ASOP No. 4 Revision Comments July 30, 2020
Actuarial Standards Board (ASB)
1850 M Street, NW, Suite 300
Washington, DC 20036

Dear Members of the Board:

My comments concern the Second Exposure Draft of Actuarial Standard of Practice (ASOP) No. 4 – *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*. Thank you for the hard work that went into this Exposure Draft, and for the opportunity to provide comments. On the positive side I think the Exposure Draft does an excellent job with its definitions, and discussions of actuarial cost methods, and reasonable actuarially determined contributions.

My concern is with Exposure Draft item 3.11 – Low-Default-Risk Obligation Measure (LDROM). In the prior ASOP4 Exposure Draft this was called the Investment Risk Defeasement Measure. Since Retirement System assets are not invested solely in risk-free securities and this is intended to be a market value of liability measurement, it is not clear what useful information this measurement provides. As a practicing public plan actuary, I would have difficulty describing to the Retirement Board why this measurement is helpful, or what actionable information it provides them.

In the Transmittal Letter of the Exposure Draft, the ASB writes the following about the LDROM, "The calculation and disclosure of this additional measure is not intended to suggest that this is the "right" liability measure for a pension plan." If this is not the right liability measure for a pension plan, then why is it being required? Is this simply some additional theoretical yardstick? About the only thing we know for sure is that the funded ratios determined under the LDROM will be considerably lower than those currently determined using valuation assumptions, and these lower funded ratios will immediately be used by anti-public plan groups to further their argument that Retirement Systems and their sponsors are burdened with significant debt and the plans should be terminated. Do we want to contribute to that side of the argument, especially when our calculations here are theoretical at best?

The ASB seems to be substituting its judgement for those of retirement board members, public plan actuaries, and other public plan professionals. We need to keep in mind that new actuarial calculations and disclosures require additional work by actuaries and therefore additional plan costs to Retirement Systems, and ultimately taxpayers, on top of regular plan costs. This seems like an exceptionally poor time to increase costs for public plans, particularly for a theoretical measurement. Indeed ASOP51 only recently came on the scene, and required a raft of new risk measurements, plan maturity measurements, and disclosures. Retirement Systems are already absorbing increases in consulting fees due to satisfying the requirements of this ASOP and now the ASB wants to add more?

It seems to me that before a requirement like the LDROM is finalized as a required disclosure, the profession should be reasonably united behind its usefulness. This does not seem to be the case. I suggest the LDROM requirement either be removed from the Exposure Draft, or made optional, or somehow reconfigured so that the actuarial profession and retirement plan professionals can be united behind its application, and actuaries are not in the difficult position of explaining why this measurement is useful, and worth additional increases in plan fees to provide.

Thank you for the opportunity to provide comments.

Sincerely,

Richard A. Young
Actuary
New York State Teachers'
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cc: T. Lee
S. Pangburn