November 14, 2014

ASOPs – Public Pension Plan Funding Request for Comments
Actuarial Standards Board
1850 M Street, NW, Suite 300
Washington, DC 20036-4601

Sent by email to comments@actuary.org

We, the undersigned members of the National Association of State Retirement Administrators (NASRA), National Conference on Public Employee Retirement Systems (NCPERS), and/or the National Council on Teacher Retirement (NCTR), are writing in response to the Actuarial Standard Board's Request for Comments (RFC) concerning the application of the Actuarial Standards of Practice (ASOPs) in regard to actuarial valuations and other analyses used for determining public pension and other postemployment plan funding and accounting.

Collectively, we oversee retirement systems that manage a substantial portion of the $3.7 trillion in pension assets held in trust for more than 20 million working and retired employees of state and local government. As principals and decision-makers for our plans and plan sponsors, we are also users of public pension actuarial valuations and other actuarial analyses.

Some of us are submitting responses under separate cover that may expand upon the views expressed in this letter.

Our responses to your questions are as follows:

1. **Public plan funding and associated actuarial valuations are less uniformly regulated than those of private sector pension plans. Actuaries may be asked by their principal to advise on funding levels. Is additional guidance needed, beyond that in the recently revised pension ASOPs, regarding appropriate public plan actuarial valuation practice to assist actuaries in performing their work and advising their principal? Why or why not?**

Although public pension plans may be less *uniformly* regulated than their private sector counterparts, they are nonetheless heavily regulated by state and local laws and ordinances, required compliance with accounting standards set forth by the Governmental Accounting Standards Board (GASB), and by laws and regulations governing the tax-qualification of public pension plan sponsors administered by the U. S. Department of Treasury and the Internal Revenue Service.

Public pension plans providing coverage for the vast majority of assets, liabilities, and participants operate pursuant to funding policies and practices that describe and mandate how pension obligations will be financed. These funding policies take many forms, including state statutes and constitutional requirements, retirement system board rules and policies, administrative standards, and industry best practices.

As a result of this broad array of regulation and oversight, public pension plans covering the vast majority of employees of state and local government are not just subject to substantial regulation, but they also are highly transparent: their actuarial and financial conditions are regularly measured and reported, and are easily accessible to the general public.

For these reasons, we do not believe a need exists for additional guidance regarding actuarial valuation practice that is specific to public pensions. In addition to the regulation and practices described above, as the ASB's RFC states, several existing ASOPs already provide a framework for actuarial practice in the public sector, addressing actuarial measurements, asset smoothing, setting assumptions, and data quality. Notably, each of the ASOPs specified in the RFC (Numbers 4, 6, 27, 35, and 44) have been revised or updated within the past five years.

2. If yes to question 1, in what areas is additional guidance needed?

Not applicable.

3. If yes to question 1, should that guidance take the form of a separate public plan actuarial valuation standard or be incorporated within the existing ASOPs? Why or why not?

Not applicable.

4. In general, the ASOPs are principles based and not rules based. As a result, the ASOPs are generally not highly prescriptive. Should the ASOPs related to public plan actuarial valuations be more prescriptive? If so, in what areas?

Not only do we believe that separate standards should not be established for public plans, but we would also point out that principles-based ASOPs, rather than rules-based, are most suitable for the structure of public pension plans, i.e., a large number of highly diverse plans. Every public pension plan is unique, with its own governance structure, demographic composition, risk profile, and political environment. As such, a rigid, rules-based set of actuarial practices would complicate their application to the broad array of public pension plans and diminish the value of those ASOPs. By contrast, we believe the current principles-based structure is appropriate for the public sector pension plan environment.

5. The ASOPs have provided guidance that has been applicable to all areas of practice in the pension community (for example, private sector, multiemployer, public sector). If you believe that additional guidance is needed for public plan actuarial valuations, should any of that additional guidance also apply to nonpublic sector plans? Why or why not?

As stated previously, we do not believe separate standards should be established for public plans.

6. The current definition of an "intended user" of an actuarial communication is "any person who the actuary identifies as able to rely on the actuarial findings" (ASOP No. 41, *Actuarial Communications*, section 2.7). Should the ASOPs require the actuary for public pension plans to perform additional, significant work (which would be incorporated in the guidance provided in the ASOPs) that is not requested by the principal if that work provides useful information to individuals who are not intended users? Why or why not? If so, should this requirement be extended to all pension practice areas? Why or why not?

Public pensions operate in a highly transparent environment, as evidenced by sponsoring governments who operate under open records and open meetings laws as well as the general public availability of plan fiscal information. In addition, because most public pension trustees are not actuaries, to meet their needs, public pension actuaries must prepare and present actuarial valuations and related analyses that are comprehensible to laypersons. As a result, we believe there is no justification for requiring public pension actuaries to perform additional work to accommodate unintended users of actuarial valuations and related analyses.

Moreover, a requirement that an actuary under contract with a public retirement system perform work for an undefined group of "individuals who are not intended users" is problematic for at least two reasons: first, the scope of this group is potentially infinite, which would make such a requirement open-ended and unworkable; and second, members of this group are not plan fiduciaries and as such, have no authority to make a demand on the pension plan's resources.

In sum, we believe that current ASOPs, particularly when combined with the practices of public pension actuaries and their public pension clients, provide sufficient guidance, transparency, and clarity to actuarial valuations and related analyses, without imposing new requirements for calculation and reporting.

We thank you for the opportunity to comment. Please do not hesitate to contact us, or representatives from NASRA, NCPERS or NCTR, should you have any questions or desire additional information.

Sincerely,

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