Comment #43 – 11/14/14 – 4:41 p.m.

ASOPs - Public Pension Plan Funding Request for Comments

Thank you for this opportunity to enter the discussion concerning possible changes to actuarial practice. I am not a pension actuary, but I am a retired healthcare actuary and a member of the Social Insurance and Public Finance Section.

As highlighted in the Society’s February 2014 Report of the Blue Ribbon Panel on Public Pension Plan Funding, since the 2008 financial crisis, public plans have faced “high-profile financial challenges” that have seriously weakened the funded status of many plans. So, the fundamental problem that should be addressed is the increased cost of providing a defined benefit plan (due to an adverse economic environment) and the unwillingness, or inability, of the plan’s funding entity to fund the additional cost.

Is this fundamental problem something that can be fixed with better actuarial practice? Would better (or different) actuarial reports or actuarial advice have changed the funding status of any of the plans studied by the Blue Ribbon Panel? In my opinion, I think it is highly likely that the plan sponsors got good actuarial advice and reports, and no additional advice or reporting would have had an impact on funding levels.

Having said that, I do believe that many of the recommendations made by the Blue Ribbon Panel are good ones, and I’m a little surprised that some of them aren’t included in all funding reports. For example, is it really possible to issue an ASOP-compliant funding report that does not include undiscounted cash flows or stress testing of key assumptions?

In addition to the Panel’s report, the June 2014 Report on Communicating the Financial Health of Public Pension Plans sponsored by the Social Insurance & Public Finance Section also includes good ideas for reports.

While better actuarial reports may not have a measurable impact on funding levels, at least in the short term, there are still at least two good reasons to consider making changes to the pension funding ASOPs. One reason is self-preservation. Actuarial reputations might be damaged, unjustly of course, in the event of plan failures. Even worse, perhaps actuaries would be sued, also unjustly, of course.

A better reason for making changes is that actuaries are uniquely qualified to explain the consequences of underfunding to the ultimate (in many cases) funding entity – the tax payer.
Perhaps a supplement to a standard actuarial report is needed, one written for the benefit of other users of the report, not the user who writes the actuary’s check.

The “Other Users Supplement” should be less technical than a standard report. Other Users will not be impressed with information on the risk free rate. Perhaps different scenarios could be described (e.g. what the current level of funding would provide vs. what’s been promised, etc.).

It is possible that, over time, well-educated users may make informed choices regarding plan funding and other plan parameters that affect plan costs.

I will be happy to continue the discussion of this important topic.

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