

To: American Academy of Actuaries Public Information Committee
From: William Fornia
Re: Written Comments Relating to Potential Disclosure of Market Value Liabilities for Public Pensions

Date: August 29, 2008

I oppose the AAA advocacy of actuaries disclosing the so-called "market value of liabilities" for public pension systems. I am not writing to discuss the merits of MVL disclosure, but to discuss the decision making process as I understand it.

On April 21, on behalf of 14 of 18 members of the Public Plans Subcommittee of the Pension Practice Council, I emailed the attached letter to the Academy Board of Directors. We sent copies to the PPC and Pension Practice Council. We were not aware of the PIC at that time. Consequently, Messrs. Bingham, Bruning, and Schubert and Ms. Dalenta may not have received our plea. Messrs. Lehman, Panighetti, Schobel and Steiner would have received it as a result of their membership on the AAA Board.

As you can see from our letter, the purpose of the letter was twofold. First, we expressed our concerns with the process of potential statement issuance. Second, we asked for guidance in how we can weigh in on this important matter. As of this date, we have received no response to our concerns and no guidance. We have tried to continue to advocate for our position, but have been severely hampered and undermined, in part by our inability to address this issue through the Public Plans Subcommittee.

I again for guidance as to how to participate fully in this process going forward. Also, I ask the PIC to consider our April 21 letter in its deliberations.

To: American Academy of Actuaries Board of Directors

CC: AAA Pension Practice Council, AAA Pension Committee

From: 14 members of the Public Plans Subcommittee of the PPC

Date: April 21, 2008

Re: Potential statement regarding Market Value Liabilities for Public Pensions

As 14 of 18 individual members of the Public Plans Subcommittee (PPS), we strongly oppose the Pension Practice Council's (PPC) anticipated statement in support of disclosure of the market value of liabilities (MVL) for public pension plans.

We believe the AAA Board of Directors should understand that a substantive difference of opinion exists between the members of the PPC and members of the Public Plans Subcommittee, the subcommittee of the PPC charged with public plan issues.

We are writing not on the merits of the statement, of which we believe there is much to criticize, but about the process of the potential statement issuance and concerns as to how to have our opposition to such a statement recognized.

Our first and foremost point is to make certain that the AAA Board and AAA Pension Practice Council understand that the great majority of actuaries practicing as retained consultants to state and local government pension systems would oppose an Academy statement supporting the routine disclosure of "Market Value Liabilities" by these systems. An informal poll at the April 2008 Enrolled Actuaries meeting indicated about 80% (42 of 54) opposition by those who practice in the public sector.

We welcome the opportunity to share our expertise with those who do not specialize in this area and we encourage continued discussion of this issue. However, we want the Academy to understand the adverse reaction from actuaries and the public they serve which would be caused by a hasty and uninformed statement by the Academy on this issue. In addition we are concerned about the risk of misuse, collateral consequences and in particular the political fallout to their proposed statement.

Second, we want to make sure we understand the process by which such a public statement might be issued, so that we can fully participate in the process. We want to confirm that the following AAA adopted procedures will be followed and understand best how we can participate. The procedures are included in the AAA's "Guidelines for Making Public Statements"

- "Members will be notified of the preparation of public statements and, more generally, of issues and matters of concern to the Academy ... As appropriate, member input will be solicited."

- "[A] ... statement generally reflects the opinions of the Academy entity that prepared it, but it is always appropriate for the entity to involve other Academy members who are considered by the entity to have pertinent expertise."
- "When addressing issues that are expected to be controversial within the profession, the chairperson and supervisory officer should seek broader input from Academy members and leaders of the profession ..."
- "The chairperson should seek a consensus of the group that prepares the public statement. If there is a substantial lack of consensus, the chairperson may elect to: incorporate the majority and minority perspectives into the statement;"
- The Level Five-Screeners from the Public Policy Decision Model Guide will be used to analyze risk of misuse, unintended or collateral consequences, political fallout and/or adverse member reaction.

Additionally, we are concerned about our ability to effectively participate in the MVL discussion within the PPC because of our lack of representation. Since this discussion began in earnest last summer, we have been represented by a Subcommittee Chair who was a committed and well informed spokesman for our position. However, in March he was replaced by one of the few active PPS members who do not share our majority view. While it might be possible that our new Chair can to some degree represent a view that he does not support, we feel it is essential that we have the representation of at least a Vice Chair who has views consistent with the clear majority of our public sector actuary colleagues and who is well versed in this important issue. Our former Chair is our strong first choice to be this Vice Chair.

Finally, we are concerned that statements have been made in public suggesting to our public plan clients and the general public that the Academy will not soon be issuing a statement on MVL. As you may know, an AAA/SOA sponsored Roundtable was held in February to discuss "The Role of Financial Disclosure" for public plans. This Roundtable brought together many stakeholders and experts around the issue of plan disclosures, with considerable discussion of the MVL issue.

The Roundtable was closed with a statement by the PPC Chair that this was only "opening up a public discussion on this topic". The March *Actuarial Update* reported the same statement. Our clients, who share our concerns regarding MVL, are relying on these statements, and we want to make sure that they are accurate. If a contrary statement is made in the next few months without opportunities for further public discussion, our clients may see the recent roundtable as something other than a genuine opportunity for substantive public discussion.

In summary, we believe it would be wholly inappropriate for the AAA to take a position supporting one side of this issue, a position opposed by the members practicing in this area and by the clients they serve. If the AAA were to make any statement on this issue, we recommend the following as a candid and accurate description of the current state of the profession:

The AAA acknowledges that there is a legitimate and substantive difference of professional opinion within the actuarial community regarding the applicability of market value liability measures to public pension plans. The Academy encourages continued development and discussion of this issue.

Thank you for your attention to this matter. We look forward to preserving and enhancing the reputation of our profession through a thoughtful dialogue on an important public policy. We would appreciate your guidance as to how best to proceed.

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