

To: Pension Benefit Guaranty Corporation

Subject: Valuation Assumptions and Methods RIN: 1212-0000-AA55

I am writing to provide my comments on the proposed rule on valuation assumptions and methods, which was published in the Federal Register on August 18, 2023.

I support the PBGC's efforts to update and improve its valuation assumptions and methods, which have not been revised since 2001. I agree that the current assumptions and methods are outdated and do not reflect the current economic and demographic conditions, market practices, or actuarial standards. I also acknowledge that the PBGC faces significant challenges and uncertainties in valuing pension plan liabilities, especially in light of its deteriorating financial situation and increasing exposure to underfunded plans.

However, I have some concerns and reservations about some of the proposed changes to the valuation assumptions and methods, which I will discuss below. I will also offer some alternative approaches or recommendations that I believe would better serve public policy objectives and PBGC's mission.

**INTEREST RATE ASSUMPTION:** The proposed rule would change the interest rate assumption for valuing benefits from a single rate based on a quarterly survey of insurance companies to a yield curve based on corporate bond yields. This would result in lower benefit values for younger participants and higher benefit values for older participants, compared to the current method.

I understand that the PBGC's rationale for this change is to align its interest rate assumption with the prevailing market rates and practices, as well as to reflect the duration and timing of benefit payments. However, I believe that this change would create inequities among different groups of participants, especially if the plan sponsor chooses to purchase annuities from an insurer that uses a different interest rate assumption than PBGC. For example, if an insurer uses a higher interest rate assumption than PBGC, then younger participants would receive lower annuity payments than older participants, even though they have the same benefit value under PBGC's method. This would violate the principle of actuarial equivalence and fairness.

Therefore, I suggest that PBGC should either retain its current interest rate assumption or adopt a more uniform and consistent interest rate assumption that matches or approximates the rates used by insurers in the annuity market. This would ensure that participants receive comparable benefits regardless of their age or whether they receive payments from PBGC or an insurer.

One possible way to implement this recommendation is to use a survey-based interest rate assumption, similar to the current method used by PBGC. However, instead of using a survey of insurance companies conducted by PBGC itself, PBGC could use a survey conducted by an independent and reputable organization, such as the Society of Actuaries (SOA) or the American Council of Life Insurers (ACLI). As you are aware, these organizations regularly publish surveys of group annuity purchase rates and assumptions, which reflect the prevailing market conditions and practices in the annuity industry.

Another possible way to implement this recommendation is to use a market-based interest rate assumption, similar to the proposed method by PBGC. However, instead of using a yield curve based on corporate bond yields, PBGC could use a yield curve based on annuity prices or indices. For example, PBGC could use the CANNEX Annuity Pricing Index (API), which tracks the average monthly income payable from immediate annuities purchased with \$100,000. The API is based on data from leading annuity providers in the United States and Canada.

These are some examples of how PBGC could use a more uniform and consistent interest rate assumption that matches or approximates the rates used by insurers in the annuity market.

**MORTALITY ASSUMPTION:** The proposed rule would also change the mortality assumption for valuing benefits from a single table based on the RP-2014 Mortality Tables to a generational table based on the Pri-2012 Mortality Tables. This would reflect the expected improvements in life expectancy over time, and result in higher benefit values for all participants, compared to the current method.

I agree that PBGC should update its mortality assumption to incorporate the latest mortality data and projections, as well as to account for the diversity and characteristics of its covered population. However, I think that PBGC is using a too optimistic mortality assumption, which could underestimate its liabilities and jeopardize its financial position.

The Pri-2012 Mortality Tables are based on private sector pension plans, which may not be representative of PBGC's population, which includes distressed plans, multiemployer plans, and terminated plans. Moreover, the Pri-2012 Mortality Tables assume a high rate of mortality improvement over time, which may not be realistic or sustainable in light of recent trends and uncertainties.

Therefore, I suggest that PBGC should use a more conservative mortality assumption, such as the RP-2014 Mortality Tables with MP-2020 projection scale, which are based on more recent data and experience. This would provide a more prudent and realistic estimate of PBGC's liabilities and reduce its risk exposure, on a precautionary basis.

**EXPENSE LOAD ASSUMPTION:** The proposed rule would increase the expense load assumption for valuing benefits from 2% to 3% of the present value of nonforfeitable benefits. This would reflect the administrative costs associated with terminating a plan and purchasing annuities.

I recognize that PBGC incurs significant expenses in terminating pension plans and securing benefits for participants. However, I question whether PBGC's proposed expense load assumption is reasonable and justified, given that it is higher than the actual expenses reported by PBGC or the typical expenses charged by insurers in the annuity market. According to PBGC's 2022 Annual Report, its administrative expenses were \$419 million, which represented about 1.4% of its total liabilities of \$29.8 billion. According to a recent survey by the Society of Actuaries, the average expense load for group annuity purchases was 1.8% in 2022.

Therefore, I suggest that PBGC should use a lower expense load assumption, such as between 1.5% and 1.8%, to better reflect its actual or expected costs and to avoid overestimating its liabilities and imposing unnecessary burdens on plan sponsors.

Michael Ravnitzky