PTA

William B. Fornia, FSA | President

July 30, 2018

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

Dear Board Members:

I have reviewed the recently released exposure draft of a proposed revision to Actuarial Standard of Practice (ASOP) No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*. I limit my comments to **Section 3.11** of the proposed standard:

1. For many reasons, which are included in other comment letters, I believe that the "Investment Risk Defeasement Measure" ("IRDM") as defined in Section 3.11 is fundamentally flawed as a generally applicable measure of risk.

2. IRDM is clearly identical to values previously known as "Market Value of Liabilities" and "Solvency Value". Renaming the measure doesn't change it or somehow make it more useful.

3. I find that this measure is of little use and easily misleading, and would prefer not requiring its inclusion as a mandatory disclosure item. However, I am particularly concerned with the pretense that IRDM is an "Investment Risk Defeasement Measure." It is not.

    a) Even if assets were invested in risk free securities, with return equal to the discount rate in the IRDM calculation, the investment risk would not be defeased. This is because actuarial measures in IRDM are calculated using unit credit actuarial valuation method, while benefits are promised in line with other projected benefit actuarial methods, typically entry age normal. A square peg measured in inches and compared to a round hole measured in centimeters is not meaningful.

    b) Many plans provide benefits which are responsive to investment returns. These include Wisconsin Retirement System, South Dakota Retirement System, Colorado Fire and Police Pension Association, and many statewide Ohio systems, to name only the ones that I am most familiar with. For these plans, investment risk is in large part defeased through benefits being adjusted. Others have employee contributions being adjusted. For these plans in particular, the IRDM misrepresents the investment risk that is being defeased.

4. Finally, I am a signatory to two group letters (CCA public plans steering committee and an unaffiliated group of public pension actuaries). Please also consider their comments as my own.

I appreciate the opportunity to provide feedback on the proposed revisions to ASOP No. 4 and would be happy to discuss comments in greater detail.

Sincerely,

WB Fornia

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