Comments on the Exposure Draft on Assessment and Disclosure of Risk Associated with Pension Obligations, Plan Costs, and Plan Contributions

May 22, 2015

The Actuarial Standards Board

The ASPPA College of Pension Actuaries (ACOPA) appreciate this opportunity to comment on the Exposure Draft on Assessment and Disclosure of Risk Associated with Pension Obligations, Plan Costs, and Plan Contributions. This response to the questions posed in the exposure draft is presented by actuaries who work primarily on small to mid-sized pension plans, including plans in which a significant portion of the pension obligation is attributable to principal employees.

General Comments

ACOPA appreciates the consideration given by the Actuarial Standards Board (ASB) Pension Committee to comments on the 2012 discussion draft, and the significant revisions made in the exposure draft. Although the scope of this draft has been significantly curtailed, ACOPA remains concerned that the ASB, through recent revisions to existing standards and this exposure draft, is unilaterally expanding the scope of engagements between plan sponsors and actuaries. The actuary, in consultation with the principal, should be given broad discretion to ascertain which risks are of most importance to the particular assignment, and focus on assessing those risks. As discussed below, the actuary should advise the principal of the need for risk assessment, but should not be precluded from engaging in a project because the principal does not want to the project to include the level of risk assessment that would be required by this proposed standard.

Comments on the ASB Pension Committee's Questions

Question 1. The discussion draft that preceded this proposed ASOP indicated that a risk assessment should be performed for substantially all pension assignments. The exposure draft has limited the assessment to funding valuations, as defined in section 2.1. Do you believe this limitation is appropriate? Why or why not? If not, what other types of valuations should include risk assessments?

Response. The more limited scope is a welcome revision, but may be too narrow. Measurement of pension obligations performed in conjunction with a major change in plan design should be subject to the assessment and disclosure of risk standard, but does not appear to be covered by the definition of "Funding Valuation". Although this project may be included in "benefit levels supported by specified contribution levels", that is not clear. The definition of a funding valuation as a "periodic" measurement indicates this sort of one-time project would not be included in the scope. ***ACOPA recommends*** that the definition of "Funding Valuation" in section 2.1 be modified

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by adding the following sentence: "The measurement of pension obligations may be performed in conjunction with a non-recurring project, such as the initial design or substantial amendment of a plan's benefit provisions."

Question 2. Does the language in the exposure draft provide sufficient guidance to actuaries performing risk assessment work? If not, what additional guidance should be provided?

Response. The distinction between qualitative and quantitative analysis is ambiguous. A qualitative analysis will often include calculations that will guide the actuary in determining whether or not a more detailed quantitative analysis is appropriate. When do calculations made as part of a qualitative analysis make the analysis quantitative, and subject to the disclosure requirements? ***ACOPA recommends*** that a statement be added to the first paragraph of section 3.5 providing that a qualitative analysis may include calculations, and it is left to the actuary's professional judgment to determine if the analysis is qualitative or quantitative.

Question 3. Is the language in the exposure draft sufficiently flexible to allow for new developments in this area of actuarial practice?

Response. The requirements for quantitative analysis are too prescriptive. The actuary should be able to use judgement in determining if a 10 year projection is appropriate, and how frequently that projection should be performed. Detailed analysis beyond the scope of the engagement should not be mandated.

Question 4. Do you agree that the guidance in section 3.3 regarding assumptions used for the assessment of risk should include moderately adverse but plausible outcomes? If no, what guidance would you propose?

Response. The concept of "moderately adverse but plausible" is reasonable, but may not be appropriate for all circumstances. The actuary should not be precluded from using more aggressive but plausible assumptions when the possibility of that outcome would be of particular interest to the principal. Also, "favorable" experience, such as unexpectedly high investment returns, may have adverse consequences, such as overfunding resulting in a 50% excise tax on plan termination. ***ACOPA recommends*** that "or favorable" be inserted after "adverse" in section 3.3, and that the phrase "and may reflect more aggressive but plausible outcomes if the possibility of that outcome is of particular importance to the plan or plan sponsor" be added to the end of the last sentence of the first paragraph of that section.

Question 5. As discussed in section 3.5, for a funding valuation of a plan, the actuary should perform a risk assessment, which may be quantitative, qualitative, or both. Should the guidance require the actuary to use professional judgment in choosing which type of assessment (quantitative, qualitative, or both) to use? For example, if an actuary believes a quantitative assessment should be performed, do you believe providing a qualitative assessment instead of a quantitative assessment should be considered appropriate actuarial practice?

Response. The actuary should be required to use professional judgement in choosing which type of assessment to use. However, if the scope of the project includes only a qualitative analysis, and the actuary finds that a quantitative analysis would be advisable, the actuary should not be required to perform a quantitative analysis. The actuary should disclose that scope limited the analysis, and describe what additional analysis should be done.

Question 6. Plan maturity measures have been included as a potential disclosure item to assist intended users in understanding the risks associated with the plan. Are there additional measures that may be disclosed that are significant to understanding the risks of the plan? If yes, what measures would you recommend as a disclosure item?

Response. No additional measures are suggested. These ratios are not relevant for many small plans where the nearness of the owner to retirement age is the best measure of a plan's maturity. The current language leaving use of any of these measures to the actuary's judgement should be retained.

Question 7. Do you agree with the use of a threshold for requiring mandatory quantitative assessment that is based on the actuary's professional judgment? If not, what threshold do you believe should be used?

Response. A threshold for requiring mandatory quantitative assessment is not appropriate. A quantitative analysis should only be required "based on the actuary's professional judgement" and subject to the scope of the work agreed to with the principal. If the actuary's professional judgement indicates a quantitative analysis should be done, and the scope does not include such an analysis, the actuary should disclose that a quantitative analysis is recommended, but was not performed due to the scope of the engagement.

Question 8. Do you believe that the term "large plan" in section 3.7 is sufficiently clear that an actuary will be able to apply it in practice? If not, what clarification would you suggest? Are there other characteristics that should be specified in determining "large plan"?

Response. The term "large plan" is not sufficiently clear. "Large" as used in the proposed standard appears to be larger than the 100 or 500 participant definitions used by ERISA and the Internal Revenue Code, which govern most plans for which funding valuations are performed. If a "large plan" threshold is included in the final standard, it would be helpful to make it clear that "large" means 10,000, not 500, for example. Threshold amounts should also be suggested for plan assets and the size of a plan's actuarial accrued liabilities. Considerations listed in section 3.7 as well as whether or not a plan has substantial underfunding, a high (or low) maturity ratio, and whether or not the plan sponsor is publicly traded or is a governmental entity should also be considered in determining if quantitative measurement is appropriate.

Question 9. Is every five years an appropriate period for performing a mandatory quantitative assessment for a "large plan" in the absence of significant changes, as described in section 3.7?

Response. Not in every situation. The need for a quantitative analysis, and the period for performing such an analysis, should be based on the actuary's professional judgement and subject to the scope of the work agreed to with the principal.

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In summary, ACOPA asks that the ASOP provide sufficient flexibility for the actuary to judge what risks merit assessment, and to work with the principal to define the scope of an engagement. We also ask that the unique nature of smaller pension plans be considered when the final standard is developed.

This letter was prepared by the ACOPA ASOP Task Force, Richard A. Block, Chair. The primary authors were Richard A. Block, FSPA; Thomas J. Finnegan, MSPA; Michael Bain, MSPA; Kurt Piper, FSPA, and Karen Smith, MSPA.

Thank you for your consideration of these comments.

Sincerely,

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