

ASB Comments

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

Re: July 9, 2015 Public Hearing

Dear ASB Members:

First, thank you for agreeing to hold a Public Hearing as a follow-up to your Request for Comments – ASOPs and Public Pension Plan Funding and Accounting (“Request”).

As noted in my comments in response to your original Request (see Comment Letter Number 37), I do not believe that current Actuarial Standards of Practice (“ASOPs”) provide sufficient support to or demands upon actuaries who practice in the Public Pension Plan area.

I am hopeful that this Public Hearing will help the ASB better appreciate that the impact of actuaries goes well beyond what is done for “intended users” as that term is defined in the ASOPs.

If the actuarial profession is to meet its duty to the public, then it is essential that the ASB be prepared to address more of the concerns that many Stakeholders have about the role of actuaries and what actuaries can and should do to support proper financing of Public Plans.

Second, in the announcement of the Public Hearing, the ASB expressed that its greatest interest is in “specific suggestions for improvements in pension-related ASOPs” within a listing of certain topics. A desire is expressed that suggestions “should be specific and should describe both what is to be done and how it is to be done.”

Following are issues raised by the ASB with the issue shown first with comments shown in italics thereafter:

1. Along with the suggestions for new guidance, please address the following:

a. A statement of rationale for including the suggested guidance in ASOPs and the reason for the provision: ASOPs are presented often as representing swords and shields to help actuaries produce better work and then defend it. However, at least in the Public Plans arena, much actuarial work is for agents (e.g. intermediaries such as Boards of Trustees) who are not the ultimate bearers of the economic impact of their decisions (taxpayers who bear the financial risks).

In addition, actuaries may not be the decision makers on the actuarial assumptions and methods employed to determine financial commitments to many Public Plans. In this case, actuaries may often be perceived by the public as responsible (i.e. the actuaries are the experts) and subject to ridicule when hiding behind the “it was not my decision” defense when things go wrong.

b. Who will benefit from the proposed suggestion: Actuaries, their clients and the public would all benefit from enhanced ASOP requirements for Public Plans.

c. Whether or not the suggestion has broader application beyond public sector plans: The suggestions likely have applicability beyond Public Plans to multi- employer plans and private plans.

2. Specific Topics of Interest: With that in mind, the ASB is particularly interested in input on the following topics for the Public Hearing:

a. Contribution/Cost Allocation Procedures:

i. If any additional guidance is needed for public plans, should it apply to the overall contribution or cost allocation procedure, to specific components, or to both? Guidance should require the actuary to use professional judgment on the appropriateness of the package of actuarial assumptions and methods being utilized.

ii. Should this additional guidance also be extended to private plans? If not, why not? Yes, as it is a principle-based idea.

iii. Additional guidance in this area could take different forms, such as defining whether a contribution or cost allocation procedure is “reasonable” or requiring disclosure of certain characteristics of the procedure. What form should any additional guidance take? The ASB should not look to prescribe actuarial assumptions or methodologies but should require that actuaries consider and comment on whatever actuarial assumptions and methods are utilized.

b. Amortization Methods: Prescribing amortization methods and periods should not be necessary BUT actuaries should be required to evaluate and comment upon the implications of whatever amortization methods and periods are used (negative amortization, in particular). If Intergenerational Equity suggests that financing retirement benefits should occur over the working lifetimes of employees, then actuaries should speak to this and to the implications of failing to do so when Unfunded Actuarial Accrued Liabilities (“UAAL”) arise.

c. Assumptions: Specific guidance should not be necessary but requirements that the actuaries evaluate and comment on the appropriateness of the actuarial assumptions should be required.

d. Alternative Liability Measures: While much should be left to professional judgment, it would benefit actuaries, their clients and the public to see a disclosure of a market-consistent determination of the value of benefits earned to date. I refer to this type of calculation as a Market Value Accumulated Benefit Obligation (“MVABO”). This amount is determined by using discounting the projected stream of accrued benefits using U.S. Treasury Spot Yields. Where, for most Public Plans, the risk of benefit default is minimal, the MVABO and Solvency Value are similar and the MVABO is the most appropriate market-consistent measure to consider.

This measure has been presented annually since 2003 in the Comprehensive Annual Financial Report (“CAFR”) of each of the New York City Retirement Systems (“NYCRS”). Having actuaries provide such information would mean that the information is more accurate than that produced by non-actuaries. If prescribing such a disclosure would be inconsistent with the purpose of measurement being developed, the disclosure of a projection of the accrued benefits and/or some economically-realistic measure of pension obligations is desired by many users. As the value of pension benefits is generally NOT dependent upon what assets are used to finance them, the disclosure of a projection of accrued benefits and/or of a MVABO is most consistent with what economists and other financial users are seeking.

Finally, the comments preceding attempt to address the specific questions raised by the ASB. In order to address additional issues, I shall be requesting an opportunity to speak at the Public Hearing on July 9.

Thank you for your consideration.

Yours truly,

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