ASB Comments from Mary Pat Campbell, FSA, MAAA:

I am a life-annuity actuary who has been following the public pension issue for some years, when I realized how differently public pensions and annuities were valued, even when the promises sounded very similar.

My primary interest in the public pensions issue (beyond being a taxpayer and having many friends and family in public employment) is that of the reputation of the profession.

Consider the downfall of Equitable Life UK, which involved options embedded in annuities which were essentially considered costless by the company actuaries. They weren't. A centuries-old company was destroyed due to that assumption. This then spurred an investigation of the actuarial profession in the UK, and the profession lost some of its autonomy in the UK as a result.

Similarly, in the U.S., outsiders are not going to make a distinction between different types of actuaries if it is seen that standard actuarial practice was deficient in preventing public pension disasters or even the "surprise" of increasing normal costs as experience diverges from assumptions.

In light of this, I'm not going to address the specific technical issues, but ask a few questions at a broader level:

1. To what extent does standard actuarial practice enable questionable behavior on the part of public pension sponsors? (e.g., pension obligation bonds, increasing risky investments, enacting benefit improvements based on low-balled costs)
2. To what extent should actuaries working for public pensions explain and warn about danger to the plans?
3. When elected officials and union representatives both want the lowest cost, can we expect consulting actuaries to develop costs that are higher than the lowest costs that can be asserted to be ASOP compliant?

The first question I bring up because some see certain metrics as being indicative of pension health, and there are ways to engineer plans to make those aspects look good, at least temporarily. We, as a profession, do not want to contribute to questionable actions on the part of others.

But let me highlight the second question, which does not get a lot of attention.

While actuaries do not make decisions such as benefit design nor actual contributions made to public pension funds, we are seen as the numbers experts with regards to pensions. As part of my interest in public pensions, I have read many Comprehensive Annual Financial Reports as well as actuarial reports for public pension plans. There are a lot of numbers in these. A single number generally does not capture the health of the pension, with regards to being able to support funding and being able to actually pay benefits, so the multiplicity of numbers makes sense. However, I am seeing precious little interpretation for non-experts.

As I am not a pension actuary, sometimes I'm left scratching my head over trends I see in the actuarial reports. Are they good or bad? I can't tell by reading the explicit statements in the reports. What metrics should I be looking at?

If I have trouble interpreting whether an 80% funded ratio is good or bad news, what hope do public plan trustees have, most of who are not actuaries at all?

When public plans get into trouble, it generally does not emerge suddenly, as a run on the bank. Trouble in public pensions develops over years, sometimes decades. Perhaps the slow-moving nature of public pension disasters makes sponsors complacent, but it is probably expected by sponsors that if there were something terribly wrong, the actuaries would have warned them. It does not matter how many disclaimers we actuaries put into our reports. We are the numbers people; we do the projections; we should have been highlighting cases when current assets cannot cover the liability of not only current retirees, much less future retirees.

As for my third question, if ASOPs are such that one can provide a wide variety of results in terms of liability measurement and cost measurement, the pressure will likely be (and has been) for the actuaries to give a result at the lower end of estimates.

This kind of pressure exists not only in public pensions, but also in insurance. There have been cases within the insurance industry where an actuary has not been willing to sign off on reserves due to professional ethics. Sometimes the strength of the reputation of our profession is such that those wishing the actuary to lower reserves will back down; other times, the actuary resigns. In the cases I've known where the actuary resigned, the replacement actuary was no more willing to give a result at the lowest amount.

Would we have such strength to our standards such that public pension actuaries would stand up in a similar way? I have asked before whether there were any assumption set for public pension valuation so inappropriate that no ethical actuary would be willing to value under such assumptions. As far as I can tell, so such assumption set exists.

We as actuaries have got to be cognizant of how others see our function and our reputation, not only how we see ourselves. I don't think current actuarial standards protects actuaries working on public plans, much less public plan members, sponsors, or taxpayers, the ultimate backers of these plans.

At the very least, I think we need to clarify what the function of actuaries is with regards to public pensions, and what are their responsibilities. As it is, public plan actuaries are exposed to a great deal of legal liability, and if we can make a definitive statement as to the responsibilities of public pension actuaries (whether employees of public plans or consultants) this may at least protect these actuaries, if not the public.