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

Dear Actuarial Standards Board,

I thank the Actuarial Standards Board (“ASB”) for the opportunity to provide written testimony for the July 9, 2015 Open Hearing on Public Pension Plans, and acknowledge the very significant progress the ASB has made in updating the pension Actuarial Standards of Practice (“ASOPS”). While I strongly desire to make these comments in person and answer any questions the ASB might have, a longstanding prior commitment does not allow me to attend.

PURPOSE

I urge the ASB to proscribe certain mortality tables unless there is significant statistical evidence to support their use for a specific client. This proscription would apply primarily to public sector pension plans, but would also apply to multi-employer plans, church plans, retiree medical plans and ASC 715 reports, both for tax-qualified plans and for non-qualified plans. I propose that the following mortality tables be proscribed unless there is significant statistical evidence to support their use for a specific client:

- 1951 Group Annuity Table without projection to the measurement date
- 1971 Group Annuity Table without projection to the measurement date
- 1983 Group Annuity Table without projection to the measurement date
- 1984 Unisex Pensioner Table without projection to the measurement date

It is obvious that using any of these tables most probably understates the cost of a small plan.

BACKGROUND

- My October 1, 2014 letter to the ASB in response to your request for public comment on the need for a public pension plan ASOP made a similar request, and this letter supplements the rationale in that letter. The table in that letter compared various mortality tables to the recent RP-2014 table (with projection) published by the Society of Actuaries. I attach a graph that compares life expectancies of these tables. While I

recognize there was no public sector data used to construct the RP-2014 table, I believe most public sector mortality is much closer to that table, perhaps with a Blue Collar adjustment, than to any of the tables that I believe should be proscribed.

- I spoke with several noted public sector actuaries about mortality assumptions at this year's Enrolled Actuaries Annual Meeting. They agreed that small plans without credible mortality experience should not be using outdated mortality tables. They also shared anecdotes about actuaries who are using these tables for small public plans.
- Toward the end of my term on the Actuarial Board for Counseling and Discipline, there was an upsurge in public pension plan complaints involving assumptions, including the use of older mortality tables for small public plans.

RATIONALE FOR PROSCRIPTION

A comparison between recent mortality tables and tables that I propose should be proscribed yields several conclusions. First, a modern table typically uses about four times the experience that these older tables used. Second, the experience of a proposed prescribed table usually predates the experience of a modern table by about 30 years, before the explosion of prescription drugs and medical technology and a concurrent decline in smoking. Lastly, each successive mortality table shows an increase in longevity, which is ignored when older tables are used. It is entirely illogical for an actuary to use an older table instead of a modern table for a small public pension or retiree medical plan.

Other sources of statistically credible mortality experience exist for small public pension plans. A small Police and Fire plan or a local municipal employees plan for a small community might use the latest experience of a large statewide plan covering an analogous group, instead of one of the noted tables.

The Pension Committee of the American Academy of Actuaries ("AAA") published a revised Public Policy Practice Note on mortality in 2011, "*Selecting and Documenting Mortality Assumptions for Pensions*". Page 5 of that document states, "Appendix 1 contains descriptions of selected current (2011) standard pension tables. Reference to any particular table is intended to be an example of a currently available table and should not be considered as an indication of current "best practice.'" Note the tables listed in Appendix 1 are:

- 1994 Uninsured Pensioner Mortality Table
- 1994 Group Annuity Mortality Table
- 1994 Group Annuity Reserving Table
- RP-2000 Mortality Tables

The proposed proscribed mortality tables are not included with "... selected current (2011) standard pension tables." It appears that the Pension Committee of the AAA does not consider any of the four proposed proscribed mortality tables to be a "current standard pension table."

If these mortality tables are not proscribed, the actuarial profession could be bearing headline risk, such as “Actuary uses mortality table published before Nixon’s resignation.”

PRECEDENT

Proscribing these mortality tables would not establish a precedent for the ASB. The ASB has already implicitly proscribed certain assumptions:

- ASOP 27 anticipates a non-zero escalator for the compensation limit under IRC 401(a)(17) for non-qualified pension plans.
- ASOP 27 anticipates a non-zero escalator for the dollar benefit limit under IRC 415(b) for non-qualified pension plans.
- ASOP 27 anticipates a non-zero escalator for the Social Security Wage Base
- ASOP 27 anticipates a non-zero escalator for the bend points in the Primary Insurance Amount formula.
- ASOP 6 anticipates a non-zero health care trend escalator for retiree medical plans.

Other examples outside of the pension practice may well also exist.

CONCLUSION

Proscribing the aforementioned mortality tables has several benefits:

- It would clarify appropriate practice for this particular aspect of pension and retiree medical plans.
- It would not limit an actuary’s professional judgement to select an appropriate mortality assumption among modern tables.
- It would be consistent with the aforementioned Public Practice Policy Note.
- These proscribed tables could still be used, but only if there is significant statistical evidence to support their use for a specific client.
- It would defend the actuarial profession from headline risk.

I thank the ASB for the opportunity to submit this written testimony.

Sincerely,

/s / Robert J. Rietz

Comparison of Life Expectancies Of Certain Mortality Tables

