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Comments: Comments of the National Public Pension Coalition

To be delivered by Bailey Childers, Executive Director

The undersigned members of the National Public Pension Coalition (NPPC) are pleased to submit comments in response to the Actuarial Standards Board request for comments on Actuarial Standards of Practice (ASOPs) – Public Pension Plan Funding and Accounting. There is no group more interested in ensuring the strength of state and local retirement systems than the plan participants counting on those systems to provide retirement benefits. Across the country, however, public employees – who have consistently made required contributions into their respective plans – are often at the mercy of public officials unfairly targeting their financial security for political gain.

There is no doubt that some public plans are in a poor fiscal position. This, however, is almost always due to systemic budgetary problems or a lack of funding discipline: not erroneous actuarial assumptions. Just as certain corporate leaders in some private sector industries have done before, some political leaders remain in denial about accrued benefits being honored. Thus, instead of facing the problem head-on, they choose to pass obviously illegal measures which sit in the courts for years as the problem continues to grow – kicking the can further down the road. Meanwhile, the very same political groups that lecture about changing funding and disclosure requirements support such irresponsible actions.

Many pension funds have responded to the criticisms that discount rates are too high and lowered the assumed rate of return on investment (ROI), even though data from the National Association of State Retirement Administrators shows that, at 8.5 percent, the median annualized investment return for the 25-year period ended December 31, 2014 exceeded the median assumption of 7.75 percent. Instead of applauding these changes, however, these newfound ‘pension experts’ simply turn around and use the resulting higher cost as evidence that plans are unsustainable and must be closed to the next generation. Of course, this was always a strategy to create the appearance of a crisis in order to impose policies that ultimately jeopardize workers’ retirement security.

This is nothing new in politics. Recently, the Society of Actuaries established a panel which did not include public plan actuaries, and was heavy on political actors. The panel’s recommendations aim to provide fodder and tools to so-called ‘think tanks’ to push political campaigns. There is no doubt that large pension funds that follow these recommendations, such as providing data on undiscounted cash flows and liabilities at a risk-free rate, will soon find reports surfacing that incorrectly claim their plan will be bankrupt in a few short years. We don’t believe that public pension funds should have to subsidize this political work.

If actuarial standards are changed in a way that reflect higher costs or unfunded accrued liabilities, or require plans to provide additional data (which may be useless to the plan itself), there is no doubt that these figures will be used in an effort to strip workers of adequate retirement benefits. The challenge for all stakeholders, including actuaries, will be balancing the absolute need for responsible work without buying into the lobbying of political actors who are looking to destroy the systems that provide modest, but meaningful, retirement benefits for workers—often with the disingenuous premise of trying to protect benefits.

We generally support the thoughtful funding principles that were developed by the Conference of Consulting Actuaries, and urge the Board not to impose specific, hard requirements on actuaries as is suggested by those looking to destroy pension funds. Governmental plans vary widely in benefit levels and contributions, age and service eligibility for retirement, workforce composition and size, plan asset levels, investment policy and funding level. The carefully tailored assumptions used by public sector plan actuaries have served all stakeholders well over the decades, and attempting to establish a universal standard for governmental plans would likely have a negative impact because of the aforementioned variables.