Tom Lowman's notes from October 3, 2017 ASB Pension Committee meeting

These are my (Tom Lowman's) personal notes from the meeting and my comments on what some of this could mean. These are not the notes of the ASB Pension Committee or any actuarial organization. It should also be understood that even what was said at the meeting can be changed and is subject to a formal review process.

I only sat in on a discussion of the Risk ASOP approval status and the drafting of standards to respond to the ASB's Pension Task Force (PTF) suggestion as directed by the ASB. A copy of the PTF suggestions are shown at the end of my notes.

<u>Risk ASOP:</u> The Risk ASOP is likely to come out this year and likely to be effective around 11/1/2018. There will be a CCA webcast on the new ASOP and sessions at SOA, CCA and EA meetings.

<u>Pension Task Force:</u> The ASB Pension Committee has drafted language to amend ASOPs 27, 35 and 4. A lot of thought has gone into this. The ASB will likely see their Pension Committee's work at the ASB's December meeting and again in March. Possibly by March there will be an exposure draft.

The key suggestion of the PTF was to create a requirement to disclose a solvency value. The PTF suggested that this be defined as the present value of future benefits accrued to date using:

- the unit credit method,
- U.S. Treasury rates, and
- other assumptions determined according to ASOP Nos. 27 and 35.

The ASB Pension Committee has drafted conforming language calling this the Investment Risk Defeasement Measure.

However, the Pension Committee also defined two other measures and called them:

- Ongoing Plan Settlement Obligation Measure (based on rates inherent in Insurance company pricing)
- Plan Termination Obligation Measure (based on market rates)

Two of the three terms avoid the word "settlement" and the intent seems to be that one of these be required disclosure, at least when a funding valuation is done. The current draft would allow the actuary just to select one of these options. We will have to see which of the three alternatives ASB requires or allows and what changes they might make.

Beyond the issue of disclosing a solvency value, the ASB Pension Committee is addressing the other recommendations (suggestions) that the PTF made. Some of the more interesting ones include:

- Disclosing more information on gains and losses such as how much was investment related vs. demographic. Remember that while the focus is on Public Plan issues, the standard would apply to all plans.

- Probably one of the more difficult things to do is to require disclosure of an ADC (Actuarially Determined Contribution) and define what that is. This means defining an amortization period. For now, the ASB Pension Committee is focusing on factors to consider vs. coming up with a number of years for the amortization period. One issue is there needs to be a balance between level budgeting and solvency. Not everyone has the same idea of what the right balance is. I have grown to see the need to shorten amortization periods, however some accept 40 years and others like 7. Standards mean more than a CCA White Paper which itself helped move practice favorably and in a material sense as it is being widely quoted. The CCA paper also dealt with transition issues and in my opinion an ASOP likely cannot.

- Calling out that the phasing in of assumption changes (e.g. 2015 discount rate is 8.0%, 2016 discount rate is 7.75%, 2017 discount rate is 7.5%) is only appropriate if each is reasonable at their measurement date. This is consistent with the CCA comment letter to the PTF.

- Changes to ASOP 4 section 3.14. Currently this requires that when "*selecting a cost allocation procedure or contribution allocation procedure, the actuary should consider factors such as the timing and duration of expected benefit payments and the nature and frequency of plan amendments. In addition, the actuary should consider relevant input received from the principal, such as a desire for stable or predictable periodic costs or actuarially determined contributions, or a desire to achieve a target funding level within a specified time frame.*" They would add as additional considerations: benefit security, intergenerational equity, cost stability and a balance between these three new items. Keep in mind that the actuary might not select the funding method but often recommends one.

- Require the actuary to say that the methods and assumptions (and not just assumptions) are reasonable in the aggregate.

- Require that the actuary state the name and date of experience studies used as the rationale for our assumptions.

- Fixed rate plans should disclose the equivalent amortization period.

- Require disclosure of when plan assets are likely to be exhausted (approximately) if they are expected to run out.

- Require history of ADC vs. actual contributions. Do ERISA multis always calculate an ADC?

- At some point, address direct rate smoothing.

Sections from PTF report:

Pension Task Force Suggestions

Many specific proposals were made in the source materials regarding potential improvements to standards. The PTF identified those proposals and then evaluated them to determine which were items it could suggest and which were items it could not suggest.

The PTF has a number of suggestions for inclusion in standards. Some suggestions are quite detailed, even to the point of providing potential standards language. Others are more general.

Solvency Value

As noted earlier, the PTF believes that a market-based alternative liability measurement should be calculated and disclosed for all valuations of pension plans for funding purposes. However, the PTF believes that if an additional alternative liability measure is to be required, not more than one such measure should be required, as an appropriate balance between costs and benefits. There were many different proposals regarding the provision of liability measures other than traditional measures. As a result, the PTF discussed this concept and possible alternatives at length.

The PTF suggests that an alternative liability measure based on "solvency value" be calculated and disclosed for all valuations of pension plans done for funding purposes. This solvency value should represent an estimate of the cost, as of the valuation date, to defease all liabilities accrued under the plan in the marketplace, based upon the presumption that capacity is available. An acceptable proxy for this measurement would be to calculate the present value of future benefits accrued to date using:

- the unit credit method,
- U.S. Treasury rates, and
- other assumptions determined according to ASOP Nos. 27 and 35.

The PTF believes this is information that intended users (generally plan sponsors or trustees) need to make good decisions about the plan. As noted earlier, the PTF believes that the demands of appropriate actuarial practice require that actuarial information that meets this description be calculated and disclosed.

The PTF saw particular conceptual and practical value in the calculation of a "solvency" or "settlement" liability. This value would be calculated based on the estimated costs to defease the liability, such as by transferring all risk, including investment and mortality risk, to an insurance company. The PTF notes that providing this value:

- Gives intended users an understanding of how much the plan sponsor would need in assets to secure the promises made to members of the plan.
- Gives intended users an understanding of the risk to members' benefits if the plan were to be wound up and the sponsor were unable to make up any shortfall.
- Provides information about the amount of investment risk being taken by the plan. In particular, it can show the amount of investment income in excess of that provided by low-risk investments that the principal expects to receive associated with the way the plan's assets are invested, especially if it can be compared to a traditional (expected-return) measure based on the unit credit method.[14]

On the other hand, the PTF was concerned that estimation of a solvency value may be problematic. In many cases it will be impossible to attain an accurate marketplace value, as market participants will not be interested in making a true market quote in situations where there is no likelihood that the quote will lead to business. In addition, some plans are so large that the capacity to sell them in the marketplace may not exist. Fortunately, in its consideration of alternatives, the PTF noted that some commentators view a liability using Treasury rates as a reasonable proxy for a solvency liability, especially given the measurement difficulties in estimating the latter. As a result, the PTF decided to suggest requiring the calculation and disclosure of a solvency value, allowing the measure based on Treasury rates to be used as an optional proxy.

The PTF is aware that the calculation of a solvency value will require some amount of additional work but notes that solvency values have been calculated in Canada for decades. Canadian pension regulations require such a calculation and the regulation is supported by Canadian actuarial standards.

In the course of its work, the PTF discussed several other alternative calculations, as noted below, but after evaluating each, it felt, on balance, that a solvency value was the most useful alternative measure. The other alternative measures considered included:

A liability based on discount rates commensurate with the level of risk of the underlying benefit promise – The intent of this type of measure would be to approximate the economic value of the benefit promise to the participant. The PTF had mixed opinions on the additional value to the plan sponsor that would be provided by this measure and also noted particular practical difficulties in making such an estimate. Some members of the PTF were also concerned about the potential for this value to mislead.

A liability based on a high quality corporate yield curve – One version of this type of measure would provide a value to compare to a liability required to be calculated by private sector single-employer plan sponsors for their financial reporting. An advantage of that particular type of

[14] The PTF notes that there can be many differences between a solvency valuation and a traditional valuation that will make a comparison of the two problematic. For example, the solvency valuation will not include the value of future benefits due to salary increases while the traditional value sometimes will. Assumptions other than discount rates may differ as well.

liability disclosure is that it would not result in an additional disclosure requirement for private sector single-employer plan sponsors. However, the PTF saw limited potential value in providing such a measure to plan sponsors not otherwise required to calculate a liability in this manner solely so that it could be compared to a current private sector single-employer accounting measure. In addition, the PTF viewed a solvency liability measure as a better measure of the collateral needed today to cover the obligation than a measure based on corporate bonds that are subject to default risk.

A liability based on ERISA rules for single-employer plans – This measure would have some similar advantages and disadvantages to the measure just discussed. For example, it would provide a value to compare to a liability required to be calculated by private sector single-employer plan sponsors, this time for funding requirements under ERISA. This means that this type of liability disclosure would not result in an additional disclosure requirement for private sector single-employer plan sponsors. However, the PTF again saw limited potential value in providing such a measure to plan sponsors not required to calculate a liability in this manner solely so that it could be compared to a current private sector single-employer measure, in this case a funding measure. In addition, the PTF was concerned about the conceptual justification for such a measure. ERISA rules are set in a political environment (e.g., with discount rates currently based on a historical average of high quality corporate yield curves) and may not be consistent with appropriate actuarial practice.

Sensitivity of the liability to a one percent change in the discount rate – This calculation can provide useful information, but the PTF felt that merely disclosing the sensitivity of the traditional liability to a change in the discount rate did not go far enough in providing plan sponsors and trustees the information necessary to make good decisions about the plan. In addition, while such a measure provides sensitivity information and can be useful as an additional risk disclosure, the magnitude of the discount rate change is arbitrary and not tied to any specific measurement purpose.

The PTF also suggests avoiding the term “market value of liabilities,” as this term can mean different things to different commentators, including some of the measures that are discussed above.

Statement of Opinion

The PTF believes that it is in the public interest for the actuary to take ownership of the methods and assumptions used in the valuation, or to disclaim them, with a positive statement. Therefore, the PTF suggests the addition of a requirement that the actuary provide an opinion statement about the reasonableness and consistency of significant individual assumptions, the assumptions in the aggregate, and the combination of the assumptions and methods, including the interaction of any smoothing techniques used, taken together.

Current standards require that the actuary should disclose his or her concerns about any assumption not prescribed by law that in the actuary’s opinion is not reasonable.[15] The PTF’s suggested requirement

[15] ASOP No. 4, section 2.21. Note that in this case, “an assumption or method set by a governmental entity for a plan that such governmental entity or a political subdivision of that entity directly or indirectly sponsors is not deemed to be a prescribed assumption or method set by law” – meaning that such assumptions or methods for

would go further and require the actuary to make a positive statement about those assumptions. In addition, this requirement will ask the actuary to consider not only the assumptions but the combination of assumptions and methods, taken together. Including this statement will increase confidence that the professional involved in the calculation, the actuary, believes that the work product is a reasonable result.

The PTF was split on whether this new requirement should apply to assumptions and methods that are prescribed by the federal government. Some PTF members noted that current standards do not require the actuary to form an opinion about these items and that no other practice areas require an opinion about federally mandated items. They also noted that this was a significant discussion point during an earlier iteration of revisions of ASOP No. 4 and that it was decided at that time that *only assumptions set by law where the entity setting the law had a sponsor-like interest in the plan being valued* would fall under the opinion requirement. These PTF members felt this was not the right time to extend the opinion requirements to federally mandated items.

On the other hand, some PTF members felt that the opinion requirement should be extended to items set by federal law. They noted that the intent of this requirement is to aid in adequate funding and that if the funding of a pension plan is inadequate it doesn't matter whether the assumptions were set by federal law or by any other method. Of course, this only matters if the items set by federal law lead to inadequate funding. There are a variety of opinions on this topic.

In the end the PTF decided to suggest that federally mandated items be exempted from the statement of opinion requirement, unless the federal government is, either directly or indirectly, the plan sponsor, but to note that the view within the PTF was split. It is noteworthy that some PTF members said that their view on the topic might be different if the solvency value requirement was not included in the list of suggestions. In other words, the exemption would be less palatable if the solvency value suggestion is not adopted.

Reasonable Actuarially Determined Contribution

A number of commentators proposed that the standards should delineate certain conditions that would have to be met for an Actuarially Determined Contribution[16] (ADC) to be considered to be reasonable. In their view, this would help a user understand how much contributions would have to change if it were desired to contribute on a reasonable ADC basis (if the current contributions are not being made on that basis). Specific proposals that were made as to what to require in order for a contribution requirement to be a reasonable ADC included that if the contribution requirement is based on an actuarial cost method then each member's normal cost must be based on the benefit structure applicable to that member,[17] and that the amortization payments must either be greater than the nominal interest on the unfunded liability or pay off all of the unfunded liability in a fixed (finite) time period.[18]

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plans covering federal, state or local government employees are generally subject to the disclosure requirement if not reasonable.

[16] Actuarially Determined Contribution is defined in ASOP No. 4, section 2.6, as "A potential payment to the plan as determined by the actuary using a contribution allocation procedure. It may or may not be the amount actually paid by the plan sponsor or other contributing entity."

[17] This would effectively preclude the use of the Ultimate Entry Age Normal method.

[18] This would preclude the use of perpetual negative amortization.

It was also proposed that for all plans, a contribution allocation procedure be specified that would produce a reasonable ADC and that the associated contribution requirements and funded status on that basis be disclosed whenever a funding valuation is performed. It was also proposed that a historical comparison of actual contributions to the ADC be required.

The PTF believes that the concept of a reasonable ADC is a good one. Toward this end, the PTF suggests that standards language be developed and added that states that an ADC can be considered to be a reasonable ADC if it meets the following requirements:[19]

- It meets the existing requirements of ASOP No. 4.
- It uses reasonable assumptions established in accordance with ASOP Nos. 27 and 35.
- If an actuarial cost method is used, each member's normal cost must be based on the benefit structure applicable to that member.
- The amortization payments must either be greater than the nominal interest on the unfunded liability or pay off all of the unfunded liability in a reasonable fixed (finite) time period. In determining whether the amortization period is reasonable, the actuary should consider factors such as the employee average remaining service lifetime and the length of time until amortization payments exceed the interest on the unfunded actuarial accrued liability.

The PTF further suggests that the contribution requirements and funded status associated with a reasonable ADC be calculated and disclosed whenever a funding valuation is performed.

The PTF believes that these requirements will provide useful information to the intended user that can be compared to any ADC that is determined in a different manner. For public pension plans, the PTF further believes that requiring the calculation and disclosure of this contribution amount, and the related funded status, may be effective in influencing funding practice because the accounting requirements for public plans require the disclosure of an actuarially determined contribution if one is calculated, even if it is not the basis on which contributions will be made. The PTF believes that users will come to see a reasonable ADC as being stronger and more appropriate than a contribution requirement which does not meet the criteria of a reasonable ADC.

In fixed rate plans and other plans where the contribution rate is statutorily determined or determined by collective bargaining, requiring the disclosure of a reasonable ADC would assist users in understanding the appropriateness of the current contribution levels.

The PTF notes that the rationale for the exemption of federally mandated assumptions and methods regarding the statement of opinion also applies to the reasonable ADC suggestion. As a result, calculation and disclosure of a reasonable ADC will not be required if any of the assumptions or methods used in the valuation are mandated by the federal government. The PTF notes that a statement that an ADC is reasonable requires an opinion about assumptions and methods used in setting the ADC. Since that opinion is not required for federally mandated items, it follows that an opinion as to the reasonableness of the ADC would also not be required in these situations.

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[19] The PTF recognizes that this description may be over-simplistic and that many details would be left to the drafters of the resulting revisions to the standards. This list is intended to express the concepts that the PTF had in mind.

Assumptions

There were a number of proposals for change regarding assumptions that the PTF found useful, including both new requirements and clarifications of existing requirements. PTF suggestions in this area include:

- Clarification that the requirement to "disclose the information and analysis used in selecting" each assumption (the "rationale" requirement, section 4.1.2 in both ASOP Nos. 27 and 35) includes disclosing why the actuary thinks the assumption is reasonable. Anecdotal evidence indicates that some practitioners may be interpreting this requirement as only requiring a list of information sources.

- Clarification that phase-in of assumptions is only allowed by ASOP Nos. 27 and 35 if the assumption actually used is itself reasonable, perhaps in the discussion of the characteristics of a reasonable assumption. This is the PTF's understanding of the original intent of these standards. Anecdotal evidence indicates that some practitioners may be phasing in assumption changes over a period of years and PTF believes that guidance is needed in this situation.

- Several new requirements related to significant assumptions:

    - That, for demographic assumptions, the actuary should consider whether techniques such as experience studies or gain / loss analysis are warranted. (Section 3.3.2 of ASOP No. 35 cites experience studies and analyses of gains or losses by source as possible sources of information relevant to many demographic assumptions.)
    - That the actuary should determine and disclose the length of time since the assumption was last analyzed and the availability of credible data.
    - That the actuary should disclose the basis of each assumption (e.g., experience study or other) and, if study-based, the date of the study.

  These requirements may help assure that assumptions are reasonable and may help the intended user understand them.

- A requirement that when the actuary uses pension mortality tables (or variations on such tables) that substantially pre-date more recent published pension mortality tables, the actuary should disclose justification for the use of the table. This will help assure that mortality assumptions are set based on reasonably current experience unless an assumption based on an older study is appropriate to the situation.

General Guidance

Suggestions in this area include:

- A requirement that the valuation include a partial gain and loss analysis – in particular, separating out the total gain or loss into investment gain or loss and other gain or loss (the latter will be largely equal to the liability gain or loss). This is a very simple and inexpensive calculation, and provides some basic initial insight into the sources of the prior year's gain or loss. Such an analysis will provide a view to how well assumptions have been realized, which may lead to better assumptions.

- A requirement, possibly in ASOP No. 4, section 3.14, that in selecting a contribution allocation procedure, the actuary consider the following three goals, and the balance among them:
  - Benefit security (with regard to both solvency – i.e., that future contributions and current plan assets should be sufficient to provide for all benefits expected to be paid to members and their beneficiaries when due – and funded status – i.e., that a low funded status, or the risk of a low funded status, can also be a risk to benefit security).
  - Intergenerational equity (in the case of public plans, the goal of having each generation of taxpayers pay for the compensation of the public employees who provide services to those taxpayers).
  - Contribution stability and predictability.

- Specific reference to direct rate smoothing with general guidance that is consistent, where appropriate, with that for asset smoothing. While there is guidance in the standards on asset smoothing, there is no guidance on direct rate smoothing.

- Extension of the concept to "disclose the information and analysis used in selecting each … assumption that has a significant effect on the measurement" to the selection of aspects of the method that have a significant effect on the measurement. Current standards require the disclosure of the rationale for assumptions[20] and for known changes in assumptions and methods[21] and changes in cost or contribution allocation procedure[22] but do not require disclosure of the rationale for methods in the absence of changes. This requirement will help the intended user understand why the chosen methods were chosen.

Additional Conditional Disclosures

There are situations involving the use of certain methods or practices where additional disclosures are necessary to inform the intended user of the impact of these methods. The PTF suggests the following additional conditional disclosures:

- Disclosure of a qualitative estimate of when assets are expected to be exhausted prior to the final benefit payment if current funding policy/practice is expected to result in plan exhaustion.[23] This addition would give the intended user a sense of how soon this bad outcome would occur if assumptions are met. (It could occur even sooner if experience is unfavorable.) This may help the intended user better understand the impact of the current funding policy in these situations.

- In fixed-rate contribution situations (or any situation where the contributions under the current funding policy are not determined in a manner that will cause a plan's assets to be at least equal

[20] ASOP No. 27, section 4.1.2 and ASOP No. 35, section 4.1.2
[21] ASOP No. 4, section 4.1(s)
[22] *Ibid*, section 4.1(t)
[23] This likely fits best as an extension to ASOP No. 4, sections 3.14.1 and 4.1(l), which already require the actuary to disclose when "a contribution allocation procedure is significantly inconsistent with the plan accumulating adequate assets to make benefit payments when due, assuming that all actuarial assumptions will be realized and that the plan sponsor or other contributing entity will make actuarially determined contributions when due."

to the actuarial liability within some finite time), disclosure of the implicit amortization period (whether finite or infinite) under the current funding policy. This will provide decision-useful information about the rate of amortization of the plan's unfunded liability.

- Disclosure of any situation where the contribution requirement is less than the normal cost plus interest on the unfunded accrued liability calculated using the market value of assets, and of how long before the current funding policy is expected to result in contribution requirements that exceed such amounts. This may help the intended user better understand the amortization method being used.

- Disclosure of a historical scorecard comparing actual contributions to recommended contributions if this information is available to the actuary and there is a history of significant underfunding. This information may provide additional insight into the results caused by significant underfunding.

Applicability of PTF Suggestions to both Public and Private Pension Plans

Once the PTF had developed its list of suggestions, it reviewed the list to determine if its suggestions should be applicable to all pension plans and not just public pension plans. In making this judgment, the PTF noted that it is generally true that the ASB prefers standards that have broad application.

When the PTF did its review, it concluded that the demands of appropriate actuarial practice suggest that all of the PTF suggestions, with two exceptions, should be applicable to *all* pension plans, public and private (including single employer, multiemployer, and church plans). In short, the PTF saw no good reason for not applying most of these suggestions to all plans.

The two exceptions involve the actuary's opinion regarding assumptions and methods set by the federal government when the federal government is not the plan sponsor, either directly or indirectly. As noted earlier, current standards do not require the actuary to form an opinion about these items and no other practice areas require an opinion about federally mandated items. In a split view, the PTF decided that this was not the right time to extend the opinion requirements to federally mandated items. As a result, the statement of opinion will not apply to federally mandated items. In addition, because the determination of a reasonable ADC involves an opinion about the assumptions and methods used, a reasonable ADC will not be required when some of those methods or assumptions are set by federal mandate.

Items the Pension Task Force Considered but Does Not Suggest

The PTF source materials included a great many proposals and alternatives to consider. Those that the PTF felt it could suggest are included in the preceding section. There were many others that the PTF felt it could not suggest, for a variety of reasons. This section provides information, in general terms, on the reasons the PTF is not suggesting them. Note that even when a suggestion could not be supported as written, that suggestion did influence the thinking of the PTF and may have resulted in a similar or related suggestion. For a more specific listing of the proposals and the PTF disposition of them, see Appendix 3.

As a starting point, the PTF notes that its view on the key issues listed earlier provides a basis for the evaluation of many of the alternatives considered – and the reasoning behind the PTF's decision not to suggest them.

- ***Should standards require information for the benefit of users other than intended users?*** – The PTF view on this key issue was that, in general, the demands of appropriate actuarial practice dictate that the actuary disclose information that the intended user needs to make an appropriate decision given the purpose of the actuary's work. This view formed the PTF's decision not to suggest the disclosure of items such as cash flows associated with a plan as the PTF did not see the value of this information to the intended user. There were a number of other proposals for disclosure that also failed on this measure.

- ***Where should pension standards fall on the principles-based/prescriptive spectrum?*** – On this issue, the PTF came to the view that principles-based standards are to be preferred over prescriptive standards. As a result, where a specific proposal appeared to be too prescriptive, the PTF looked for a principles-based way to accomplish the same thing. For example, one commentator proposed that standards ban the use of certain specific older mortality tables. While the PTF did not feel that an outright ban of specific tables was appropriate in a principles-based standard, it did feel that there was something to the suggestion. In the end, the PTF embraced the more principles-based idea that when an older table is used, and a more recent version is available, the actuary should provide additional documentation as to why the older table was appropriate.

- ***Should disclosure of some kind of market-based value of liabilities be required?*** – The PTF took the view that at least one disclosure of this type would be appropriate. After much consideration, the PTF decided to suggest that a solvency value be calculated and disclosed. The PTF came to the view that an additional liability measure beyond the suggested solvency value would not be required by the intended user to make an appropriate decision.

- ***Can/should the actuarial profession step in and provide stronger guidance if regulation is weak?*** – The PTF view on this question – that the actuarial guidance in standards cannot substitute for regulation – provided the reason why a number of proposals were not adopted. The PTF notes that standards apply to actuaries and cannot be used to regulate the behavior of plan sponsors. Thus, for example, a proposal that the public pension community use the life insurance asset adequacy memorandum as a paradigm for appropriate regulation of public plans was rejected as it would attempt to regulate the plan sponsor.

The PTF noted that many of the proposals for change embodied ideas that are already in standards. In some cases, the proposal indicated that language in existing standards is not clear. In these cases, PTF suggested clarifying language. In others, the PTF did not agree with the reason for change and so the proposal was not included in the list of suggestions. An example of this kind of proposal was a commentator's suggestion to require a greater-than-zero mortality improvement assumption. Recent changes to ASOP No. 35 fall just short of a requirement like this and anecdotal evidence seems to suggest that those changes are having the desired effect. As a result, the PTF did not see a reason to make an additional change.

The PTF also considered the amount of work associated with each proposal. In some cases, the PTF felt that the value provided by the work was sufficient to suggest the proposal. In others, the PTF felt that the value to the intended user did not justify the amount of additional work.

The PTF also took the view that standards should respect the relationship between the client and the actuary. In other words, they should recognize that it is the client that hires the actuary and determines the scope of the engagement. Standards should not require the actuary to do things because some feel that the client should be doing them, if they are not both actuarial in nature and important to the client for making good decisions. In addition, standards shouldn't require the actuary to substitute his or her judgment for that of the plan sponsor on matters that are not actuarial. For example, standards shouldn't require the actuary to try to determine if the sponsor can afford the plan.

Other proposals were rejected for reasons that are more specific to the particular proposal and are not discussed here. As noted earlier, a complete listing of the proposals and the PTF disposition of them is included in Appendix 3.