

Notes of Tom Lowman from the 5/15/2017 ASB Pension Committee meeting "solvency" disclosure discussion. These notes are Tom's own notes and not approved by any actuarial organization.

There was a good bit of discussion about whether Solvency was the right word (they generally decided it was not the right word) or maybe use defeasement or settlement. They will discuss the naming during the drafting phase and gave it as a homework assignment. The term Market Consistent Liability in ASOP4 section 3.11 is not the right term (too broad).

An ASB member did confirm that the ASB did say that using Treasury rates would be the default or safe harbor. This might not be that important.

The prior meeting of ASB directed this Pension Committee to provide a draft conforming to their Panel's recommendation. ASB said they could provide an alternative if they wished (which I don't think will get much consideration). ASB had turned down the Pension Committee Chair's request to allow the Pension Committee to provide its own definition and direction. I was fully expecting the Pension Committee to dive into the development of language today but Chair started the meeting asking what people felt about the request from ASB. This was in part due to there being some new members on the ASB Pension Committee.

The unofficial "leader of the opposition" against ASB's request was a private sector actuary. This person felt it was not the place of ASB to do this. As this would apply to all plans, many of this person's examples were about ERISA single employer plans which already disclose a large range of liability values. Others repeated the concept of this not being ASB's place to require disclosure but would be ok if ASB said: if you calculate it, do it this way.

There was some discussion of: if this was a requirement would there be wide spread use of the deviation clause (non-calculations/non-disclosure by the actuary) and whether this would be a precept 8 violation. Some did not see the precept problem but some did. Ignoring an ASOP would be difficult once the auditors get involved. One person did not want to put in a requirement if many people were going to deviate from it. I don't know if plan groups like NASRA or NCPERS would create this situation.

This issue started with the public plans but the ASB request covers all plans. Depending on how things are drafted, ERISA plans might be able to use existing measurements (Target Liability or Current Liability). However, this seems unlikely as those definitions are not consistent with what ASB wants (they want a risk-free solvency measure). However, if it did happen, I think the public plan firms would lose support from the private plan firms.

Someone thought that the AAA groups were not opposed to requiring solvency disclosure. I don't think there is any formal position on this. ASB and AAA are not the same.

Like with the Risk ASOP requirements, there was some discussion about whether this could be a "should consider" standard instead of a "must". However, in the end, if the Pension Committee drafts "should consider" all the hard drafting will be done and the ASB itself can change a couple of words.

There certainly was a lot of ill will that the ASB was telling the Pension Committee what to do. Yet the Pension Committee is not going to resign over this. I think it is important for the ASB Pension Committee to stay involved in the drafting.

One member deals with small plans (ERISA SE Doctor plans). He thought his clients need to know the cost to terminate their plans but did not see this as a need in the public sector.

Eventually, the Chair asked each of them what the group should do. He gave them three choices (not they seemed compelled to color within those lines).

- Choice 1: Give ASB a straightforward draft of what they asked for (risk free solvency measure)
- Choice 2: Same as 1 but add an alternative that the Pension Committee would draft
- Choice 3: Only provide the alternative language and not what ASB asked for

One member said to start with 1 which will lead them to also drafting 2. Another person agreed so I put them both in the Choice 2 camp.

Another member was a bit of a surprise. He was a solid Choice 1. He focused on the need to better communicate risk and did not view this disclosure as a big scary discussion with his clients. There was considerable discussion about the misuse of this number.

Another member was somewhere between 2 and 3 (not enough mutiny in her heart to not draft language). One sounded like a 3.

My guess is that the path will be number 2.

A comment was made that this fight has gone on for a dozen years and this ASOP request will not stop that.

The next step is to start drafting and they will work on this at their August meeting in Seattle ("the battle in Seattle" was the name they gave it). One member is already drafting.

To my surprise, they did invite people in the audience talk (non-members of the Pension Committee) (Sherry Chan, Dave G and Melissa Moye and Tom Lowman (me)) at several parts of the discussion. Some things said (not by each person) included:

- Talking about ERISA SE and ME plan participants being misled by funded ratios based on high discount rates and old mortality tables.
- Talking about the abusive use of settlement liability information. Comments were made by others that this cannot be solved by drafting words that go around the number.
- Asking that ASB provide the purpose behind what they come up with. Knowing the intended purpose might help focus future comment letters (of which they are expecting many).

Maybe I should not be surprised that there was a wide range of opinion. They need to focus now on the drafting more than on whatever grudge they have with ASB telling them what they must do. Whatever comes out is probably going to include two sets of commentary (probably not fair to say one is a majority opinion and the other an opposing opinion but we shall see).