

August 28, 2008

Sent via Electronic Mail: picpubplanswritten@actuary.org

Public Interest Committee
American Academy of Actuaries
1100 17th St., N.W., 7th Floor
Washington, DC 20036

Dear Public Interest Committee members:

San Bernardino County Employees' Retirement Association (SBCERA) is writing in response to the Public Interest Committee's (PIC) request for comments in determining whether it should recommend to the American Academy of Actuaries (AAA) Board of Directors that a statement by the AAA Board that disclosure of the market value assets and liabilities by public pension plans would be in the public interest.

SBCERA is a defined benefit plan in California administering pension benefits for over 19,500 active and 8,000 retired public employees and beneficiaries. SBCERA holds in trust approximately 6 billion in defined benefit plan assets.

While SBCERA appreciates the AAA's interest in the adequacy of actuarial standards, particularly as they pertain to the calculation and disclosure of public pension liabilities, we have concerns over both the process being used to reach a "consensus" and the underlying tenets of Financial Economics and the relevance and utility of discounting liabilities using "risk-free" discount rates.

SBCERA is also interested in highlighting the approach that the American Academy of Actuaries is taking on this subject. Normally, it is our understanding from the information on your website that a Practice Committee would take up a policy issue such as this to ascertain the prevailing viewpoint within the professional actuary community. We are certain that the many public fund actuaries we are in contact with are at absolute odds with the Market Value Liability (MVL) supporters. If it is in fact true that there is no consensus, we question how it is possible that the AAA could deem that a statement from the board of directors is in the public interest?

Also, in regard to process and the ability to ascertain consensus, we are deeply disappointed and concerned that no one from the pension community is being allowed to provide oral comments to the Public Information Committee (PIC). In fact, we would argue that the most important groups, the retirement systems themselves and the plan sponsors are being excluded for reasons that have not been disclosed. It seems very

unlikely that anyone can ascertain a true consensus when key participants are excluded from the dialogue.

In addition to the concerns over lack of consensus, change in your standard process and exclusion of pension plan professionals, SBCERA has concern with the theory of Financial Economics and the resulting conclusion that a market value liability approach is a useful or even appropriate disclosure and/or funding model for public plans. First, government pension plans and corporate plans differ substantially. The government pension plan exists for the purpose of providing contractual benefits that cannot be taken away. A corporation exists to produce profits for its shareholders. Hence, to protect members of corporate pension plans, a termination value approach based on MVL may have some merit. This is not the case in a government pension plan which cannot offload pension promises. In this context I would note that the Pension Benefit Guaranty Corporation (PBGC), a government entity responsible for defunct corporate plans, has abandoned the use of Liability Driven Investing, an investment approach based on MVL as reported in the February 18, 2008 issue of *Pensions and Investments*.

Second, while current practice is careful to strike a balance between current and future costs, MVL simply front loads costs by utilizing an overly conservative discount rate. Also, the Financial Economics/MVL approach is based on the Accrued Benefit Obligation, which is arguably relevant for corporate plans that can dissolve, but not for government entities and plans that are effectively permanent.

SBCERA appreciates the American Academy of Actuaries work on such an important topic. With that said, SBCERA respectfully requests that the American Academy of Actuaries take the following action:

1. Make a public announcement that Financial Economics and the resulting Market Value Liability approach is not congruent with public plans, as stated in the Pension Actuary's Guide to Financial Economics.
2. Or, at a minimum, provide a forum where the public pension community and plan sponsors have the opportunity to disclose concerns orally toward the overarching goal of reaching a true consensus.

Sincerely,



Timothy Barrett, CFA
Executive Director
Chief Investment Officer
SBCERA