***Via Electronic Mail***

July 31, 2020

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

Re: ASB Comments – ASOP No. 4, Second Exposure Draft

To the Members of the Actuarial Standards Board:

On behalf of Cheiron, Inc., I am providing the following comments on the second exposure draft of proposed changes to ASOP No. 4. We appreciate the work and effort put in by the ASB Pension Committee to develop the second exposure draft based on the comments received. We also appreciate the opportunity to provide these additional comments.

While the second exposure draft represents an improvement over the prior draft we still have a number of concerns. We will provide our comments in order of the sections in the second draft.

1. Section 2 – the exposure draft uses the term "plan sponsor's funding policy" in a number of sections. However, that term is not defined in the draft. Furthermore, depending upon the specific situation, the funding policy may be set by law, by ordinance, by the trustees, or by other agreement (e.g., with the PBGC) not just by the choice of the plan sponsor. Therefore, we suggest that the term be changed to "funding policy with respect to the plan" and that a definition of "funding policy" be added to section 2. The definition should be something like "the policy by which the anticipated contributions to the plan are determined."

2. Section 3.2 – the exposure draft lists 21 general procedures that an actuary "should perform" when measuring pension obligations and determining periodic costs or actuarially determined contributions. Many of the items state that the actuary is to "select" a method or assumptions. However, where the methods or assumptions are prescribed, the actuary will not be making any selection. We suggest that the word "select" be changed to the phrase "select or identify" to reflect this fact.

3. Section 3.11 – section 3.11 states that if the actuary is performing a funding valuation then the actuary should calculate and disclose a "low-default-risk obligation measure" (LDROM) of the "benefits earned" as of the measurement date. To make the calculation, the actuary is to select a discount rate that is derived from low-default-risk fixed income securities whose cash flows are reasonably consistent with the pattern of benefits expected to be paid in the future. The actuary is to use an immediate gain actuarial cost method when calculating this measure.

A funding valuation should ideally include only those measures of liability that will help the plan sponsor determine what contributions are needed to carry out the funding policy with respect to the plan. We see no purpose in requiring that a funding valuation include a measure that will not help the plan sponsor or trustees unless the particular measure is required by law, regulations, or accounting standards.

For plans with variable benefit formulas that modify the benefit based upon the performance of plan assets, there is no portfolio of fixed income securities whose cash flows are reasonably consistent with the pattern of benefits expected to be paid in the future, and the LDROM serves no purpose. For public sector plans the calculation of a LDROM will not be useful to the plan trustees who are the intended users of the funding valuation. Even if the LDROM was determined using the funding method used for the public sector plan, the calculation will not serve any useful purpose of the plan trustees. As a measure of risk, the calculations at different discount rates made for Governmental Accounting Standards Board (GASB) statements 67 and 68 and the risk analysis made under ASOP 51 are of much more interest to the intended user of the funding valuation.

As described in greater detail in our response to the first exposure draft with respect to the proposed investment risk defeasement measure, the calculation of the LDROM will more likely be used (or, perhaps, misused) by those who have an agenda to end public pension plans. In our prior response, we also addressed the difficulty of determining what is meant by "benefits earned", particularly with respect to a public plan. The second exposure draft does not address those concerns. Accordingly, given the potential for misuse and the problem of defining benefits earned, we suggest that section 3.11 be deleted from the final revision and instead added to ASOP 51 as a possible measure of the cost to eliminate investment risk.

4. Section 4.1(o) – section 4.1(o) requires disclosure of the LDROM determined in accordance with section 3.11. In addition, section 4.1(o) requires related disclosure with respect to the calculation. We believe that section 4.1(o) is not needed and could be deleted. In any case, the particular disclosures should be modified.

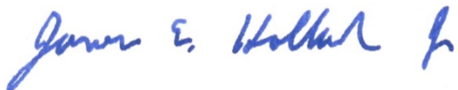
   For plans for which the actuary already determines a measure that would be an LDROM (that is, for single-employer plans, and multiemployer plans, that are subject to the funding standards of ERISA), the discount rate is prescribed by law and is already disclosed in the actuarial report. Assuming that those measures would be viewed as the LDROM required to be calculated, any rationale for the selection would simply be a statement that the rate is prescribed by law. Accordingly, section 4.1(o)(1) could be shortened to merely require that the discount rate used be disclosed.

   Section 4.1(o)(2) should be modified to add the words "if applicable." Thus, a disclosure would not be required when there are no other significant assumptions that differ from those used in the funding valuation.

Section 4.1(o)(5) should be deleted or substantially modified. For a single-employer plan that is subject to the funding requirements of ERISA, the LDROM measure (the funding target determined using non-stabilized rates) has been an integral part of the funding valuation since the effective date of the Pension Protection Act of 2006. Intended users need no new specific commentary from the plan actuary to understand its significance. For a multiemployer plan that that is subject to the funding requirements of ERISA, the likely LDROM measure, current liability (as defined and calculated under the law), has been an integral part of the funding valuation for over 30 years. However, the measure has no real significance with respect to the funding status of the plan, plan contributions, and the security of participant benefits. There are other measures (such as the determinations of "zone status" and projections of plan solvency required under the law) that have much more significance on the funding status of the plan and plan contributions. Those other measures may require actions be taken by trustees in accordance with the law. For a public sector plan, the projections and measures determined pursuant to GASB statements 67 and 68 at different discount rates are of more interest to the plan sponsor than an artificial LDROM measure that is based upon assumed investments that are unrelated to the actual portfolio of plan assets. However, the risk assessment under ASOP 51 is much more useful to assess the security of participant benefits, the funded status, and sufficiency of plan contributions.

If you have any questions or would like to discuss this letter, please feel free to contact me at 703-896-1456, extension 1039.

Sincerely,
Cheiron



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