

Proposed Revision of Actuarial Standard of Practice No. 4 and No. 27

Introduction

The Actuarial Standards Board (ASB) provides guidance for, among other things, measuring pension obligations through a series of actuarial standards known as the Actuarial Standards of Practice (ASOPs), including the following:

- **ASOP No. 4**, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*, and
- **ASOP No. 27**, *Selection of Economic Assumptions for Measuring Pension Obligations*.

ASOP No. 4 is the primary standard for measuring pension obligations and in the event of conflict with any other standard, ASOP No. 4 prevails.

Currently, the Pension Committee of the ASB is in the process of reviewing and revising, among other standards, the ASOPs No. 4 and No. 27. The Pension Committee is focused on the following issues relating to ASOPs No. 4 and No. 27:

- Addressing economic value issues (i.e., financial economics (FE)) regarding both actuarial methods and actuarial assumptions, thus requiring revisions to both ASOP Nos. 4 and 27,
- Reviewing ASOP No. 4 in its entirety, not just with regard to economic value issues. This review includes funding methods, contribution policy, funded status, projections, terminology, and valuation of certain types of plan provisions.

Timeline and Comment Deadline

In January 2011, the ASB issued the first discussion draft for ASOP No. 4

(http://www.actuarialstandardsboard.org/pdf/discussions/asop4_discussiondraft_2011_updated.pdf)

and the first exposure draft of ASOP No. 27

(http://www.actuarialstandardsboard.org/pdf/asops/asop27revision_exposure_2011_updated.pdf)

ASB also solicited and accepted comments on these drafts.¹

Subsequently, in January 2012, the ASB issued the exposure draft for ASOP No. 4

(http://www.actuarialstandardsboard.org/pdf/exposure/ASOP_No4_exposure_2011.pdf) and the

second exposure draft for ASOP No. 27

(http://www.actuarialstandardsboard.org/pdf/exposure/ASOP_No27_second%20exposure_2011.pdf).

At this time, ASB is soliciting written or electronic comments for proposed changes in the exposure drafts for **ASOP No. 4 and No. 27** from interested parties to be submitted by **May 31, 2012**.

¹ Comments on first exposure draft to ASOP No. 27 are available at <http://www.actuarialstandardsboard.org/exposure.asp>

Key Proposed Changes to ASOP No. 4

Some of the proposed changes to ASOP No. 4 introduce new concepts while others are refinements to concepts currently in the standard.

- **Full Funding:** The exposure draft is proposing to clarify the current definition of “fully funded.” The proposed changes will require an actuary to disclose the following items when asserting that the plan is ‘fully funded’:
 - Whether the plan’s market value of assets is equal to or exceeds the estimated cost to settle benefit obligations;
 - The fact that being fully funded is a temporary measure at a particular time;
 - Whether there is significant risk that the fully funded plan could cease to be fully funded; and
 - The fact that additional contributions may be required despite current full funding of the plan.
- **Funded Status:** The exposure draft contains new disclosure requirements related to a plan’s funded status. Any plan funded status disclosure based on Actuarial Value of Assets (AVA) must be accompanied by another disclosure based on Market Value of Assets (MVA).
- **Funded Status under Spread Gain Methods:** When disclosing the plan’s funded status based on a spread gain method (e.g., aggregate or individual level premium methods), the actuary must also disclose funded status based on an immediate gain cost method (e.g., Entry Age Normal Cost (EAN) or Projected Unit Credit (PUC)).
- **Change in actuarial method:** The actuary must disclose the reason for any change in the AVA method (including a reset to MVA), amortization method, or cost method.
- **Proposed Definition of Market-Consistent Present Value:**
 - A present value type that is not based on plan assets.
 - Consistent with “price at which expected benefit payments would trade in an open market.”
 - May vary depending on the purpose of the measurement.
- **Rationale required for plan provisions not valued:** Written rationale required when the actuary excludes any significant plan provisions from the valuation (e.g., gain sharing or other asymmetric plan features).

- **Disclosure of expected declining future funded status:** Required disclosure if the calculated recommended contributions or contributions set by contract or law are expected to result in declining future funded status.

Key Proposed Changes to ASOP No. 27

- **New definition of reasonable assumption standard:**
 - Old standard was that assumptions were not anticipated to produce significant actuarial gains or losses over the measurement period.
 - New standard requires that the assumption meets all of the following:
 - Appropriate for the measurement purpose;
 - Reflects the actuary's professional judgment;
 - Takes into account relevant historic and current economic data;
 - Reflects the actuary's estimate of future experience, the actuary's observation of estimates inherent in financial market data, or a combination thereof; and
 - Is unbiased (neither optimistic nor pessimistic), except when provisions for adverse deviation are included and disclosed, or when alternative assumptions are used for the assessment of risk.
- **Assumption and assumption change rationale:** Requirement of brief rationale statement for each non-prescribed assumption and each change to a non-prescribed assumption.
- **Guidance for actuaries:**
 - Regarding estimated future investment returns based on arithmetic and geometric returns.
 - Regarding payroll growth assumption.

Instruction for submitting comments to the ASB on the exposure drafts for ASOPs No. 4 & No. 27

The ASB is accepting comments by either electronic or conventional mail. The preferred form for the ASB is email.

Pension Review Board Meeting
March 7, 2012

Electronic Comments can be e-mailed to **comments@actuary.org**. Comments can be included in either the body of the message or as an attachment prepared in any commonly used word processing format.

Conventional Mail Comments can be sent to the following address:

ASOP No. 4 Revision

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

ASOP No. 27 Revision

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