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Actuarial Standards Board
1850 M Street N.W., Suite 300
Washington, DC 20036

Re: Hearing on Public Pension Plan Issues

To the Board:

I appreciate the opportunity to provide comments to the Board on this very important subject.

The original Request for Comments on ASOPs and Public Pension Plan Funding and Accounting contained the following observation:

> "Public pension plan funding has received increased national attention in the past few years as a result of the recent recession and the emerging focus on financial economics in the pension community."

As a public plan actuary, I am concerned – as I hope and presume all actuaries are – about the reputation of the actuarial profession in this increased national attention. I would like to make some comments to set some context for the Board to consider when weighing public plan issues and actuarial practice.

Background

At Gabriel, Roeder, Smith & Company, our public pension clients are almost exclusively boards of trustees tasked with administering state and local retirement systems. Sometimes, but far less frequently, our clients are the plan sponsors as well. In general, boards of trustees are separate legal entities from the plan sponsors. Regulations for plan funding are set by state and sometimes local governments. There are constitutional reasons why federal oversight of pension plan funding does not apply to public plans.

Consistent with Precept 4 of the Code of Professional Conduct (CPC), we take great care to ensure that our actuarial communications are clear and appropriate to the circumstances and their intended audience(s), and satisfy applicable standards of practice. Generally, our intended audience is our principal, the retirement system board, with the understanding that our work products or portions thereof may be used by plan sponsors and other users of required accounting information. It is important to keep in mind that the intended user as defined in the CPC is anyone the *actuary identifies* as able to rely on the actuarial findings.

It is important to note that many of the cases of public pension plans that have received increased national attention for funding issues are cases where the plan sponsors, regulators and/or boards of trustees have not followed the actuary's recommendation.

General Comments

The question I would ask the Board is whether the goal of actuarial standards of practice is to regulate actuarial practice or to regulate public plan funding. If there is a way to improve actuarial practice so that plan sponsors and regulators always do what the actuary recommends, I am sure many public and private pension plan actuaries would be very interested in hearing those ideas.

I suggest that the goal should be to provide additional information to our principal when it is appropriate for the purpose of the measurement, when it would aid in their decision making, and when it would not result in misrepresentation or commit any act that reflects adversely on the actuarial profession.

I would also suggest that if it is determined that there is a need for new disclosures for public plans, then the Board should consider applying the same requirement to private sector plans as well.

Financial Economics

On the question of financial economics, in general the focus on the subject has done a great deal to improve public and private pension plan actuaries' discussions with their clients about risk. We have successfully used the concepts of financial economics with our public sector clients on many occasions. The proposed ASOP on Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions is a very good effort to expand the discussions of risks that are already occurring.

The first caution I have to the Board and to the actuarial profession is to be very careful with the idea of a "true cost" of a pension plan. The notion that there is "one true cost" that sums up everything we need to know about a pension plan is a gross oversimplification.

Pension plans, public or private, are vastly complex. Many larger public sector retirement system boards regularly hire a second actuary to perform an actuarial audit of the retained actuary's work. To us, this is both good governance for the retirement systems and evidence of the actuarial profession's effective self-regulation. An important point to note about actuarial audits is that there almost always is a variance in professional actuarial opinion on some detail of the actuarial valuation.

Within the field of financial economics itself, there is variance of opinion on market measures of pension obligations. The selection of discount rates, the treatment of ancillary benefits, the treatment of vesting and eligibility provisions all are subject to interpretation and may result in a range of answers rather than a "true cost."

The second caution I have to the Board is to be very careful with introducing mandated calculations.

Should a market-based liability be a required disclosure for all public plans? Or as question 6 in the Request for Comments puts it: "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?"

To provide context for the Board: our actuarial valuation reports for funding purposes currently include many technical requirements from the ASOPs and can be in excess of 100 pages. Our reports for the new GASB disclosure requirements for public pension plans and sponsors may be just as long or longer and contain very different information. These are reports requested by our principal. It takes a great deal of effort to adequately communicate these reports to the intended users so that they can make informed decisions.

Would requiring a third set of calculations not requested by our principals help? Who are the intended users? Are there potentials for misuse? These are critical questions that must be addressed.

Again, thank you for this opportunity to provide comments on this issue.

Sincerely,

David T Kausch

David T. Kausch
Chief Actuary

DTK:dk