**Public Pension Financial Forum**
**c/o Ohio Public Employees Retirement System**

**277 E. Town Street**

**Columbus, OH 43215**

July 30, 2020

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

Dear Board and Staff:

The Public Pension Financial Forum (P2F2) is pleased to have the opportunity to respond to the 2020 Proposed Revision of Actuarial Standard of Practice (ASOP) No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*.

P2F2 was formed in 2004. The purpose of this organization is to promote excellence in public pension plan financial operations, provide educational programs of current interest to the membership, promote the exchange of ideas concerning financial operations and reporting between public pension plans, and to foster sound principles, procedures and practices in the field of public pensions related to the financial operations of such plans. Membership is open to any finance employee of a public pension who supports the purposes of P2F2. The organization currently has 293 members representing 117 employee benefit plans, offering defined benefit, defined contribution and hybrid plans.

We would like to thank the Actuarial Standards Board (ASB) for considering public comments to this proposed revision and believe public comments are an integral part of the process to determine standards and related authoritative guidance.

In regards to paragraph 3.11, we appreciate that the ASB chose to eliminate the investment risk defeasement measurement as part of the most recent proposed revision as governmental defined benefit plans are considered perpetual entities and typically do not have the option to transfer liabilities to a third party. As such, these types of entities would not gain any value from this type of measurement. Similar to the aforementioned measurement, we feel a low-default-risk obligation measurement provides negligible value in assessing the funded status or costs associated with a governmental defined benefit plan.

We urge the ASB to consider that governmental defined benefit plans engage an actuarial service provider to complete periodic actuarial funding valuations in order to meet certain administrative, governance and regulatory requirements. These mainly include obtaining periodic information pertaining to (1) the actuarially determined contribution rates (or an assessment of the contribution rate(s) if plan funding is determined by statute), (2) the assessment of whether funded status has improved or deteriorated compared to the prior period and (3) the causes of changes in funded status. This information is prepared in accordance with the funding policy as determined by those who govern the Plan and the actuarial service provider does not typically act in a fiduciary capacity as part of the engagement. Liabilities and related measurements in the existing actuarial funding valuation all have one thing in common: they are determined on a reasonable basis in order to report costs and funding obligations of the Plan. Requiring an obligation-related measurement based on an entities' cost-of-capital (i.e. a municipal bond rate) does not provide additional information to users of the report to assess the funded status of the plan, nor does it help users assess the true costs of providing benefits. In fact, this measurement tends to distort the Plan's costs and obligations when investments of the Plan are comprised of a diversified portfolio that includes growth-oriented investments as opposed to solely treasuries, municipal bonds etc. We feel measurement of the Plan's obligations are most realistic when associated with the Plan's investments that are used to pre-fund these obligations. We believe this relationship helps ensure that the actuarial funding valuation report, which is available publically, does not convey the need for additional taxpayer-based funding when those governing the Plan do not believe is necessary.

We kindly ask the ASB to reconsider the use of the term 'obligation' to describe the alternative measurement in paragraph 3.11. From the perspective of the end-user(s) of the report, we feel this incorrectly conveys the notion that additional amounts are actually owed arising from the use of a discount rate not associated with the plan's investments. Similarly, if an additional obligation exists we feel this incorrectly conveys the notion that revenue or additional expense should be recognized to reflect changes in the low-default-risk obligation from one measurement period to the next.

We kindly ask the ASB to also reconsider the use of the term 'low risk" to describe this alternative measurement. In an instance where a tax-exempt general obligation municipal bond is chosen to determine the low-default-risk obligation; paragraph 3.11 (c) limits the rates to bonds that received one of the two highest ratings given by a recognized ratings agency. According to Moody's and S&P Global Ratings (S&P), which are considered Nationally Recognized Statistical Rating Organizations by the U.S. Securities and Exchange Commission, a low default risk indication appears to reside with lower credit ratings as shown in illustrative tables below:

| **Moody's**[1] | |
|---|---|
| Aaa | Obligations rated Aaa are judged to be of the highest quality, subject to the lowest level of credit risk. |
| Aa | Obligations rated Aa are judged to be of high quality and are subject to very low credit risk. |
| A | Obligations rated A are judged to be upper-medium grade and are subject to low credit risk. |
| Baa | Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics. |
| Ba | Obligations rated Ba are judged to be speculative and are subject to substantial credit risk. |

[1] Selected ratings were sourced from Moody's website. The complete ratings scale can be found at https://www.moodys.com/Pages/amr002002.aspx

| **S&P Global Ratings**[1] | |
|---|---|
| AAA | **Investment Grade:** Extremely strong capacity to meet financial commitments |
| AA | **Investment Grade:** Very strong capacity to meet financial commitments |
| A | **Investment Grade:** Strong capacity to meet financial commitments, but somewhat susceptible to economic conditions and changes in circumstances |
| BBB | **Investment Grade:** Adequate capacity to meet financial commitments, but more subject to adverse economic conditions |
| BB | **Speculative Grade:** Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions |

[1] Selected ratings were sourced from the S&P Global Ratings website. The complete ratings scale can be found at https://www.spglobal.com/ratings/en/about/intro-to-credit-ratings

We applaud the ASB's efforts to increase transparency in this area and agree with the remarks at the end of the transmittal letter with regard to providing additional information about the plan's funded status and security of the benefits. However, we feel paragraph 3.11 is an inefficient and conceptually incorrect mechanism to achieve these objectives. There are far better mechanisms offering more transparency which already exist in the form of existing report disclosures covering experience gains and losses, as well as with periodic experience studies. Large experience losses in the areas of economic and demographic assumptions year-after-year, as well as, results of periodic experience studies provide a more complete picture of the funded status compared to the measurement proposed in paragraph 3.11. The ASB may want to consider enhancing these existing disclosure requirements to bring attention to a situation where actuarial assumptions chosen by the Plan are deviating from actual results over the longer-term.

The measurement proposed in paragraph 3.11 will result in additional fees being charged to governmental defined benefit plans that are already complying with a myriad of regulatory standards which require multiple measurements of benefit obligations. We feel this alternative measurement of the obligation provides negligible value to governmental defined benefit plans in addition to the abundance of information commonly reported in (1) the existing actuarial funding valuation, (2) reports prepared in accordance with governmental accounting standards, (3) plan-specific studies that are routinely performed to assess the funding obligations and (4) studies to assess the value of the benefits provided by a defined benefit plan. The reality is that plans do not have an endless supply of discretionary funds to pay for these increased services that we feel are of little-to-no use. We kindly ask the ASB to consider if additional transparency into the plan's status and security of benefits can be achieved by enhancing existing risk disclosures that are already being provided in accordance with ASOP No. 51.

We ask the ASB to consider whether the overall financial solvency of the governmental entity sponsoring the Plan is a better indicator of the security of Plan benefits compared to the alternative measurement proposed in the Exposure Draft. The ASB may also consider whether existing guidance promulgated by the Governmental Accounting Standards Board (GASB) on 'going concern disclosures' and/or their existing project to assess the relevance of these disclosures meets the ASB's objective of providing additional information about the security of Plan benefits. For reference, additional information can be found at:
https://www.gasb.org/jsp/GASB/GASBContent_C/ProjectPage&cid=1176166013405#background.

The P2F2 Board of Directors has not taken a position on any of the remaining aspects of this Exposure Draft.

Again, we appreciate the opportunity to comment on this project. Should you have any additional questions regarding these comments, please feel free to contact our organization by emailing Lawrence Mundy at lmundy@copera.org.

This response was prepared by a collective effort of the P2F2 Board. By our e-mail submission, the P2F2 Board of Directors substantially agrees with the views in the form presented in this response. However, there are some areas where one or more P2F2 directors may have a slightly different perspective which will be shared with the Actuarial Standards Board in their systems' separate responses to the proposed revision.

Sincerely,

Rob Dolphin

P2F2 President