Thank you for the opportunity to comment on enhancing the Actuarial Standards of Practice regarding public pensions. I am pleased the ASB has convened the July 9 public hearing on improving the quality of public pension reports, having received more comments on this topic than any other subject in recent memory. Last November I was among the 55 members of the public who wrote letters in response to ASB's comprehensive review of Actuarial Standards of Practice with regard to Public Pension Valuations. My comments here will be based on that letter.

My perspective is that of an institutional equity manager and former local elected official in Illinois, as well as a recent complainant to the ABCD. I am not an actuary, but in my role as Village Trustee in La Grange I relied heavily on reports from our actuarial consultant to make decisions on village spending and tax policy. I found those reports lacking contextual detail; frequently they were misunderstood or unread by my colleagues.

Today, actuarial reports are comprehendible only by actuaries and by very few motivated and dedicated laypersons. Most people hardly know the purpose of these reports; let alone what is in them, how to interpret the contents or what follow-up questions to ask. Instead of being written at the level of a scholarly journal in a technical field such as medicine or engineering, to assure sound governing practices, actuarial reports must be written for a wider audience of elected officials and their staffs, journalists and the especially interested members of the general public. By offering qualitative context in the reports, public officials can make smarter decisions in a field where they likely have little prior knowledge and journalists can report on those decisions so that the public can better understand the financial condition of their governments.

I recommend these changes to the format of actuarial reports:

1. Actuarial Valuation Reports contain considerable jargon specific to the field. A glossary of terms would help pension trustees, elected and appointed public officials, and journalists understand the reports.

2. Actuarial reports must use narrative to explain how the pension trustees and the actuary arrived at the selected actuarial and economic assumptions. Key elements of those assumptions, such as expected returns and asset allocation to the various asset classes should be included to reconcile the assumptions.

3. The Valuation Report should examine the sensitivity of required contributions and funding levels to the most critical assumptions.

4. Departures from common actuarial practice due to statute or client mandate should be called out and the implications of such departures should be analyzed. Occasions where plans are experiencing negative amortization, particularly plans where negative amortization is by design, must be explicitly identified and the implications described in detail.

5. Where customized mortality tables are used, the need for those custom tables should be justified; the universe and methodology for assembling the custom table should also be described. The actuary must also describe why commonly used tables such as the RP-2000 table would produce inferior results to the custom tables.

6. The history of plan asset, liabilities and benefits paid should be provided, just as it is in the Comprehensive Annual Financial Report (CAFR)

7. Inasmuch as the assumptions are just that, assumptions, the probability of achieving 100% funding status by the end of the deficit amortization period should be calculated.

8. The report should clearly identify the party that has engaged the actuary and pays the fee.

Thank you again for seeking public input on improving actuarial standards in public pension reporting.

Sincerely,

James T. Palermo, CFA