

California Actuarial Advisory Panel



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September 29, 2021

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

**SUBJECT: ASB COMMENTS: ASOP No. 4, Second Exposure Draft**

The California Actuarial Advisory Panel (CAAP) supports the ongoing improvement of Actuarial Standards of Practice (ASOPs) and appreciates the opportunity to provide input to the Actuarial Standard Board (ASB) on the second exposure draft for proposed ASOP No. 4 changes.

The CAAP was created with the passage of California Senate Bill 1123 in 2008 and consists of eight public sector actuaries appointed by public officeholders and agencies. Pursuant to California Government Code section 7507.2(a):

“... the panel shall provide impartial and independent information on pensions, other post-employment benefits, and best practices to public agencies....”

As members of the CAAP, our background is in public plans, and our comments are made from that perspective.

The CAAP provided comments on the First Exposure Draft of ASOP No. 4 on June 25, 2018 and comments on the Second Exposure Draft on March 20, 2020. Our comments on the Third Exposure Draft are formatted as requested by the ASB.

**I. Identification:**

Name of Commentator / Company
California Actuarial Advisory Panel

**II. ASB Questions (If Any). Responses to any transmittal memorandum questions should be entered below.**

Question No.	Commentator Response

**III. Specific Recommendations:**

Section #	Commentator Recommendation	Commentator Rationale
3.11	Change "...should calculate..." to "...should consider calculating..." in first paragraph.	We are not aware of any ASOP that prescribes an actuary disclose, for a significant issue, a particular calculation and, furthermore, we don't believe disclosure of LDROM rises to the level of eliminating professional judgement.
3.11	If the ASB continues to believe it's appropriate to use "should" rather than "should consider" then we believe the ASB should include an explanation as to why and how including LDROM disclosure provides appropriate and useful information for the intended user. One such example might be that comparing LDROM results to the funding actuarial liability would provide the intended user an estimate of the anticipated savings due to acceptance of some investment risk.	The ASB says in the introduction to the Third Exposure Draft "The ASB believes that the calculation and disclosure of this measure provides appropriate, useful information for the intended user regarding the funded status of a pension plan." We, on the other hand, do not find the calculation and disclosure either appropriate or useful and, in light of this significant change to ASOPs from principals based to prescriptive, challenge the ASB to explain how and why any intended user would find this information appropriate or useful.

Section #	Commentator Recommendation	Commentator Rationale
3.11	Change 2 <sup>nd</sup> paragraph on page 12 (variable annuity example) to read “For purposes of this obligation measure, the actuary should take into account the effect, if any, of the discount rate(s) selected on the pattern of benefits expected to be paid in the future. <i>For example, if the assets of a variable annuity plan were to be invested in the same low-default-risk fixed income securities referenced in the selected discount rate(s), the actuary should reflect the pattern of benefits that would result from the expected yields on these investments.</i> ”	We assume that the Pension Committee intended this section to mean that if the assets of the Plan were invested in the same low-default-risk fixed income securities referenced in the selection of the discount rate, and the actual returns equaled the current expected yields on these securities, the pattern of benefits would reflect these same returns. If the overall content of Section 3.11 is retained, we recommend clarifying this intent in the standard.

#### IV. General Recommendations (If Any):

Commentator Recommendation	Commentator Rationale

#### V. Signature:

Commentator Signature	Date
California Actuarial Advisory Panel	September 29, 2021

Thank you, in advance, for responding to our comments and please do not hesitate to contact us if you have any questions.

Sincerely,

Paul Angelo  
Chair, California Actuarial Advisory Panel

cc: Panel members  
John Bartel, Vice Chair  
David Driscoll  
Anne Harper  
David Lamoureux  
Graham Schmidt  
Todd Tauzer  
Scott Terando

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