Comments by Mark Glennon for the Actuarial Standards Board Hearing on Public Pension Issues

Thank you for addressing this subject.

I base these comments on my experience spending hundreds of hours in recent years learning and writing about state and municipal pensions in Illinois. I write primarily for WirePoints, an online news site I founded largely for the purpose of highlighting dangers in pensions and other fiscal matters. I am not an actuary, though I discuss pension issues frequently with the few actuaries I have found who will talk candidly. I also speak frequently with many public officials, including key legislators, about pensions. Deficiencies in actuarial reports are primary reasons for the fiscal crisis now gripping Illinois and many of its municipalities, particularly Chicago.

I will address some of the specific, technical issues as you asked for in these comments. However, in my view, the biggest deficiency is broad and overarching: Actuarial reports are comprehensible only to actuaries and those who have spent an inordinate amount of time learning about them. Problems are not called out clearly; language is opaque; references to different standards are confusing and inconsistent; the impact of key assumptions is omitted; and similar, other problems make reports impenetrable to trustees, public officials, reporters and, most importantly, taxpayers. Even municipal bond analysts – with excellent financial skills – seem unable to know what to make of actuarial reports. Chicago represents the most glaring example. An actuary could have looked only briefly at some of its pension reports from years ago and seen the calamity to come. Reporters, political leadership and most pension trustees could not. Those who could understand were able to remain silent. Their indifference went unnoticed and unchallenged.

A break-through of sorts for Illinois was the 2014 actuarial report for the state's largest pension, the Illinois Teachers Retirement System ("TRS"). Evidently prepared in response to complaints to the ABCD, the report is quite radically different from all others I have seen. It conspicuously calls out immediate problems while describing the reasons for the crisis. Importantly, a plain English slide presentation was also released along with the report, providing still more clarity for the pension's trustees and the public. Unfortunately, no precedent was set and it was not replicated for other pensions. That report and the presentation should serve as beginning point of a model for your Standards Board.

Beyond that broad change in approach, I hope you address these specific items:

- Negative amortization. This issue pertains to many pension plans in Illinois municipalities, though exactly how many is unknown to me because it's so obscurely and perniciously embedded . Virtually nobody in Illinois seems aware of it outside of pension professionals. It is among the reasons why many politicians in Illinois repeatedly say – and may actually believe -- that they are properly funding pensions because they meet statutory annual contribution requirements. Negative amortization should be clearly described and projected in every valuation report where it exists.

- "ARC" definition and manipulation. Statutory contribution levels contained in both current law and several reform proposals floating in Illinois are regularly described by reporters and politicians as "Actuarially Required Contributions." While you know that those schedules usually have no "actuarial" soundness to them, the term is regularly misappropriated by others. This misuse of the term could be prevented, I believe, by your demand for stricter use of the term. Make it a term of art, and ensure that actuary reports clearly identify variance of true ARCs from legislatively-created ones.

- “90% is enough.” I realize your profession has quite emphatically criticized the 90% funding level as an unsound target. However, in Illinois, reporters, pension officials and politicians continue to claim otherwise. As you know, they are really just defining away a part of the problem. Still more effort to dispel the 90% myth is needed, including stronger language in actuary reports.

- Outdated mortality tables. You are probably aware of some instances in Illinois of improper use of grossly outdated mortality tables. Recurrence could be prevented if the mortality table used is adequately described. For example, instead of just referencing a particular table, describe when the data for it were actually collected and when the people covered by it were born. With mortality ever lengthening, skepticism about the validity of mortality data used by actuaries is totally appropriate.

- Alternative projections using market value discount rates. While differences of opinion about appropriate discount rates may never resolve, there is no reason not to include different projections based on several different assumptions.

- Disclosure of who hires and pays the actuary. You know this is a core issue that biases actuary reports towards minimizing liabilities and contributions. The public is not aware of this pervasive practice. The least that should be done is a bold, standardized statement in actuary reports of who hired and is paying the actuary.

Finally, I urge you to consider a imposing a broad, general mandate that actuary reports clearly identify all other material issues beyond the specific items for which you impose standards. As one actuary I know put it, the challenge of pension reporting is a game of Whac-a-Mole. You can never prescribe specific standards covering all issues in all pensions that will stop an actuary from biasing a report, if that’s his intention.

Accordingly, some form of broader obligation for actuaries must be worded in the Standards of Practice and enforced by the ABCD. Deliberately broad and seemingly vague standards have worked well in other sectors, even where they are legally enforced. (For example, the Uniform Commercial Code’s “good faith” standard requires “honesty in fact and the observance of reasonable commercial standards of fair dealing.” In securities law, the “all material nonpublic information” standard applies to insider trading). A commitment to conform to the standard you define should be included in each actuary report.

Those points may be debatable and other specific changes will be left to you, but the imperative is undeniable – public pension actuary reports must change.