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EAR
ENROLLED ACTUARIES REPORT

Avoiding Malpractice

A NUMBER OF SESSIONS at the 28th annual Enrolled Actuaries Meeting, March 17-19, centered on the growth in malpractice litigation against actuaries.

The causes are varied, said Lauren Bloom, the Academy's general counsel and director of professionalism, in a panel discussion of malpractice and professional standards at the meeting's opening session. They include a general rise in litigation coupled with the discovery of the actuarial profession by the plaintiff's bar, the fact that actuaries are taking on more professional assignments, and a weak economy that has highlighted possible shortfalls in pension reserves.

If an actuary makes a mistake, being honest and upfront about it with the client is key, said attorney David Godofsky in a related session on litigation hazards. "The first thing you want to do is focus your communication with the client on the solution and avoid, when it's smart to avoid it, the self-flagellation process. You can do that at home," Godofsky said.

Frequently, mistakes can be corrected before they become actionable, Godofsky said. "Sometimes problems are when you can shine as a consultant," agreed fellow panelist James Minogue, associate general coun-

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For further coverage of the 2003 EA meeting, turn to Page 4.

(From left to right) Conference of Consulting Actuaries President Stan Samples and former Academy President Dan McCarthy talk with Academy Executive Director Rick Lawson during the EA meeting.

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EAR ENROLLED ACTUARIES REPORT

The *Enrolled Actuaries Report* is a quarterly publication of the American Academy of Actuaries (www.actuary.org).

Final 204(h) Regs Released

BY BRUCE GAFFNEY

THE IRS ISSUED FINAL REGULATIONS April 9 on the timing, form, and content of communications to pension plan participants in the event of reductions in their benefits. Such communications came under intense scrutiny a few years ago when cash balance conversions were being hotly debated. With the passage of EGTRRA in 2001, Congress modified ERISA Section 204(h) and created parallel provisions under Internal Revenue Code Section 4980F. Both sections require participants to be notified when a defined benefit (DB) or money purchase plan is amended to significantly reduce the future rate of benefit accrual, or is amended to eliminate or reduce an early retirement benefit or retirement-type subsidy.

Under EGTRRA, the scope of the notice requirement was broadened, and excise taxes and other penalties were added to penalize plan sponsors who fail to comply with the rules. The regulations explain in detail how to determine whether notice is required. They also specify the time frame in which the notice must be distributed, outline the information that must be included in the notice, and describe which group must receive the notice.

The final rules are very similar to the regulations proposed last spring. The changes in-

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clude the following:

► The proposed regulations required that notice be provided at least 45 days prior to the effective date of the amendment, except in the case of small plans or for amendments arising from certain transactions. The final regulations retain these exceptions, but, in addition, multiemployer plans need provide only 15 days' advance notice.

► Under the final regulations, the group that must be notified may be determined on a typical business day reasonably close to the date the notice is distributed (rather than on the exact distribution date).

► The final regulations add a requirement that notice must be provided if a plan refers to another document (such as a collective bargaining agreement) and if a change in that document is reasonably expected to result in a reduction in accruals or early retirement subsidies.

While the final regulations are comprehensive and detailed, a number of questions remain. The IRS provided no additional guidance or clarification regarding what constitutes a "significant" reduction, when a reduction is "reasonably" expected to occur, or what constitutes "reasonable assumptions" for determining whether a reduction is expected. Answers to these questions will (hopefully) become clear as plan sponsors and actuaries apply the new rules to actual situations.

BRUCE GAFFNEY is a principal and consulting actuary with Ropes and Gray in Boston and a contributing editor of the *EAR*.

Failure to Communicate?

ERISA and the Internal Revenue Code provide a bifurcated penalty structure for noncompliance with the notice requirements.

Under ERISA Section 204(h), an egregious failure is punishable by requiring that all participants affected by the amendment receive the greater of the old and new benefit formulas (regardless of whether they received the notice). An egregious failure occurs if the plan sponsor intentionally fails to provide the notice or, intentionally or not, fails to provide most of the individuals with most of the information they are entitled to receive. There is no penalty assessed under ERISA for non-egregious failures, but an individual participant could pursue a civil action.

Under Code Section 4980F, the IRS can impose an excise tax to be paid by the plan sponsor of a single-employer plan, or by the plan itself in the case of a multiemployer plan. The excise tax is $100 per participant per day for each day that the notice is late (subject to a $500,000 limit if the plan sponsor exercised reasonable diligence in its attempt to satisfy the notice requirements). Further, no excise tax is applied if the plan sponsor exercised reasonable diligence in an initial attempt to comply, did not know the failure existed, and subsequently corrected the failure within 30 days of discovery.

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Final Regulations at a Glance

Notice must be provided when a plan amendment significantly reduces (or eliminates) the rate of future benefit accrual, an early retirement benefit, or a retirement-type subsidy.

Notice requirements apply to qualified DB plans and individual account plans subject to Code Section 412 (but not to profit-sharing plans or stock bonus plans). Notice is required if a money purchase plan is converted to a profit-sharing plan not subject to Code Section 412.

Notice must be provided at least 45 days prior to the effective date of the amendment, with certain exceptions:

► Only 15 days is required for certain small plans, for multiemployer plans, or for an amendment adopted in connection with an acquisition or disposition.

► Notice can be provided as late as 30 days *after* the effective date of the amendment if the amendment is adopted in connection with a transfer or merger under Code Section 414(l); the amendment is adopted in connection with an acquisition or disposition; and the amendment results in a reduction in an early retirement benefit or retirement-type subsidy (but *not* in the rate of future accrual).

Notice must be provided to any participant or alternate payee who can reasonably be expected to incur a significant reduction in his or her accrual rate, early retirement benefit, or retirement-type subsidy.

► Notice need not be provided to participants whose benefits are unaffected by the plan amendment or whose benefits are expected to increase.

► If varying employee groups are affected differently, separate notices can be provided to each distinct group. The applicable group into which an individual falls must be clearly explained in the notice (or, when a single notice is sent to multiple groups, the recipient must be able to determine to which group he or she belongs).

► Notice must be provided to employee organizations representing affected participants.

The notice must include sufficient information to allow the recipient to understand the effect of the amendment and the approximate magnitude of the expected reduction in his or her benefit.

► The notice must be written so that it is understandable to the average plan participant, and it must apprise the recipient of its significance.

► The notice must include no false or misleading information.

► The effect of the plan amendment must be explained, with the explanation including a description of the relevant plan provisions before and after the amendment.

► If the approximate magnitude of the benefit reduction is not reasonably apparent with the explanation of the plan change, further information — either additional descriptions or illustrative examples — may be provided.

—Individualized statements may be prepared or hypothetical sample participants may be used to illustrate the effect of the amendment.

—Examples of all possible future scenarios are not required. Rather, examples must show the range of reasonably expected reductions, or a worst-case example can be provided with a statement that less severe reductions may occur.

—Varying assumption scenarios are not required. Illustrations may be based on reasonable assumptions. (Such assumptions must be disclosed in the notice.)

Notice is required if a plan refers to another document (such as a collective bargaining agreement) and if a change in that document is expected to result in a significant reduction in the rate of benefit accrual, an early retirement benefit, or a retirement-type subsidy.

In situations where a participant must choose between benefit formulas and plans, sufficient additional information must be provided with the notice to allow the participant to make an informed choice. All materials must be provided prior to the statutory deadline and in sufficient time for the participant to have ample opportunity to understand and consider all information before making a choice.

Notices should be distributed in a manner that is calculated to reach all participants affected by the amendment. The regulations specifically allow distribution of a paper or an electronic document. Hand delivery and first-class mail are acceptable, while electronic posting is not. Various special rules apply in the case of electronic distribution.

Whether wearaway will occur is determined based on reasonable assumptions, and the length of any expected period should be disclosed. Future values of variable factors (such as cash balance interest credits) must be based on their actual value on a date reasonably close to the effective date of the amendment. Wearaway due to future changes can be disregarded.

The final regulations generally apply to amendments with an effective date on or after Sept. 2, 2003.

That's Why They Call It the Gray Book

BY JAMES KENNEY

THE GRAY BOOK is like a present from an eccentric uncle with a taste for the bizarre: one opens it with wary anticipation. This year's Gray Book is no exception.

In a session on the Gray Book at the recent EA meeting, Don Segal, senior vice president and actuary with The Segal Co. in New York and chairperson of the Academy's Pension Committee, and Ken Steiner, a resource actuary with Watson Wyatt Worldwide and a member of the Academy's Pension Practice Council, ably presented their analysis of the conundrums addressed by the IRS. "In this session, more than most, the views expressed are our own," Segal began wryly.

Disagreements with the government's position were expressed frequently, occasionally vehemently. From the audience, Ethan Kra, chief actuary, retirement, for Mercer Human Resource Consulting in New York and vice chairperson of the Academy's Pension Practice Council, offered his opinion that the answer to Question 3 was "contradictory in theory and philosophy" to previous guidance given by the IRS. The issue involved was how to project unfunded current liability to the end of the year when determining the 90 percent minimum full-funding limit. If expected benefit payments in a year exceeded plan assets, could this allow end-of-year assets to be negative? Surprisingly, the IRS said "yes."

Kra's inference was that using this technique, a plan sponsor could fully fund a terminating plan, something the IRS has consistently resisted. Segal remarked that allowing assets to go negative was mathematically correct, but Steiner cautioned that the IRS might not have thought about the deductibility issue when answering this question.

The IRS response to Question 4 prompted Segal to state flatly, "I don't agree." The issue was whether current liability should be calculated using the 1983 GAM when valuing assumed lump sum payments from a plan; for example from a cash balance plan. No, the IRS opined, the 417(e) unisex mortality table must be used instead. Kra argued that this clearly contradicted the statute. "If the statute were clear, this wouldn't be called the Gray Book," Steiner replied.

Unfortunately, the IRS answer now throws doubt on the proper way to value cash balance plans. There is a considerable difference between results obtained using the 1983 GAM on a sex-distinct basis and using the GAR 94 unisex table. Depending on the male population of the plan, the current liability for cash balance plans could be considerably increased if the IRS approach were used. This is a matter on which further guidance should be speedily issued.

Question 13 concerned automatic approval for an asset valuation method that used a corridor of 90 to 110 percent of market value. In its response, the IRS maintained that only methods using an 80 to 120 percent corridor were eligible for automatic approval. "My personal opinion is, I disagree," Segal said. "The language says no greater than 120 percent and no less than 80 percent — 110 percent is no greater than 120 percent, and 90 percent is no less than 80 percent."

From the audience, Jan Harrington, a reviewing actuary with Buck Consultants in New York, pointed out that by this logic, a method that used a corridor of 99 percent to 120 percent of market value would qualify for automatic approval. Clinton Wall, a consulting actuary with Palmer and Cay Consulting Group in Atlanta, countered by citing the requirement that an asset valuation method must not be biased, which would prevent using a method based on Harrington's suggestion. Corridors must be symmetrical, Wall said.

Perhaps the most interesting discussion was on Question 24, concerning payments under a lump sum option when a participant is precluded from receiving the full payout due to the high-25 highly compensated employees (HCE) rule. The IRS stated that the high-25 limits do not restrict the participant's choice of option, just the amount that can be paid in any year. The lump sum election would lock in the interest and mortality assumptions at the time of election. The amount due would be brought forward at the locked-in interest rate, less any payments made.

Steiner raised the specter that this could create a separate benefit, right, or feature available only to HCEs. Bill Sohn, a consulting actuary with Buck Consultants in New York, said that his firm interpreted this to be a single form available to all participants. "It's still a lump sum," Sohn argued. "I guess I've worked with too many attorneys," Steiner said.

JAMES KENNEY is a consulting actuary with Clark/Bardes Consulting in Berkeley, Calif., and a contributing editor of the *EAR*.

Speak Out

At the recent Enrolled Actuaries Meeting, Patrick McDonough, executive director of the Joint Board for the Enrollment of Actuaries, asked for input from the rank and file on several issues, including:

► Where should the joint board be located within the government? While the board currently operates under the jurisdiction of the IRS, McDonough said there is a possibility that it could be moved to the Labor Department or the PBGC.

► Should the makeup of the joint board be changed? Traditionally it has consisted of three members from the Treasury Department and two from the Labor Department. Is it time to give the PBGC a vote? How about a practitioner who is not a federal employee?

► What staff is needed to better serve enrolled actuaries?

Care to add your two cents? Send your comments by mail to the Joint Board for the Enrollment of Actuaries, Internal Revenue Service, N:C:SC:DOP, 1111 Constitution Avenue, NW, Washington, DC 20224; or by e-mail to **www.irs.gov/help/page/0,,id=13146,0.html**.

New Methods for Reporting Liabilities

THE DEBATE OVER NEW METHODS for reporting liabilities occupied an entire general session at the recent EA meeting (and will be continued at a symposium at the Society of Actuaries meeting in late June).

Considering how new methods might affect current accounting standards and actuarial models for measuring liabilities were Ken Kent, a principal with Mercer Human Resource Consulting in Washington and a member of the Academy's Pension Practice Council; John Foster, a member of the Financial Accounting Standards Board (FASB); Jeremy Gold, proprietor of Jeremy Gold Pensions in New York; and Michael Peskin, managing director of Morgan Stanley in New York.

Both Gold and Peskin argued for greater transparency in the current funding rules. Peskin said that the key to creating this transparency is in the structure of the rules themselves. Providing a perspective based on financial economics, both said that current smoothing techniques hide the risks associated with pension plan funding.

Foster provided an update on FASB's fair value project (which addresses mark-to-market in financial statements) paying particular attention to FRS 17, which requires measurement of liabilities on a market basis. Responding to a question from the audience as to whether the current U.S. system would see an accounting/reporting standard similar to FRS 17, Foster said the FASB has no current plans to take up a broad project on pension accounting.

The question was indicative of concerns that under FRS 17, the United Kingdom has faced a dramatic decline in the formation and maintenance of DB plans. A number of companies have terminated their DB plans rather than deal with the volatility associated with having everything marked to market value. Debate is increasing in the United States as to whether this trend will gain momentum globally, and whether mark-to-market is the most appropriate method for a new generation of pension plans.

—**HEATHER JERBI,** pension policy analyst

MALPRACTICE *continued from Page 1*

sel for Watson Wyatt.

Everyone makes mistakes, both agreed, but there are certain actions that all actuaries can take to protect themselves against litigation. Paramount, said Bloom in the first session, is adhering to the Code of Professional Conduct, qualification standards, and actuarial standards of practice (ASOPs). "Compliance with ASOPs can be an effective defense in a malpractice action," Bloom said.

It is also important to state clearly in your letter of engagement exactly what you will be doing, said Bob Rietz, director of employee benefits for Deloitte & Touche in Detroit and the Academy's vice president for professionalism. Rietz and Bloom were panelists in a session on technical and professional issues that can arise when new actuarial assignments are undertaken.

Rietz said (quoting a friend who is a lawyer) that most malpractice litigation against actuaries arises from three things: too little fees, too little time, and doing an assignment that is just barely out of your practice area, where you are familiar enough with the work to wing it but you probably shouldn't.

In each session, panelists indicated that the best way to avoid difficulties is to communicate effectively. "Being a professional doesn't end with being technically skilled," said Bloom. "You must be able to communicate with the people you work with."

(Left) panelists William Falk and Lauren Bloom enjoy a light moment before the malpractice session begins. (Below) Ethan Kra, vice chairperson of the Academy's Pension Practice Council, confers with Ken Hohman, chairperson of the Joint Program Committee, at the opening session of the EA meeting.

Late-Breaking Developments

BY BRUCE GAFFNEY

IN A TIMELY SESSION at the recent EA meeting, Chris Bone, executive vice president and chief actuary for Aon Consulting in Somerset, N.J.; Heidi Rackley, a principal in Mercer Human Resource Consulting's Washington Resource Group and a member of the Actuarial Standards Board; and Nick White, a consultant with Towers Perrin in Atlanta; provided overviews of late-breaking regulatory and legal developments.

Newly released regulations under discussion included:

► Regulations under ERISA Section 101 regarding blackout rules applicable to defined contribution (DC) plans. The regulations specify what constitutes a blackout period and outline rules regarding disclosure to participants and regarding executive behavior in the event of a blackout.

> While giving some comfort to cash balance plan proponents, the proposed regulations threaten certain traditional designs — such as "project and prorate" and Social Security offset formulas — and non-cash balance hybrids, such as "PEP" plans.

► Proposed regulations under IRC Section 417 regarding disclosure to participants of the relative value of optional forms of payment under defined benefit plans. The proposed regulations discuss information that must be provided to participants when they actually elect retirement benefits. The new rules require a meaningful comparison of the economic value of available optional forms of benefit (versus the qualified joint and survivor form) and indicate the way values should be determined and the manner in which the information should be disclosed.

► Proposed regulations under IRC Section 411 regarding age discrimination. While giving some comfort to cash balance plan proponents, the proposed regulations (as currently drafted) threaten certain traditional designs — such as "project and prorate" and Social Security offset formulas — and non-cash balance hybrids, such as "PEP" plans. The regulation package included changes to testing rules under IRC Section 401(a)(4) that have since been retracted.

The panelists also discussed a number of IRS promulgations regarding corrective actions. Revenue Ruling 2002-45 provides that restorative contributions to DC plans are not treated as annual additions under certain circumstances, while PLR 200241046 specifies that restorative contributions are deductible business expenses when legal action is anticipated. In addition, Revenue Ruling 2002-84 discusses taxation of excess distributions.

Other recently released IRS documents reviewed in the session included:

► Revenue Ruling 2003-11, which provides coverage and nondiscrimination relief in the event a plan sponsor chooses to retroactively apply the $200,000 pay cap to all former employees. One wrinkle related to this ruling is that it does not provide relief from the minimum participation rules of IRC Section 401(a)(26), calling into question the usefulness of the guidance and/or the IRS' intent.

► Via a posting on its website (an unusual vehicle for providing guidance), the IRS indicated that an amendment to a cash balance plan adopting the new GATT mortality basis would not violate the anti-cutback rules of IRC Section 411(d)(6) and would not require notice under ERISA 204(h) or related statutes.

Among recent controversial court decisions, the panel discussed the following:

► *Sheet Metal Workers v. Commissioner,* which addressed questions of how "accrued benefit" is defined and what constitutes a protected benefit.

► *Heinz v. Central Laborers* and *Spacek v. Maritime Association,* two cases that disagreed on whether certain amendments to multiemployer plans constitute a permitted suspension of benefits (due to re-employment) or an impermissible benefit reduction.

► *Berger v. Xerox,* which raised questions regarding the use of preretirement mortality in determining lump sum payments under cash balance plans.

► *Cline v. General Dynamics,* in which a circuit court reversed a trial court's conclusion that reverse discrimination had not occurred when a retiree medical plan was amended to eliminate benefits for employees under age 50, calling into question the manner in which retiree medical plans can be modified. (The Supreme Court may review this decision.)

PBGC's Early Warning

THE BAD NEWS: The CFO of your company has just gotten a letter from the PBGC suggesting a closer look is needed at the company's pension plan funding. The good news? It's very likely that a look is all that is needed.

"If your client gets an introductory letter from us, it's not the end of the world," said Laura Rosenberg, manager of the corporate finance and negotiations department at the PBGC. "We send out, on average, 200 letters a year to companies with questions about their pension plans. We end up doing six to 10 agreements with companies to shore up their pension plans."

Rosenberg was speaking at a session on the PBGC's early warning program at the recent EA meeting. The program, which came into existence during the 1989-1992 recession when large underfunded plans were hitting the bankruptcy schedule, is one of the tools the PBGC uses to protect itself from losses, Rosenberg said. A team of PBGC financial

Assumptions and Funding Methods for Small Plans

BY JAMES TURPIN

AFTER OVER A DECADE of favorable investment performance, the last three years have produced significant loses for many retirement plans. This economic uncertainty has created a challenge for actuaries in the selection of economic and demographic assumptions. In a larger plan, with its typically longer measurement period, selecting assumptions that are not unduly influenced by recent economic conditions may be easier. However, with smaller plans for which the time horizon is relatively short, it is more difficult to ignore recent conditions and still provide a reasonable estimate for future performance.

A session on selecting assumptions and cost methods for small plans at the recent EA meeting focused on two different aspects of this issue. There are the technical aspects, notably the requirements set forth in the applicable actuarial standards of practice. And there are the practical aspects of consulting with clients both on what can be accomplished with a retirement plan and also tempering expectations so that the ultimate results are satisfactory to both the plan participants and the plan sponsor.

The selection of assumptions for small plans is not necessarily all that unique from the process used for larger plans. Any difference between small plans and large plans lies principally in the measurement period and the effect of having most of the benefit liabilities being concentrated in only a few participants. A large plan typically will have a fairly long time horizon of 40 or more years, while a small plan will likely not be around more than 10 to 15 years. Further, large plans usually have sufficient assets or participants for statistically valid measurements, which permits the use of refined techniques that can produce good individualized estimates of future performance. As a general rule, there is no measurement in a small plan that would be considered statistically valid. Thus, more emphasis has to be placed on predictors that come from broader sources of data, such as market indices or generalizations regarding employee longevity (e.g., all non-key participants will terminate employment within the next five years).

In selecting assumptions or funding methods, the actuary has to recognize the effect on the funding of a small plan along with the limited period of time and available resources that can be used to adjust for gains and losses. Thus, it is important for the actuary to communicate with the plan sponsor in a manner that is not likely to create unrealistic expectations. When a small plan is relatively new, the difference between actual investment performance and the actuarial assumption for valuing assets and benefits may not have a significant impact on year-to-year funding. However, as the plan matures and key employees approach retirement, minor variations in investment performance may have an enormous effect on funding. Discussing with the client the interrelationship between investment performance and actuarial assumptions provides an opportunity to incorporate the implications of investment policy into the funding of the plan and to properly plan for any adverse variations.

The key to the successful selection of assumptions is adhering to generally accepted professional practices and communicating to the client the goals, implications, and limitations of the actuary's work.

JAMES TURPIN is president of The Turpin Consulting Group in Albuquerque, N.M. He is a former Academy vice president for pension issues and a former editor of the *EAR*.

Program

analysts and actuaries regularly reviews the financial health of companies whose plans are protected by the PBGC. All sorts of situations can trigger the PBGC's interest, Rosenberg said, including unfunded shutdown benefits, lump sums being paid out in a liquidation scenario, 4010 filings, and debt restructuring.

When the letter comes from the PBGC, it is important to take it seriously, said Leslie Kramerich, government relations team leader at Mercer and former assistant secretary of labor. "When you get a letter from the PBGC, you need to keep in mind that you are not answering your sister. You are building a record, and the PBGC is building a record," Kramerich said.

Actuaries play a critical role in meetings between the PBGC and a company under review, Rosenberg said. "In 99 percent of the cases, the actuaries on both sides are neutral — they are Switzerland. They look at it on a disinterested basis," Rosenberg said. "That is not always true of the attorneys or the financial people."

If the PBGC determines that a potential problem exists, Rosenberg said, it might request an agreement from the company to take the following steps:

- Put money in the pension plan. The PBGC will restrict that money so those funds cannot be applied to future minimum funding.
- Post a letter of credit to the pension plan. If the company goes into bankruptcy, the PBGC can use that letter to get funds to put into the plan.
- Agree to security liens on assets.

Once an agreement has been worked out, the PBGC will remain in the picture for a minimum of five years, Rosenberg said. At that point, if there is no termination-basis underfunding, or the company is financially stable even if the pension plan is still underfunded, there can be an amicable parting of the ways.

"The five years comes from our sense that if we are going to spend the time, effort, and resources to arrive at a deal, we are pretty concerned about the pension plan," Rosenberg said. "We want to see long-term progress and improvement in the pension plan."

New and Proposed Actuarial Standards

BY ADAM REESE

SPEAKING AT AN EA MEETING session on new and proposed actuarial standards of practice (ASOPs), Lauren Bloom, the Academy's general counsel and director of professionalism, warned that while the courts do not expect perfection, professionals must work in accordance with generally accepted practice. Noncompliance with standards can be deemed by the courts to be per se malpractice, Bloom said, especially when nontechnical issues are involved.

Bloom urged pension actuaries particularly to review ASOP No. 17, *Expert Testimony by Actuaries,* ASOP No. 23, *Data Quality*, and ASOP No. 41, *Actuarial Communications,* for how they apply to pension practice.

If called upon to defend your work in court, Bloom advised:

- Use the standards defensively.
- Train your attorney about the standards.
- Use the whole standard.
- Expect to be second-guessed with the benefit of hindsight.
- Be prepared to explain not only what you did, but why you did it to comply.
- Most important, document your work, as you will be able to refer to your documentation to defend your work.

In the same session, David Fleiss, a consulting actuary with Bolton Partners in Washington and a member of the Pension Committee of the Actuarial Standards Board (ASB), outlined revisions to ASOP No. 4, which is being renamed *Measuring Pension Obligations and Determining Pension Plan Costs.*

The revision of ASOP No. 4 is intended to tie together the other applicable standards (ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations;* ASOP No. 35, *Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations)* and the new standards on asset valuation methods (ASOP Nos. 23 and 41).

The revised ASOP No. 4 seeks to clarify the complementary roles of the plan sponsor and the actuary, as well as review the disclosure requirements in light of prevalent practice. The key changes to the standard are:

- simplified and clarified definitions.
- the elimination of calculation illustrations.
- a new definition of funding policy.
- a requirement that the actuary consider whether the results are reasonable.

Fleiss highlighted aspects of the exposure draft on which the ASB is seeking comments, including whether the standard should apply to back-of-the-envelope estimates as well as to full valuations; whether the measurement of the present value of vested benefits should ignore plan provisions that take effect after the measurement date and exclude benefits for which a participant is not eligible as of the measurement date; tests of the reasonableness of resulting contributions or costs; and expanded disclosure requirements—including a requirement to disclose it if costs are expected to change rapidly (e.g., application of the full funding limit).

Having served on the ASB's Retiree Group Benefits Task Force, I commented on revised ASOP No. 6, *Measuring Retiree Group Benefit Obligations,* which became effective in January. With the Academy Awards just a week away, I remarked on the appropriateness of Oscars given for best picture in the years since ASOP No. 6 was originally issued in 1988. Much has happened over the past 15 years—FAS 106 was issued in 1990 *(Dances with Wolves),* and Medicare+Choice plans became increasingly popular in 1995 *(Braveheart),* leading up to the reissuance of ASOP No. 6 in 2001 *(A Beautiful Mind).*

> FAS 106 was issued in 1990 (*Dances with Wolves*), Medicare+Choice plans became increasingly popular in 1995 (*Braveheart*), and ASOP No. 6 was reissued in 2001 (*A Beautiful Mind*).

Key changes in revised ASOP No. 6 are:

- A structured measurement framework, incorporating models for plan provisions, population, and current and projected benefit costs.
- A need to ensure that these elements are applied consistently, which is a particular concern if the work involves the collaboration of two actuaries with complementary expertise in the health care practice and the pension practice.
- A ranked preference for the use of plan experience for development of the per-capita claims costs, the use of normative databases if plan experience is not available or fully credible, and the use of appropriately adjusted premium rates.
- The use of roll-forward valuations.
- The incorporation of several new standards issued since 1988 (including ASOP No. 25, *Credibility Procedures Applicable to Accident and Health, Group Term Life, and Property/Casualty Coverages;* ASOP No. 27, ASOP No. 31, *Documentation in Health Benefit Plan Ratemaking;* and ASOP No. 35).
- Guidance on emerging practice issues, including the use of roll-forward measurement, the impact on participation from changes in cost-sharing (and the impact on plan costs from changes in participation!), how to deal with differences between administrative practices and stated plan provisions, and checks for reasonableness.

ADAM REESE is a senior consultant with the Hay Group in Arlington, Va. He is a member of the editorial board for the *Actuarial Update.*