AFSCME
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July 26, 2018

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

Submitted electronically via: comments@actuary.org

Re: Proposed Revision of Actuarial Standard of Practice (ASOP) No. 4

Dear Members of the Actuarial Standards Board:

The American Federation of State, County and Municipal Employees (AFSCME) is pleased to submit comments in response to the Actuarial Standards Board's Proposed Revision of Actuarial Standard of Practice (ASOP) No. 4, "Measuring Pension Obligations and Determining Pension Plan Costs or Contributions." AFSCME represents 1.6 million state and local government, health care workers and retirees, who participate in over 150 public pension systems with assets totaling over $1 trillion. There is no group more interested in ensuring the strength of state and local retirement systems than the plan participants who are counting on those systems to provide retirement benefits.

State and local government retirement systems are governed by elected officials, appointed administrators and regulators, and independent boards of trustees. Plans are subject to stringent fiduciary, accounting, administrative, and investment standards, and regularly issue extensive financial and actuarial reports. AFSCME believes that existing statutes, accounting rules, and actuarial standards provide sufficient oversight and guidance in determining costs and necessary contributions for state and local pension plans.

According to the Government Finance Officers' Association, "The purpose of an actuarial valuation is 1) to determine the amount of actuarially determined contributions (i.e., an amount that, if contributed consistently and combined with investment earnings, would be sufficient to pay promised benefits in full over the long-term) and 2) to measure the plan's funding progress," The Role of the Actuarial Valuation Report in Plan Funding, available at http://www.gfoa.org/role-actuarial-valuation-report-plan-funding. Plan actuaries calculate, and report obligations based on a range of investment return assumptions consistent with the plan's asset portfolio. Actuaries also prepare reports of liabilities using applicable GASB standards. These calculations are designed to help plan sponsors, trustees, and elected officials determine contributions necessary to maintain the long-term health of the plan and to prepare public reports of pension funding.

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AFSCME's main concern with the proposed revision to ASOP No. 4 is Section 3.11, "Investment Risk Defeasement Measure." The new measure states that "the actuary should calculate and disclose an obligation measure to reflect the cost of effectively defeasing the investment risk of the plan." This would require a calculation based either on a discount rate using United States Treasury yields or rates at which the pension obligation can be settled, perhaps by retaining a private insurer to pay benefits. In short, AFSCME believes this figure would be meaningless for public plans, as it is unrealistic when considering the typical plan's investment portfolio. The National Association of State Retirement Administrators (NASRA) reports an average 8.7 percent return on investment (ROI) for public sector plans over the past 30 years, https://www.nasra.org/files/Issue%20Briefs/NASRAInvReturnAssumptBrief.pdf.

In addition, state laws have been largely interpreted as prohibiting plan sponsors from freezing accruals in the manner of a private sector plan sponsor. In some cases, private plan sponsors may desire to "de-risk" their obligations to avoid Pension Benefit Guaranty Corporation premium payments, but public plan sponsors do not consider doing so because there are no PBGC payments and buying annuities through an insurance company is inefficient. Nor do public sector plan sponsors face the risk of going out of business as do private plan sponsors. It is also not clear that a public plan could eliminate its risk. For example, a state government would ultimately be responsible for paying benefits if a public plan sponsor outsourced its obligations to a private insurer and the insurer could not meet its obligation to plan participants and beneficiaries.

In short, the new IRDM figure would unrealistically exaggerate liabilities and would make many plans appear to be funded at untenably low levels. Defined benefit plan critics will describe the IRDM figure as the "true, risk-free cost" of providing benefits, and there is no doubt it will be used as part their ongoing attack on the retirement security of millions of American workers.

In recent years, the ROI has become a political football. Various commentators and academics have made provocative prognostications that bear no relationship to reality and have weaponized the ROI in the process. In our view, the "Defeasement Measure" is a misguided effort to take sides in the political debate and its adoption will serve to undermine the credibility and continued relevance of the ASB itself.

Respectfully,

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Director
Department of Research and
Collective Bargaining

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