EVERY AMERICAN DESERVES TO RETIRE WITH DIGNITY.

July 30, 2018

ASB Comments
American Academy of Actuaries
1850 M Street NW, Suite 300
Washington, DC 20036

Dear Members of the Actuarial Standards Board:

The National Public Pension Coalition (NPPC) respectfully submits these comments to the Actuarial Standards Board (ASB) for the record regarding the proposed changes to ASOP #4.

NPPC has grave concerns that the process being used to formulate these proposed changes is a political one and that the outcome, if the proposed changes are approved, would be to provide a political weapon to opponents of public pension plans. Public pensions have been under constant attack for the past decade, but the focus of criticism keeps changing. Recently, pension critics have focused on the discount rate, or assumed rate of return, of public pension plans. Despite decades of evidence that public pension plans can meet or exceed their discount rate, these critics argue that the discount rates are too high and must be dramatically lowered. Such an action would be detrimental to both taxpayers and public employees alike.

Most public pension plans receive revenue from three sources: employee contributions, employer contributions, and investment earnings. Revenue from investment earnings typically constitutes somewhere between two-thirds and three-fourths of all revenue in a public pension fund. This makes the discount rate a very important determination for pension plan managers and they rely on the accurate and objective work of actuaries to determine this important number. The proposed changes to ASOP #4 would bias this work and lead to negative outcomes for taxpayers, public employees, and retirees.

The proposed requirement that public plan actuaries calculate an Investment Risk Defeasement Measure (IRDM) is both unnecessary and potentially harmful. Unlike defined benefit pension plans in the private sector, public pension plans are not at risk of being either shut down or having their assets and liabilities sold to an insurance company. As such, the IRDM serves no purpose for public plans. In many cities and states, it would be unconstitutional and, therefore, practically impossible to close down a public plan and sell its assets and liabilities. In this context, the only purpose for calculating an IRDM for public plans is to give political fodder to opponents of public pensions who seek to scare politicians into eliminating public pensions for future generations of teachers, firefighters, police officers, sanitation workers, and other public employees.

We list several other comments and concerns about the proposed changes to ASOP #4 below.

Comment #1: Exception Made for Narrowly Prescriptive ASOP

It's clear that this particular ASOP will violate the ASB's own norms, outlined in ASOP #1, Section 3.1.4, which do not allow for "narrowly prescriptive" rules. ASOPs should "neither dictate a single approach nor mandate a particular outcome." We oppose the ASB's effort to break its own rules and norms for this one politically motivated scheme.

Comment #2: Concern About Rigged Process

We are also concerned about the process used to formulate these proposed changes. It appears that pension actuaries were excluded from the "Pension Task Force" that developed the proposed changes to ASOP #4. This suggests that the Pension Task Force was specifically stacked with individuals hostile to public pension plans, who would be willing to support changes detrimental to public plans. We urge the ASB to be transparent about how these members were selected and whether any undue political influence biased the selection process.

Comment #3: Calculating an IRDM Would Add Undue Cost to Public Plans

In addition to the potentially harmful uses of the IRDM number, requiring public plans to pay for their actuaries to calculate this proposed figure would add an undue and burdensome cost to public pension plans. This is especially concerning since they would be required to calculate a number that would likely be used against them politically. NPPC supports the already existing, robust framework that public plans follow to disclose their assets, liabilities, and risk.

Conclusion

NPPC respectfully urges the ASB to reconsider the proposed changes to ASOP #4, particularly the proposed requirement for actuaries to calculate an IRDM. These changes could threaten the millions of active and retired public employees and their family members who depend on their public pension for security and reliability in retirement.

We thank you for your time and appreciate the opportunity to submit these comments.

Sincerely,

Bridget Early

Executive Director

National Public Pension Coalition