in the public plan arena.

However, our main issue with either the ASOP No. 4 Exposure Draft or Second Exposure Draft is not necessarily limited to the required methods and/or actuarial assumptions to be used to determine an IDRM or LDROM, but rather, our issue is with regard to the ASB's belief that mandating the calculation of yet another liability measure, will provide pertinent information or in any way solve the issues surrounding underfunded pension plans. The ASB claims that the determination of this new measurement will help illustrate the risks being shouldered by the plan by providing "…a more complete assessment of a plan's funded status and…additional information regarding the security of benefits that members have earned as of the measurement date.", yet provides no illustration or mapping of how such a conclusion could be drawn from yet another required liability measurement. This concern is only exacerbated by the fact that the new measurement would be determined under actuarial methods and assumptions, which, at a glance, or under heavy scrutiny, bear no relationship to the plan, or to the existing methods and assumptions carefully chosen by those who are familiar with and/or who govern the plan.

To that point, the PERA Board consistently performs periodic asset liability studies (every three-to-five years) to ensure the appropriate level of oversight and governance of the PERA investment program, including asset allocation and investment parameters. In addition, the PERA Board performs consistently periodic experience analyses (every four-to-five years) to determine and/or recalibrate appropriate economic and demographic actuarial assumptions for use in the annual actuarial valuations. With this in mind, the PERA Staff believe determining another measurement under the required use of a discount rate tied to US treasuries, settlement costs, or yields of corporate or governmental bonds, would produce information that is counterintuitive, inconsistent, and generally not constructive with regard to meeting the stated objective. This concern is further supported given the amount of effort and trust fund dollars spent to determine actuarial methods and assumptions that are indeed appropriate, useful, and serve the exact purpose of that which the LDROM is supposed to achieve. We find it disconcerting that the ASOP No. 4 Second Exposure Draft requires a measurement, such as an LDROM, and states its purpose, but yet does not explain exactly how the LDROM meets the stated purpose. In our opinion there is no connection.

As a number of respondents to both the initial and Second Exposure Drafts have stated, unlike private sector plans, pension plans that serve public entities and thus, large populations of public employees, are typically considered ongoing entities as are the governments they benefit. Therefore it only would be appropriate to value the liabilities of these public pension plans reflecting an ongoing and long-term perspective, which is already done within the actuarial funding valuations performed on a consistent, periodic basis.

In addition, Colorado PERA staff believe a more broad-based approach at risk analysis has been sufficiently reflected in the various methods of risk assessment suggested in ASOP No. 51, *Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan*

Contributions, a number of which are now implemented in the Colorado PERA Pension Funding Valuation Report. We feel the risk assessments resulting from the adoption and implementation of ASOP No. 51 are informative and helpful, such that they have been included in the PERA CAFR Letter of Transmittal since their inclusion within the PERA Pension Funding Actuarial Valuation Report.

If the ASOP No. 4 Second Exposure Draft is adopted as written, even considering the changes from a required IRDM to a required LDROM, Colorado PERA staff are very concerned there will be confusion as to which pension liability value is accurate. Additionally, the issuance of the new pension liability, specifically referred to, inaccurately, as an "obligation", likely would be misinterpreted as a recommendation of the actuary despite any disclosure to the contrary. We believe this approach unnecessarily will cause confusion and misunderstanding among the memberships, employers, legislators, and tax-payers who embody the stakeholders of all public pension plans.

In the public pension plan arena, governing boards and system staff struggle each day with education of and communications to our stakeholders. We are constantly working toward the defined goals of ensuring transparency and accountability while promoting contribution rate stability and intergenerational equity. In the collective opinion of the staff at Colorado PERA, the seemingly urgent need for yet another liability measurement is a distinct culmination of risk on every level. We are speaking to the risk of misinterpretation and misuse, inaccurate and inappropriate calculations, and reputational risk for the actuarial profession in general, particularly for those providing actuarial expertise and judgement in the production of annual funding valuations and disclosure information for public pension plans. These risks are numerous and remain unchanged from my initial response to the ASOP No. 4 Exposure Draft, dated July 26, 2018.

We believe the Actuarial Standards of Practice represent processes to which the actuarial profession have agreed with the generally accepted believe that all responsible and ethical practicing actuaries will follow these standards. Based on the responses to the initial ASOP No. 4 Exposure Draft, as well as responses to the Second Exposure Draft, there appears to be a large chasm of disagreement, particularly with respect to the IDRM/LDROM. Perhaps further discussion regarding an LDROM, including the need for such a measure, should first occur within the confines of the actuarial profession to achieve a consensus, prior to adopting the inclusion of such a measure as a requirement within an ASOP. Given the existing differences in opinions, at a minimum, the LDROM should be an optional, rather than a mandatory calculation, and would be more appropriately inserted into ASOP No. 51, rather than AOSP No. 4.

In closing, I cannot adequately express my disappointment in the actuarial professionals whom I envisioned would defend and promulgate defined benefit pension systems rather than contributing to the destruction of such. Admittedly, some details are fair game for presentation, discussion, and debate; however, it appears that regardless of information provided by the investment consultants and actuarial professionals actually familiar with these plans, the group of actuaries driving these changes within ASOP No. 4, believe they know more than the professionals and oversight Boards who do this work on a daily basis. Adding this new measurement based on a discount rate that is not remotely tied to the strategic asset allocation and capital market assumptions of the pension system being measured does nothing to illustrate the risks being shouldered by the plan. Under this flawed logic, the ASB also should be recommending that a liability number be calculated with each assumption (mortality, retirement, withdrawal, salary growth, etc.) set at an arbitrary "conservative" value rather than being based on the experience of the plan. The overtly prescriptive measures included in the Second Exposure Draft of ASOP No. 4, if adopted, will only expedite the end of public pension systems across the nation.

Again, we appreciate the opportunity to comment on this project. Should you have any questions regarding these comments, please feel free to contact me at rbaker@copera.org.

Sincerely,

Ron Baker
Executive Director, Colorado PERA