August 1, 2008

VIA E-MAIL to: comments@actuary.org

ASB Comments
American Academy of Actuaries
1100 17th Street, NW, 7th Floor
Washington, DC 20036

To the members of the Actuarial Standards Board:

As actuaries who primarily serve public plans in one of the nation's leading actuarial consulting firms, we are writing to express our concern that some possible modifications to the existing text of ASOP 27 would affect our clients adversely and to express our opposition to such modifications.

In particular, our concern is that the Standard could be modified to require, or establish as standard actuarial practice, the calculation of a "market value" of a plan's liability for accrued benefits, where market value is taken to mean the present value of accrued benefits under prevailing yields on low- or no-risk debt instruments. The presentation of pension liabilities on this basis has been advocated by adherents of financial economics, who in some instances have argued that it represents the only "real" value of a plan's liabilities.

We believe, as do many of our public-sector clients, that there are significant differences between the public and private sectors that make calculations of market values of pension liabilities for public-sector retirement plans a questionable practice and potentially even harmful. Primarily, we believe that the essentially infinite lifespan of a public-sector plan sponsor makes it entirely appropriate for the value of its pension liabilities to be determined on the basis of long-term expected rates of return on assets held to back those liabilities. We believe that this is true in measuring a public entity's pension liabilities for financial disclosure purposes as well as for funding. Recalculation of those liabilities on what amounts to a termination basis would serve no purpose, as public entities do not go out of business or terminate their plans in the manner in which private-sector plans are often terminated. Required disclosure of those liabilities on what is essentially a meaningless basis for a public-sector entity would likely confuse and mislead taxpayers, participants and public officials and lead to less-than-optimal decisions on funding, plan changes and other important matters.

As others have pointed out, the health of public-sector defined benefit plans in the United States is generally quite good. Many public entities whose retirement systems were once seriously underfunded have made good progress in addressing the underfunding of their plans over the last several years. These good results have transpired under the present ASOP 27 and its slightly different predecessor. We are of the opinion that the standard presently in place for the selection of economic assumptions works well for public-sector retirement systems and the actuaries who serve them, and we urge the Actuarial Standards Board not to change it in a manner that could well prove harmful to those systems.

Respectfully,

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David L. Driscoll, FSA, EA, MAAA
Larry Langer, ASA, EA, MAAA
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