

Comment #12 - 9/25/14 - 3:17 p.m.

July 2014 Request for Comments - ASOPs and Public Pension Plan Funding and Accounting

One of the main areas of concern about public pension plans is the fact that many plans permit, or even require, amortization of costs over very long periods. In many cases, plans will even take a contribution holiday with no payment despite the existence of unfunded liabilities.

I think that it is in the public interest to limit the permitted amortization period to no more than 30 years. An alternative would be to permit longer amortization periods but require the employer to report the difference between the actual contributions and those that would be required with 30 year amortization.

The limitation of amortization periods could either be done as an amendment to ASOP No. 4 or as part of a separate ASOP specifically for public plans. I think the need for such limitation is such that there should be a separate ASOP for public plans if, for some reason, such limitations are not considered appropriate for private sector plans.

The need for rational and acceptable funding limitations is particularly important for federal pension plans. State and local pension plans are subject to the requirements of the Governmental Accounting Standards Board (GASB). Among other things, GASB prescribes amortization limits for reporting on state and local pension plans. However GASB does not apply to federal pension plans so there are no limitations on the reported amortization of unfunded liabilities for those plans.

I serve on the Board of Actuaries of the largest federal civilian retirement system. A substantial part of the liabilities of the system is not currently funded and another large part is funded on a pay-as-you-go basis. When the Board discusses the adequacy of the funding we find that there are no actuarial guidelines that we can use to apply to federal pension plans.

The two largest federal pension plans are those that (1) cover most of the civilian employees of the federal government and (2) cover most military personnel. However, there are many other federal pension plans. The Pension Research Council of the Wharton School found that there were 36 federal pension plans in 2001.

I recommend that the ASB consider a separate ASOP, or revised ASOP No. 4, that applies to federal, state and local retirement plans. The ASOP should include rational and acceptable funding limitations on unfunded liabilities.

Edwin C. Hustead, MAAA, F.S.A.
739 South Union Street
Alexandria, VA 22314

703-836-6156

hustead@me.com

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