COMMENT 14, AUGUST 1, 2008

The Actuarial Standards Board August 1, 2008
1100 Seventeenth Street, NW, 7th Floor
Washington, DC 20036-4601

RE: ASOP No. 27 Request for Comments

Dear Sir/Madame:

Thank you for the opportunity to comment on issues relevant to ASOP No. 27. I am a practicing pension actuary, and have worked in the public sector for the past 15 years. My remarks are specific to public sector retirement systems. The following remarks are offered in response to the specific questions raised:

1. Our valuation rate of interest assumption is developed based upon our specific asset allocation, and capital market assumptions. Expected future return and standard deviation assumptions are developed for each asset class, by investment professionals at the Retirement System and an outside investment consultant. Using these assumptions, and including anticipated correlation between the asset classes, a long-term anticipated rate of return is developed, with a corresponding confidence interval. Our rate of interest assumption is determined based upon this information, appreciating that this is intended to be a very long-term expected rate, and therefore not one to be modified frequently due to temporary market movements.

   I believe the "best-estimate range" language in ASOP No. 27 is an appropriate standard of practice. It does not inhibit appropriate approaches to selecting assumptions, and allows some needed flexibility to the process. I think it would be a mistake for the standard to attempt to rigidly define this process in detail.

2. I think the current approach used by ASOP No. 27 is more appropriate for economic assumptions than the "assumption universe" approach used in ASOP No. 35.

3. ASOP No. 27 should permit an actuary to select an economic assumption that is not within the best-estimate range, but it should be disclosed that this is a deviation from the guidance in ASOP No. 27, and the reason for this deviation should be disclosed also.

4. ASOP No. 27 should not recommend that the asset valuation method be considered when selecting an investment return assumption. ASOP No. 44 already exists with respect to the selection of an asset valuation method, and ASOP No. 4 coordinates all four pension valuation standards.

5. There have been no changes in pension actuarial practice, that I have seen, that conflict with the guidance in ASOP No. 27.

6. Financial economics would conflict with ASOP No. 27 with respect to the definition of the investment return assumption. In ASOP No. 27 the investment return assumption is defined as the anticipated future rate of return on plan assets. Financial economics would prefer that this interest rate assumption be equal to a "risk-free rate", typically something like a U.S. Treasury Bill rate, regardless of how the plan assets are actually invested.

   I believe the current definition of the interest rate assumption in ASOP No. 27 continues to be appropriate. I would recommend strongly that the ASB not change the definition of this assumption to be a "risk-free rate". If a retirement system has a significant portion of its assets in equities, and valuations are done (and required contributions determined) in accordance with a "risk-free rate", it is likely that significant actuarial gains on assets will accrue over time, and the current generation of taxpayers will be overcharged for the benefit accruals of their service providers. Required contribution rates would significantly increase, even if returns in the capital markets, and on plan assets, were extremely favorable. Even though it is impossible to know what future capital market returns will be, it makes no sense to ignore 80+ years of historical return data and assume that in the future, over the long-term, equities will not return more than a "risk-free rate".

   I don't think ASOP No. 27 should provide specific guidance with respect to financial economics. I believe that disclosures in accordance with the principles of financial economics should be permitted if the practicing actuary believes them to be appropriate, and includes an explanation of why they are appropriate. But I certainly don't believe they should be mandated, or even encouraged.

7. The ASB may consider adding language to ASOP No. 27 to allow actuaries, for disclosure purposes only, to use interest rate assumptions at the low and high end of the best-estimate range, or even outside the range, in order to gauge the sensitivity of the valuation results to this assumption. This type of analysis could provide useful data to answer the question of what the impact could be if this assumption were changed. This should not be mandated, but optional, as the practicing actuary deems appropriate.

8. The current disclosure requirements of ASOP No. 27 are appropriate.

9. I believe ASOP No. 27 has worked very well to this point. I hope that it will not be revised to add more mandates, and be more rigid, and then likely work less well in the

future.

Problems with public sector retirement systems generally involve non-payment of required contributions, or questionable fiduciary decisions. I don't know of a single instance of a retirement system becoming insolvent due to a faulty interest rate assumption.

Plans are funded over a very long-term horizon. Funded ratios can be expected to increase or decrease over a year or period of years, and this does not mean that the system is breaking down.

10. ASOP No. 35 is much different than ASOP No. 27, and I don't believe it needs to be reviewed at the same time as ASOP No. 27.

Thank you for this opportunity to provide input.

Sincerely,

Richard A. Young
Actuary
New York State Teachers'
Retirement System

cc: T. Lee