Supporting Retirement Security
for America's Teachers

The Voice for Public Pensions

September 28, 2017

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

Dear ASB Pension Committee Members:

On behalf of the National Council on Teacher Retirement (NCTR) and the National Conference on Public Employee Retirement Systems (NCPERS), representing the majority of state and local government retirement system participants, we are writing to express our serious concerns with certain proposed changes to the Actuarial Standards of Practice (ASOPs) governing actuarial services for pension plans proposed by the Pension Task Force (PTF) of the Actuarial Standards Board (ASB). We understand that, pursuant to a subsequent directive from the ASB, you are in the process of drafting appropriate proposed modifications that would reflect these recommendations.

We are concerned for several reasons:

1. In July of 2014, the ASB announced a comprehensive review of the ASOPs as they pertain to public plan actuarial valuations, and solicited the views of actuaries and other interested parties. Subsequently, in December of 2014, the PTF was formed to review responses from these stakeholders for the purpose of developing suggestions for the ASB's consideration. In July of 2015, the ASB continued to seek public comment on this effort, holding a public hearing on public pension plan issues in Washington, D.C. The PTF was also tasked with reviewing this testimony as part of its overall effort. We commend the ASB for this very open, public process.

   The PTF subsequently issued its report to the ASB on February 29, 2016. However, this report was not released to the public until June 30th of that same year. At that time, without the benefit of further public review or comment on the PTF's report, the ASB directed the Pension Committee to draft amendments to appropriate ASOPs implementing these recommendations.

   We think that the failure to seek additional public comment on the PTF's specific recommendations before directing their implementation is inconsistent with the ASB's own procedures for developing new guidance. This is especially true given the very significant changes that certain of them would make, particularly the recommendation that a market-based alternative liability measurement be calculated and disclosed for all valuations of pension plans for funding purposes. As the PTF acknowledges in its final report, whether the disclosure of some kind of market-based value of liabilities should be required was not among the questions asked in the ASB's July 2014 Request for Comments (RFC). The fact that "many" written responses may have touched on this subject does not excuse the fact that many more may have done so if the specific question had been raised. We also note that "many" is not the same as "most."

Releasing the PTF report along with a request for public comment on its several recommendations would have been a more appropriate course to follow before directing the Pension Committee to draft implementing language. While we appreciate the fact that any such proposed amendments to existing ASOPs will ultimately be subject to public comment, this does not provide the same opportunity to inform the decision-making processes of both the ASB and the Pension Committee as these amendments are being developed.

This is most regrettable and does damage to the otherwise open and collaborative nature of your initial process.

2. We are particularly concerned that, should a requirement be adopted that a market-based alternative liability measurement be calculated and disclosed for all valuations of pension plans for funding purposes, actuaries would calculate the liabilities of a governmental pension plan as if the plan were to be immediately settled at a market price. This "defeasement" calculation relates to an event that is legally impermissible (and practically impossible) in nearly all jurisdictions.

   We therefore find it ironic and inconsistent that the same Report that recommends the addition of a requirement that the actuary provide an opinion statement about the reasonableness and consistency of significant individual assumptions, the assumptions in the aggregate, and the combination of the assumptions and methods – "a positive statement about those assumptions" -- should also require the actuary to determine a liability measurement for an event that, in virtually all jurisdictions, cannot by law take place. This seems to us to be the epitome of unreasonableness.

   Finally, we strongly object to the characterization of this market-based alternative liability measurement as "a solvency value"; the term invites serious misuse, with the danger that plans whose assets do not meet or exceed the measurement will be deemed to be "insolvent" or, as more commonly expressed, "bankrupt."

3. Although such a disclosure might be relevant for a private-sector company that can be merged, acquired, or declared in bankruptcy, the calculation of a market-based alternative liability measurement is not decision-useful to public-sector stakeholders and policymakers, as a market-based measure is not directly related to developing and implementing funding policy. To require the expenditure of public resources to calculate such a number for the benefit of users other than intended users -- including critics of public pension plans with their own political agendas -- is inconsistent with the decision of the PTF not to suggest the disclosure of certain items (such as cash flows associated with a plan) where the PTF did not see the value of this information to the intended user.

   Furthermore, it is well known that such a number will be misused politically to argue in favor of abandoning the defined benefit (DB) plans still prevalent in the public sector. Indeed, market-based measures have been consistently used over the last decade to mislead decision-makers regarding the sustainability of the DB model, rather than to support the systematic funding of pension obligations. We therefore agree with the PTF that "this additional information may be misused by some parties," as it clearly states in its report. Accordingly, for the PTF to then argue that "relying on just the traditional [liability] measure may give an incomplete picture of financing of the plan" does not constitute a valid excuse for violating the actuarial Code of Conduct's admonition that actuaries must take reasonable steps to ensure that their services are not used to mislead other parties.

For these reasons, we urge the Pension Committee to exercise its own judgment with regard to the recommendations of the PTF to amend pertinent ASOPs to require that a market-based alternative liability measurement be calculated and disclosed for all valuations of pension plans for funding purposes. This would be consistent with how the PTF itself considered a number of issues, including those specifically raised by the ASB in its initial RFC, that the PTF subsequently, in its discretion, declined to make recommendations concerning.

We agree with the relevant ASOPs that pension measurements should reflect the purpose of the measurement. Therefore, we urge you to consider that for actuarial reports produced for funding or financial reporting, only measures directly related to those purposes should be required, and that a defeasement measurement does not meet this standard.

Finally, we recommend that the Pension Committee consider holding a public hearing on the PTF recommendations so that a more complete discussion of this report and our concerns regarding a mandated market-based alternative liability measurement could be had. We share the interests of the PTF and the ASB in obtaining and disclosing all relevant actuarial information regarding investment risk and the impact that this can have on decisions regarding the financing of our retirement plans. However, while the PTF may think that it is misleading to show the traditional model actuarial accrued liability in the absence of any other liability measure, we are equally convinced that the disclosure of a defeasement number as an alternative will be even more misleading and subject to misuse, while providing no real help in decision-making directly related to funding or financial reporting.

Thank you for your consideration of our concerns and recommendations.

Sincerely,

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