California State Teachers'
Retirement System
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Actuarial Standards Board
1850 M Street NW, Suite 300
Washington, DC 20036

RE: ASOPs and Public Pension Plan Funding and Accounting

Dear Members of the Actuarial Standards Board,

Thank you for allowing the California State Teachers' Retirement System (CalSTRS) to respond to the Actuarial Standards Board's (ASB) Request for Comments on ASOPs Related to Public Pension Plan Funding and Accounting. Our comments are directed to how we believe the actuarial profession may best assist retirement systems in the management of their public plans. In general, because of the wide variety of plans we strongly believe that any new standards should be principles-based, with more details added to strengthen any new principle-base standard. We also strongly believe that these standards should apply to all types of pension programs, including public, church, endowment, multi-employer, non-qualified and corporate plans.

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?**

Response: While CalSTRS has been satisfied with the advice and service by its actuarial consultants, we believe that continued improvement in standards and guidance would be useful in assisting retirement systems in managing their plans. There are still some areas where actuarial advice is underdeveloped. Guidance and continued development in these areas are important to the work of public plans. If additional guidance is issued, it must be developed via a clear and open process responding to comments in a timely manner that allows for discussion and discourse. Finally, flexibility with how additional guidance is implemented is critical.

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

Response: Three areas where additional guidance would be useful are in the area of risk disclosure, the ability to more accurately project short and long-term future occurrences and improved communication of the results.

Additional principle-based guidance that improves both investment risk and non-investment risk discussion would be useful. Currently, many actuaries and investment professions routinely and thoroughly discuss investment risk; however, other types of risks are not generally thoroughly discussed. Guidance that focuses on the risks that are not routinely covered would be useful.

Improvement in the accuracy of assumptions and in the projections of future outcomes would greatly assist retirement systems in making important decisions. Many different benefit and investment structures exist within public plans. Decisions based on benefit, contribution, investment and other strategies would be enhanced by the improved ability to predict short and long-term outcomes.

Finally, good communication by actuaries is critical to retirement systems. Because of the complex technical nature of actuarial advice, the ability to effectively communicate their advice is critical. In many situations, the actuarial valuation report is not the most effective means of communicating of actuarial advice. Often adding a large amount of new information to an actuarial valuation may detract from communication and lead to more confusion. Professional judgment should be used by the actuary as to how to communicate their advice. Therefore maximum flexibility should be given in how information resulting from any new guidance is communicated.

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?

Response: We strongly believe that any new guidance on actuarial valuations should be incorporated into existing ASOPs and apply to all actuarial valuations. All types of plans could benefit from additional guidance on risk discussions, asset/liability studies, projection models, predicting future outcomes, understanding the entire enterprise as a whole and better communication. In particular, public plans are generally superior to private plans in the areas of risk disclosure, transparency, governance, resiliency and communication; therefore private plans are in more need of additional guidance in these areas.

Risk disclosure-Many more actuarial valuations of public plans compared to private plans disclose risk. Many more public plans have asset/liability studies, experience studies and stochastic modeling. With public plans, the risk discussion is generally more robust than with private plans. Generally public plans (especially the larger plans) spend much more time, discussing risk and alternative funding, investment and contribution scenarios than private plans. With many public plans this discussion goes on for several months.

Transparency-Public plans are much more transparent than private plans. Public plans meetings are open, actuarial valuations and other actuarial discussions are publicly available, usually on their web sites. Private plan pension plans meetings are not public, nor are their actuarial valuations or experience studies, nor are discussions related to actuarial topics such as risk/reward information. Few private plans have robust asset/liability studies and stochastic modeling. These are much more common in the public plan area.

Governance-It is incorrect to state that public plans are not subject to independent review. Governance varies from plan to plan and jurisdiction to jurisdiction. There is a wide variety of governance models in the public plan community. As we have seen over the last decade, all local plans are subject to review and governance by the state in which it exists, thus providing independent review and control over the local plans. All state plans, as well as the federal government plans, are subject to control of a constitution and the public. Governments, in all but a few cases, have strongly responded to the market downturn and are taking steps to resolve funding issues.

Resiliency-Public plans have better survived the downturn in the market than did private plans. Many private plans terminated or severely reduced their plans, but public plans, because the governmental sponsor is a permanent entity, have used more options to address their funding issues than private plans. Therefore, public plans are likely to be more resilient than private plans and therefore does not need strict funding rules to be able to pay benefits.

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?

Response: We believe that the ASOPs should continue to be principles-based instead of rules-based. There are so many varieties of plans and methods, that only principle-based guidance can be effective. Within the principle-base guidance, more prescription may be incorporated as needed without being rules-based. We believe that rules-based guidance may result in such absurd outcomes as to bring the ASOPs into disrepute.

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?**

   Response: We believe that any additional guidance, should apply to all pension plans: public, church, endowment, multiemployer, non-qualified and corporate. All plans and all actuaries should have guidance that assists sponsors in making good decisions. Guidance should encourage all actuaries to follow practices that help employers/employees and interested parties understand risk disclosure, more accurate projection of short and long-term occurrences and improved communication of result.

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?**

   Response: No, actuaries should perform work for the principal requesting the work. There are issues with performing significant addition work for individuals who are not principals. The cost of actuarial work is significant. Significant additional work would be very expensive. There is a question as to who would pay for any additional work. Principals will not want to fund work they do not find useful or relevant. There would also be the problem of defining "useful" information and which groups should be "privileged" to have free work completed for their benefit, but not for the benefit of other non-intended users.

   In addition, there are non-principal parties for private plans who have a lot more at stake than non-principals for public plans. For example, stockholders are the actual owners of a corporation with private plans, but are not included as "principals". For these stockholders, their individual wealth is at stake. Similarly, the entire livelihood of a corporation's employees could be at stake. More so than non-principals in the public plan area, these and other groups of private plans should be among the first to warrant additional significant work.

   Therefore, we believe that any standards that apply to public plans actuarial work should apply to private plan actuarial work.

Conclusion

CalSTRS understands that as actuarial practice advances, there may be a need for additional guidance to assist actuaries in their advice to retirement systems. However, there is a wide variety of public plans that hire actuaries for their professional judgment and advice. Therefore we believe guidance should be principle-based and not rules-based. Actuaries should not be required to abide by strict set of rules that produce unreasonable results. In addition, actuarial guidance should apply to all actuaries and to all types of plans. CalSTRS thanks the ASB for the opportunity to respond the ASB's request for comments on ASOPs and Public Pension Plan Funding and Accounting.

Sincerely on behalf of the California State Teachers' Retirement System,

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