*South Dakota Retirement System*
*222 East Capitol Suite 8*
*PO Box 1098*
*Pierre, South Dakota 57501-1098*
*Toll-Free (888) 605-SDRS*
*Telephone (605) 773-3731*
*Fax (605) 773-3949*
*www.sdrs.sd.gov*

SDRS

# South Dakota Retirement System

June 11, 2015

Actuarial Standards Board Hearing on Public Pension Issues

Actuarial Standards Board
1850 M Street, NW, Suite 300
Washington, DC 20036-4601

Thank you for allowing us to comment on the need for new or revised Actuarial Standards of Practice (ASOPs) as they apply to public pension plans.

Our input on the topics outlined in your request is as follows:

## 1. Contribution/Cost Allocation Procedures

Public sector plan funding policies are often dictated by state laws and/or local ordinances. Acceptable funding practices and measurements are frequently delineated in those laws. As noted in your request, ASOP No. 4 was recently revised to require the actuary to describe the implications of the contribution allocation procedure on future measurements.

Assuming a variety of funding practices continue to be permitted and the implications of the funding practices are appropriately disclosed, little value is gained by labeling a particular funding policy unreasonable or requiring a second set of funding calculations that meet alternative criteria.

We are particularly concerned with the possibility that ASOPs would constrain the funding policies of state and local governments or declare some of those funding policies inappropriate. The current ASOPs requiring the disclosure of the implications of the funding policies are sufficient.

## 2. Amortization Methods

Negative amortization, as discussed in your request, frequently results from a level percent of pay amortization method with a longer amortization period. A level percent of pay amortization method can fully fund a liability over an appropriate period and may result in a funding policy that fits with the typical public sector budgeting process.

However, such an amortization method introduces additional risk – the risk that payroll will not increase as assumed – into the funding process. That risk should be disclosed and the implication of a departure from assumed future experience should also be disclosed. Discussion of the disclosure of this risk may better belong in discussions regarding the current Exposure Draft on Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions.

In addition, we believe a fixed rate plan should disclose the implicit amortization period and the methods for determining the period. We believe that in the context of a fixed rate plan, Item 4.1(k) of ASOP No. 4 could be read to require such a disclosure.

## 3. Assumptions

The current ASOPs provide significant guidance on assumptions. We believe the strengthened ASOP No. 35 provides sufficient guidance on assumed mortality improvement. Periodic experience studies are beneficial, but the specifics of the regularity of the studies should be at the discretion of the actuary to result in the most efficient and effective use of such studies considering the needs of the plan. We believe annual gain/loss analyses are also beneficial and note that GASB Statements No. 67 and 68 require the separate annual calculation of gains and losses due to investment performance and liability experience. We do not think the ASOPs need to specifically address experience studies or gain/loss analyses.

## 4. Alternative Liability Measures

The current Exposure Draft on Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions addresses the disclosure of investment risk, among other risks. We believe the disclosure of an alternative liability measure based on a “settlement” liability or on a basis of comparison with private sector plans would only be appropriate if a public sector plan was contemplating transferring risk or spinning off operations into the private sector. These measures are appropriate for private sector plans as private sector plans can terminate in bankruptcy or on a plan sponsor’s election.

Alternative liability measures are most often applied to public sector plans either to compare plans on a consistent basis or to argue that the plan’s funded status is worse than disclosed. For the purpose of comparing plans on a consistent basis, numerous organizations have created unique methodologies to compare funded statuses of plans. Those who argue that a plan’s funded status is worse than disclosed may be promoting a stated or unstated agenda to impact the types of benefits provided to public sector workers. Whatever the purposes or agenda of the request for additional disclosure, it comes at an additional cost to the plan and may be used for the detriment rather than the benefit of the plan members and sponsor. We do not believe additional liability measures are advisable or should be required.

Thank you for the opportunity to address these issues.

Sincerely,

Robert A. Wylie
Executive Director/Administrator

Douglas J. Fiddler, ASA, MAAA, EA
Senior Actuary