Comment #35 – 11/14/14 – 3:35 p.m.

Actuarial Standards Board November 14, 2014
1850 M Street, NW, Suite 300
Washington, DC 20036-4601

RE: ASOPs – Public Pension Plan Funding Request for Comments

Dear Members of the Board:

I have been a pension actuary for 28 years, including the last 22 years practicing in the public sector. This letter is in response to your request for comments regarding a review of the ASOPs as they pertain to public sector pension plan actuarial valuations.

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?**

No, the four ASOPs specific to actuarial valuations of pension plans provide sufficient guidance to assist pension actuaries in performing actuarial valuations and providing appropriate plan funding advice to public plan principals and trustees.

There is no need for additional regulations in this area. Public sector plans are regulated by state and local laws, federal laws, Retirement System rules and regulations, and various mandates/best practices promulgated by the Governmental Accounting Standards Board (GASB), the Actuarial Standards Board (ASB) and the Governmental Finance Officers Association (GFOA). The vast majority of state and local plans are funded appropriately, engage a qualified and experienced public plan actuarial consultant, and follow a reasonable funding methodology. The plans that are poorly funded are in that condition due to the trustees not making the actuarially required contributions, or possibly any contributions, over a period of years. This is not an actuarial problem.

Public sector pension plans being less uniformly regulated than private sector plans is a good thing, not a bad thing. Defined benefit plans have been abandoned to a large degree in the private sector, due at least in part to governmental over-regulation. Too much regulation is every bit as destructive as insufficient regulation. Additionally the individualized nature of public sector plans would make a one-size-fits-all set of highly specific uniform regulations very problematic.

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

   No to question 1.

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?**

   No to question 1.

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?**

   No. Public sector plans are highly individualized, covering different types of employees with very different career paths, have different benefit structures, funding mechanisms, and have different asset allocations and classes of investments. Prescriptive rules that may be appropriate in one case may not be appropriate in another. The current principles-based ASOPs make a lot more sense.

   Additionally enforcing prescriptive rules would be very difficult from a legal perspective. State and local pension plans are administered in accordance with state laws. If an ASOP were to prescribe, for example, Entry Age Normal as the only appropriate funding method, what would that mean for a state plan that has been funded for decades in accordance with a different method in accordance with statute? State funding of pension plans is the purview of the state, and it could lead to a difficult legal situation for ASB to attempt to prescribe specific methods and assumptions, when other methods and assumptions would also be appropriate.

   If there is a particular funding method or practice that the ASB considers inappropriate then perhaps a Practice Note could be issued to address this topic, or an ASOP modified as needed.

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?

Additional guidance is not needed for public sector pension plans. If ASB does put out additional guidance, however, then it should apply to both public and private sector pension plans. The goal of a pension plan with respect to actuarial funding is that sufficient assets are accumulated in a reasonable and systematic manner so that benefits can be paid when due. That is true for both public and private 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?**

No. If this additional information is not requested by the principal and is not required for the operation of the plan, or needed to satisfy any of the disclosure requirements for public plans, then how useful can it be? The expenses of public plans are ultimately borne by taxpayers. It makes no sense to require taxpayers to pay for actuarial work that is not required for the operation of the plan. Public plans and taxpayers would likely not take well to a requirement for them to pay for additional disclosures that are of questionable value.

If an unintended user wants to see plan liabilities calculated using a particular set of assumptions, they can engage an actuarial consultant to provide the information. Taxpayers should not be required to pay the cost of providing information solely to satisfy an individual's curiosity.

My response is not intended to imply that actuarial funding techniques and modeling should remain static. As techniques improve over time and new models are developed they should be used as appropriate, as determined by the public plan actuary and the plan principals.

In the background section of this request for comments, there is the following sentence:

“Public pension plan funding has received increased national attention in the past few years as a result of the recent recession and the emerging focus on financial economics in the pension community.”

The meltdown in the capital markets that was experienced during ’08-’09 has led to increases in required employer contributions and a decrease in plan funded ratios. While this has generated media attention, it does not indicate an error in plan funding methodology. Increasing contributions is the natural and expected result of such a steep decline in assets.

With respect to financial economics, this topic was incorporated into the development of the revised ASOP27, adopted in September 2013. The transmittal memo in the ASOP states “ASOP No. 27 is intended to accommodate the concepts of financial economics as well as traditional actuarial practice.” There would seem to be no reason to revisit this topic now.

I commend the ASB on the development of the ASOPs that provide guidance for measuring pension and retiree group benefit obligations. I believe they provide appropriate guidance for actuaries practicing in this area and appreciate the efforts of the members of the ASB in drafting them.

Additionally I thank the ASB for the opportunity to provide comments.

Sincerely,

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