September 7, 2014

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

Dear Actuarial Standards Board,

Thank you for requesting comments regarding public plan actuarial standards from all public pension plan stakeholders, not just actuaries, and publicly posting the comments. I believe that we will all learn from the variety of perspectives that you will elicit.

I am a “stakeholder” in three ways. I am a member of two actuarial organizations governed by ASB’s standards of practice (FSA, MAAA), an active participant in a large and substantially underfunded public pension plan, and a taxpayer in Illinois, a state with many challenged public pension plans. My active participant status is by way of being Director of Data, Analytics, and Research for the Illinois Department of Healthcare and Family Services.

Although I am a health actuary, I have invested considerable time and effort in studying public pension plan actuarial work and the applicable actuarial standards and talking with and learning from pension actuaries. I am the author of this letter and the opinions therein are my own. I have prepared the letter on my personal time and equipment.

I am confident that the ASB agrees with me that the financial challenges of US public pensions pose considerable societal and professional risk. I am concerned, however, that the questions that you pose within the request do not elicit thinking and feedback appropriate to the scale of the challenges and risks. The questions guide commenters to consider incremental changes to standards and the challenges of integrating the changes with existing standards. This incremental thinking would, by definition, mostly maintain the status quo.

I suggest, rather, that ASB should be asking what information our society and the various public pension plan stakeholders need from actuaries in order to inform intelligent debate and negotiations concerning public pension plans and to find a way out of the public pension plan challenges. Only after we decide what needs to be done, should we discuss how to do it. Discussing the pros and cons of integrated standards for public and pension plans before a full consideration of public pension needs avoids many of the toughest issues. Furthermore, such an approach can easily be interpreted by the public as self-serving and obscure.

Rather than simply critique the ASB’s questions, I present alternative questions. These questions explore ways that the actuarial profession might better serve the public interest with respect to public pension plans. An answer of “yes” to any question indicates a need for a change in the standards, a change in the standards development process, or a change with respect to the ABCD processes for enforcement.
and discipline of standards. An answer of “yes” to more than a handful of the questions indicates the need for non-incremental changes in standards. “Yes” answers also generally indicate the need for more comprehensive, higher quality actuarial information for public plan stakeholders – both quantitative analysis and discussion. My personal response is “yes” to most, if not all, of the questions.

Suggesting non-incremental change, however, does not mean that I support a decade-long process before public pension plan standards change. To the contrary, I urge the ASB and our profession to act quickly. I understand that actuaries did not cause today’s public pension plan problems and, likewise, that we are not solely responsible for solving the problems. However, without change from the profession, we are complicit in the ongoing problems. Lack of sufficient, quality actuarial information helps maintain a public veneer of public pension plan viability and reinforces the status quo even as plan finances deteriorate. Just because we don’t have an organizational history of acting quickly does not mean that we cannot.

More comprehensive, higher quality actuarial information will provide the platform for the informed discourse necessary to address public pension problems. While not every stakeholder will pay attention, and some may not understand, there are numerous public pension stakeholders and public representatives who are engaged, capable of understanding, and starved for the information that our profession now provides too rarely.

More and larger pension plan failures are on the horizon. Pension plan failures are catastrophic for individuals and their families and have far-reaching economic consequences for our society. Furthermore, one of the inevitable fallouts of any type of economic failure is finger pointing, often in the form of massive lawsuits. Our best professional defense is a strong offense – upping our game now – before failures and thereby hopefully helping to prevent failures.

Although my focus is on the serving the public interest and upholding our professional reputation, I believe that change will also benefit pension actuaries – creating more work, more opportunity to educate stakeholders, and the satisfaction of a job well-done.

Let’s act. Now.

Sincerely,

Tia Goss Sawhney
DrPH, FSA, MAAA

9200 East Prairie Rd, #210
Evanston, IL 60203
tiasawhney@yahoo.com
Phone: 224-628-9876
Questions to Consider in the Context of Actuaries Serving the Public Interest with Respect to Public Pension Plans

Actuarial Role

1. Do public plan stakeholders need more comprehensive, higher quality actuarial information to inform the discourse on public pension problems?
2. Does the actuarial profession have access to the data and the necessary skills to provide more comprehensive, higher quality actuarial information?
3. Has the actuarial profession long-professed its commitment to serving the public interest and for substituting quantitative analysis and factually grounded discussion for impressions?

Duty to Public

4. If an actuarial work product is intended for public dissemination (e.g., posted on a website), is the public an intended user with respect to actuarial precepts and standards?
5. If an actuarial work product is intended to be provided to legislators, labor unions leaders, or other representatives of groups of people, are those groups and the people that they represent intended users with respect to actuarial precepts and standards?
6. If an actuarial work product has historically been or can reasonably be assumed to be available to the public via a Freedom of Information Act, is the public an intended user with respect to actuarial precepts and standards?
7. If the actuarial contract is with a representative government (such as a state), is the public the principal with respect to actuarial precepts and standards?
8. If actuarial work is paid for by taxpayers, is the public the principal with respect to actuarial precepts and standards?
9. Is protecting the solvency of public pension plans a proper role for actuaries?

Change Management

10. Does addressing the deteriorating financial condition of public pension plans require change from all professionals and stakeholders within the systems, including actuaries?

Process Participation

11. Are the reputations of all actuaries at risk if actuaries are (rightly or wrongly) implicated in prominent public plan failure?
12. Do actuaries from non-pension disciplines have skills, perspectives, and societal and professional interests that make them valuable contributors to public plan actuarial standards?
13. Do non-actuarial professionals, particularly those who are financial professionals and have societal and professional interests in the success of public pension plans, have skills and perspectives that make them valuable contributors with respect to public plan actuarial standards?
14. In order to best serve the public interest do we need to include members of the public (non-actuaries) in our standards setting and enforcement?

**Communication**

15. Should public pension plan valuation reports include a high-level synopsis of plan health and highlight areas of high financial stress or risk, using language understandable by people with basic financial literacy?

16. Should public pension plan valuation reports, in their entirety, be generally understandable by financial professionals?

**Statutory Requirements**

17. Should actuarial standards for public pension plans address the inherent conflict that arises when a state is both the plan sponsor and the regulator?

18. Should actuarial standards for public pension plans reflect society’s need for independent, third-party perspective from actuaries, especially if the sponsor is self-regulating?

19. To the extent that an actuary performs an analysis using statutory methods and assumptions, should the actuary be required to explicitly disclose that he/she is not acting as an independent actuary with respect to the methods and assumptions?

20. If statutory methods and assumptions are not likely to result in actuarially sound estimates of liabilities, normal costs, and contributions, should the actuary be required disclose this fact?

21. If statutory methods and assumptions do not result in actuarially sound estimates of liabilities, normal costs, and contributions, should the actuary be required to produce and disclose parallel actuarially sound calculations?

**Alignment**

22. Should public pension plan standards be better aligned with standards for social insurance plans?

23. Should public pension plan standards be better aligned with standards for insurance company annuities?

24. Should public pension plan standards for distressed public plans be better aligned with actuarial standards and regulatory requirements relevant to other stressed situations within which actuaries work (stressed private pension plans, stressed insurance companies, etc.)?

25. Should public pension plan standards be better aligned with standard practices of the non-actuarial financial disciplines and, to the extent they are not, should the actuarial profession do a better job explaining why?

**Assumptions and Methods**

26. Should standards require the actuary to disclose when liabilities and contributions are underestimated because of one or more favorable assumptions?
27. Should standards specify that individual assumptions should be either “best estimates” or more conservative, especially with respect to assumptions that significantly impact liabilities and contributions?

28. Should standards require that actuaries routinely examine and disclose the financial contribution of past missed assumptions to plan underfunding?

29. Should standards prohibit the setting of actuarial contributions with planned negative amortization of unfunded liability?

30. Should standards require amortization of unfunded pension liability over a period no longer and no further back-loaded than the remaining working years and payroll of today’s active plan participants?

Understanding History

31. Should standards require the actuary providing an annual valuation to present historical data that allows the intended user to understand the plan’s long-term financial trends and sources of unfunded liabilities?

Risk Analysis and Disclosure

32. Do sound management and oversight practices of public pension plans require more financial insight into financial health and risk than offered by an analysis using a single set of deterministic assumptions?

33. Should public plan actuarial risk discussion extend beyond the one sentence required by ASOP 41 that states that the future may be different than assumed?

34. Should actuarial standards require asset risk analysis when a plan invests in risky assets outside a safe harbor, including disclosing the probability and financial impact of not earning the expected rate of return?

35. Besides the risk associated with rate of return, should actuarial standards require analysis of the other plan risks?

36. Should the standards require the actuary to opine as to whether the plan and sponsor has a reasonable and adequate plan for absorbing and/or distributing risk?

Projections

37. Do sound management and oversight practices of public pension plans require a multi-year planning perspective and therefore should standards require the projection and disclosure of future cash flows and liabilities?

38. Should standards require the projection and disclosure of future cash flows so that pension plan stakeholders can perform their own analysis with respect to asset return sensitivities?

39. Should a range of projections be provided based on sensitivity or other multiple scenario testing?

Risk Based Standards

40. Should different standards apply to highly stressed plans than to healthier plans?
41. Should different standards apply to plans with unfunded liabilities measured in billions than those with unfunded liabilities in millions?
42. Should different standards apply when the total actuarial contributions or the total unfunded liabilities for all plans in a taxing district exceed a specified percentage of the district’s tax base?
43. Should different standards apply when there is a history of under- or non-payment of the actuarial contributions?
44. Should different standards apply to mature plans (high percentage of retirees)?
45. Should different standards apply when benefits are constitutionally guaranteed, in contrast to those plans with benefits that are more easily adjusted?
46. Should different standards apply when a plan is in a long-term state of decline or stress than when a plan that has suffered a one-time shock?
47. Should cash flow testing be required for stressed plans?
48. Should a standard exist that requires an actuary to at some point declare a plan to be “unfundable” given its current design and financial status, rather than allowing the actuary to continue to perform calculations and issue reports that show the plan being funded or nearly funded at some improbable future date?

Standardization

49. Should actuarial valuations be sufficiently standardized so that taxpayer (or the taxpayer’s representatives) can summarize the financial obligations of all public pension plans associated with his/her taxing districts and understand how the financial health and risk profile of one plan compares to another?

Enforcement and Discipline

50. Would actuaries learn and sometimes modify their own practices if there was more transparency regarding counseling and discipline?
51. Does the public need evidence that substantiates that the actuarial profession is enforcing actuarial standards?
52. Should that evidence include more transparency regarding counseling and discipline?
53. Should that evidence include the participation of respected non-actuaries in the counseling and discipline process?