AMERICAN ACADEMY *of* ACTUARIES

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November 15, 2014

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

Re: ASOPs – Public Pension Plan Funding Request for Comments

Members of the Actuarial Standards Board:

Thank you for the opportunity to comment on the application of the Actuarial Standards of Practice (ASOPs) in regards to public plan actuarial valuations. The Pension Finance Task Force (PFTF) is jointly sponsored by the American Academy of Actuaries[1] and the Society of Actuaries.[2] Its purpose is to cultivate and share expertise regarding the economic principles of pension finance. The PFTF believes that this perspective is relevant with respect to the examination of actuarial standards for practice related to public pension plans. The views expressed in this letter are solely those of the PFTF members and do not necessarily represent the views of other interested parties.

The financing and valuation of public pensions (and other post-retirement benefit obligations) is a critical issue facing the United States today, and the actuarial profession finds itself at the center of the debate. Some interested parties even suggest that our profession has not done its part to ensure the financial viability of public pensions. Regardless of whether or not such implications may be valid, they bring to mind the ASB's own assertion that standards of practice "serve to assure the public that actuaries are professionally accountable" and "[enhance] the public's trust in the credibility and completeness of the actuarial work product."[3]

[1]The American Academy of Actuaries is an 18,000+ member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.
[2] The Society of Actuaries (SOA) is an educational, research and professional organization dedicated to serving the public, its members and its candidates. The SOA's mission is to advance actuarial knowledge and to enhance the ability of actuaries to provide expert advice and relevant solutions for financial, business and societal problems. The SOA is a joint sponsor of the PFTF in its research and educational activities. Positions expressed in this letter with regard to actuarial standards should not be viewed as those of the SOA.
[3] http://www.actuarialstandardsboard.org/aboutasb.asp (retrieved October 23, 2014)

In light of these circumstances, we believe that the issues raised by the ASB regarding actuarial practice for public pension plans are important and merit further investigation and discussion.

Specific responses to each question posed in the July 2014 Request for Comments follow.

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?**

We believe that additional guidance is needed, beyond that in the revised pension ASOPs, for public plan actuarial practice. Many obvious differences exist between public and private plans, including but not limited to:

- Nature of stakeholders – Taxpayers finance public pension plans. Currently no guidance exists that specifies an actuary's responsibility to this type of stakeholder.

- Governance structure – Public plan retirement boards typically include elected officials. This can give rise to principal-agent problems.

- Funding policies – Considerable variation exists in regulations that mandate required contributions. This disparity leaves room for actuarial work products to be misconstrued and potentially misrepresented. Typically there is no penalty for failure to comply with required funding policies.

- Intergenerational equity issues – To be equitable, each generation of taxpayers would need to pay the costs for the services they receive (including compensation and benefits). Although most would agree in principle that intergenerational equity should be maintained, there may not be consensus about how this should be determined. The issue of intergenerational equity does not apply to other types of pension plans in the same way that it does for public plans.

- Current actuarial practice – A wider variety of amortization methods, liability discount rates, asset smoothing, and funding methods exist in public plan practice than in other practice areas.

Actuaries specializing in public plans often point to these distinctions when explaining the basis for various valuation approaches. For these reasons, we suggest that actuarial standards specific to public plans would be useful in guiding those actuaries providing services to such plans. After all, such an exceptional area of practice likely can't be sufficiently addressed solely by broad guidance intended primarily for all types of pension plans.

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

Additional guidance is needed in several areas, including but not limited to, the following:

- An actuary's responsibility to various public plan stakeholders, including the taxpayers who ultimately finance the plan
- An actuary's responsibility to provide information to various public plan stakeholders beyond what is required by law or governmental accounting standards

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?

In this circumstance we believe a separate standard specific to public plan actuarial valuations is preferable to adding guidance within the existing ASOPs. There are enough aspects of pension actuarial work that are unique to public plans (as compared to private sector plans) that would make one broad standard inadequate in dealing with the differences inherent in public plan valuations.

The ASB has already established precedence for promulgating specific standards for a subset of a practice area when the differentiation warrants it. For example, ASOPs 33 and 37 pertain specifically to mutual life insurance companies, and ASOP 18 pertains specifically to long-term care insurance. The differences between public retirement plans and other private sector retirement plans in stakeholders, governance, regulations, etc. are sufficient to expect that a separate standard with public plan guidance would be beneficial to the pension practice area.

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?

We believe the committee that works on this ASOP should evaluate the potential approaches in detail to determine which would be most effective. The approach doesn't need to be pre-ordained, although if it is revealed that specific issues are best addressed by a prescriptive treatment, we would urge the ASB to incorporate prescriptive elements into the ASOP.

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?

We believe that the ultimate goal of the ASOPs should be to promote consistent standards across all types of pension plan actuarial practice, except where circumstances determine otherwise. For this reason, we expect that any new guidance issued as a result of this project will specifically address the unique circumstances of actuarial practice for public pension plans and may not be directly applicable to other types of pension plans. If, however, there are items that come out of the public plan ASOP analysis that would be beneficial for all areas of practice in the pension community we would welcome their incorporation into the existing ASOPs.

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?**

We believe that specifying *intended users* of public pension valuations is one of the key issues at hand. When considering this issue, it is important to note that *intended users* (as defined by ASOP No. 41) are a different and potentially broader group than *principals* (as defined in the American Academy of Actuaries' Code of Professional Conduct). But neither of these actuarial definitions is entirely consistent with the more conventional theoretical meaning of *principals. In a typical economic context,* owners or shareholders of a corporation are considered *principals, as* these are the individuals with "skin in the game". Likewise, shareholders of insurance companies and corporations that sponsor pension plans would be considered *principals*.

In the public pension context, then, taxpayers are economic *principals,* although they do not meet the definition in the actuarial Code of Professional Conduct. Those who hire public plan actuaries are *agents* working on behalf of these principals. As economic *principals*, we believe that the taxpaying public should be considered *intended users* under ASOP No. 41 for the valuation of public plans. Whether these users are designated "intended" by the hiring authority need not determine whether the actuary declares them *intended users*.

Furthermore, the ASB itself appears to take the position that protecting public interest is an important part of our work by stating that "written standards of practice … show that a profession governs itself and takes an active interest in protecting the public."[4] Designating taxpayers to be intended users of actuarial work products would be consistent with this objective.

[4] ibid.

Finally, regarding any requirements for the actuary to perform "additional, significant work," we believe that this concern should be balanced with the concern for a plan's *intended users* to have access to information that they need to effectively manage or evaluate a plan. Additional disclosure requirements may not require "significant" additional work, since such disclosures would be derived from plan participant data and benefit provisions that will have already been set up in a valuation system.

The Pension Finance Task Force appreciates your consideration of these comments. We would be happy to discuss this issue with you at your convenience. Please contact Matthew Mulling, the Academy's pension policy analyst (202-785-7868, Mulling@actuary.org) if you have any questions or would like to discuss this issue further.

Sincerely,

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Chairperson, Pension Finance Task Force