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ASOPs – Public Pension Plan Funding Request for Comments
Actuarial Standards Board
1850 M Street, NW, Suite 300
Washington, DC 20036-4601

Re: Request for Input – Actuarial Standards Board Hearing on Public Pension Issues

Dear Members of the Actuarial Standards Board (ASB):

Buck Consultants appreciates the opportunity to respond to the ASB's solicitation of commentary on potential changes to pension-related Actuarial Standards of Practice (ASOPs), which have been requested in advance of the public hearing to be held in Washington on July 9.

Throughout its 99-year history, Buck has counted many public-sector pension systems among its clients. We are strongly committed to continuing to serve these systems and have commensurately strong opinions as to the manner in which the actuarial profession can best advance their interests.

We provide below our recommendations concerning the topics on which the ASB has specifically requested feedback.

1. Contribution/Cost Allocation Procedures

Recent actuarial literature has emphasized the distinction between funding that is adequate on a present-value basis and funding that is likely to provide sufficient assets to pay benefits and expenses as they become due. The current requirement of ASOP No. 4 that actuaries provide qualitative descriptions of the implications of contribution allocation procedures on future expected plan contributions and funded status is helpful in this regard, but we believe it should be taken a step further. Specifically, we recommend that reports on valuations prepared for funding purposes include a deterministic forecast of the expected year-by-year adequacy of the assets accumulated under the contribution allocation policy in use. Such projections would be similar to those required for the determination of discount rates under GASB Statements Nos. 67 and 68 and are well within the technical capabilities of actuaries equipped with modern valuation systems. Like the GASB, we suggest these projections incorporate recent history or other indications of the extent to which contributions may be expected to cover the results of what ASOP No. 4 terms the "contribution allocation procedure."

With respect to the specific points the ASB requested be addressed:

- The rationale for the inclusion of this requirement is self-evident: it would provide an indication of the consistency of a plan's contribution allocation policy with its projected need for funds.
- We believe that plan sponsors, trustees and other interested parties will benefit from such projections in making decisions regarding funding policies.
- We believe that this requirement would be as usefully applied to private-sector plans as to public-sector plans.

We believe that the projections should be provided in sufficient detail to show the employer contributions expected to be developed in future years under the plan's contribution allocation procedure. We do not believe that actuaries should be required to express an opinion regarding the ability of the plan sponsor to make contributions at the projected levels.

2. Amortization Methods

A common feature of the contribution allocation procedures of public retirement systems is amortization of unfunded liabilities in installments that increase at some percentage from year to year. This can result in "negative amortization," with installments in early years of the amortization process that do not completely cover the accrual of interest on the unfunded liability.

While a plan sponsor may elect to use a non-level-dollar amortization method as the basis for funding policy, we believe that the expected progression of the selected amortization should be transparent and understood by users of the actuarial valuation. To that end we encourage the ASB to consider adopting a requirement that actuaries' reports on funding valuations incorporate schedules showing the projected amortization of the unfunded liability under the contribution allocation procedure in effect.

With respect to the specific points the ASB requested we address:

- The rationale for the inclusion of this requirement is that it informs the users of the funding valuation report of the projected pattern of the reduction of the unfunded liability under the contribution allocation procedure used by the subject plan, and alerts them to the presence of negative amortization where it is expected to occur.
- We believe that plan sponsors, trustees and other interested parties will benefit from this insight in making decisions regarding funding policy.
- We believe that this requirement would be as usefully applied to private-sector plans as to public-sector plans.

3. Assumptions

We believe the current versions of ASOP Nos. 27 and 35 provide good guidance with respect to the selection of actuarial assumptions, and we do not recommend any changes be made to those standards at this time. However, we would suggest that reports on funding valuations include a statement of whether assumptions were selected on the basis of an experience study or some other basis. Where an experience study has served as the basis for the selection, we believe the statement should note when it was performed and the experience period covered.

With respect to the specific points the ASB requested we address:

- The rationale for the inclusion of this requirement is that users of the funding valuation report will know the extent to which a plan's own experience has figured in the selection of assumptions used.
- We believe that this is useful for understanding the extent to which a plan's unique characteristics may explain the use of certain assumptions (e.g., the application of an older mortality table to a population that has exhibited substandard mortality experience).
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- We believe that this requirement would be as usefully applied to private-sector plans as to public-sector plans.

4. Alternative Liability Measures

We do not believe that the suggested change in the ASOPs to require the inclusion in funding or other valuation reports for public-sector pension plans of alternative liability measures would be useful, since, for public-sector pension plans, the transactions inherent in the bases for such calculations are rare.

We appreciate the opportunity to share our views with the ASB, and we hope to do so in person at the July 9 hearing.

Sincerely,

David L. Driscoll

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