

To: The Actuarial Standards Board

November 12, 2014

ASOPs - Public Pension Plan Funding Request for Comments

This response reflects my own professional views, and not necessarily those of any committee or association of which I am a member, or my employer.

It seems clear to me that the most significant issues affecting the state of public pension plans are related to their governance. This is a natural consequence of a situation where, unlike private pension plans, sponsors of public pension plans can write their own rules, and then “manage” these rules to their own perceived advantage. The actuary serving a public pension plan is constrained by aspects of this governance, based on the duty an actuary has to his/her principal. It follows that correcting the state of public pension plans cannot be accomplished without addressing the relevant governance issues.

ASOPs are generally principles-based. I would have excluded the word “generally”, but your question 4 admits the possibility of a prescriptive ASOP. I make the following general observations about ASOPs:

1. A principles-based ASOP is intended to provide a framework within which the actuary approaches a given problem. It is not intended to achieve a particular outcome, such as “full funding”.
2. According to ASOP 1, an actuary may deviate from “the guidance of an ASOP”, subject to meeting certain disclosure requirements. This would apply whether the ASOP were principles-based or prescriptive. This aspect of ASOPs makes them unsuitable as a regulatory tool.
3. ASOPs do not address issues of governance.

Based on the foregoing, I will attempt to answer some of the six specific questions asked.

Response to Question 1: I doubt that actuaries need further actuarial guidance on performing their work and advising their principal. What might be of greater benefit would be appropriate rules that carry the force of law and to which public entities would also be accountable.

Response to Question 3: The question asks whether a public plan actuarial valuation standard might be called for. I interpret the phrase “actuarial valuation standard” as referring to something like the Standard Valuation Law (SVL) for life insurance, not an ASOP. Based on this interpretation, I do believe that something like SVL would be helpful, provided it can be written to accommodate the universe of public pension plans and carries the force of law.

On the other hand, I think the notion of a separate ASOP for public plans raises two issues which lead me to respond NO:

- 1) If ASOPs are principles-based, surely public and private pension plans follow the same core actuarial principles; it is their regulatory environments that differ.
- 2) Regardless of whether a separate public pension ASOP is principles-based or rules-based, since deviation with disclosure is permitted, then it might still be of limited value.

So, I do not see another ASOP as a feasible solution.

Response to Question 6: The proposal has the following weaknesses, which lead me to respond NO:

- 1) Deviation from the guidance of an ASOP is permitted; so a “requirement” can be avoided, especially if it is not at the core of the valuation results.
- 2) An actuary should not be required to perform extraneous work that is contrary to the principal’s wishes.
- 3) For an individual who is not an intended user, how does one decide what is “useful information”?

Finally, I would like to thank the ASB for making this rather unusual request. The actuarial profession has a duty to ensure that we are doing the best we can for the public. However, limiting this discussion to actuarial standards does not address the governance issues that are paramount and I hope the profession will address that larger question, for the public good.

A handwritten signature in black ink, appearing to read "John Robinson". The signature is fluid and cursive, with a prominent initial "J" and "R".

John Robinson FSA, FCA, MAAA