



August 29, 2008

Post Office Box 2034  
Austin, Tx 78768-2034  
(512) 328-8889  
800-823-7782  
Fax: (512) 328-8887  
[www.tcdrs.org](http://www.tcdrs.org)

The Board of Directors  
American Academy of Actuaries  
1100 Seventeenth Street NW, Seventh Floor  
Washington, DC 20036

Re: Written forum comments

Dear Members of the Board:

The mission statement for the American Academy of Actuaries is:

**The Academy's mission is to serve the public on behalf of the United States actuarial profession.**

To accomplish this, the Academy:

- Provides independent and objective actuarial information, analysis, and education for the formation of sound public policy;
- Proactively identifies and addresses issues on behalf of the public in matters where actuarial science provides a unique understanding;
- Increases the public's understanding and recognition of the value of the actuarial profession;
- Facilitates and coordinates issues of common interest among the U.S.-based actuarial associations;
- Provides for the establishment, maintenance, and enforcement of high professional standards of actuarial qualification, practice, and conduct; and
- Coordinates the representation of the U.S. profession globally.

From our perspective, by the way the Academy has pursued applying the precepts of Financial Economics (FE) and more specifically Market Value of Liabilities (MVL) to the public pension sector, the Academy is not following its own mission statement.

In brief, this is how we see the process has played out so far:

August 29, 2008

Page 2

- A group of mainly non-public sector actuaries decided that FE/MVL precepts should be applied to public sector plans.
- Public sector actuarial consultants, as well as internal actuaries and other public sector plan employees, were only minimally represented in deliberations.
- Objective, open and inclusive discussion was not encouraged.

This resulted in “ivory tower” deliberations with regard to MVL disclosure with little consideration given to the consequences of the decision, especially unintended consequences. If one follows FE, upon which MVL is based, to its logical conclusion, investment choices for public defined benefit plans could be constrained, resulting in plans that are more expensive to fund and leading to possible conversions to DC plans. This is especially remarkable in light of the report recently released by the National Institute on Retirement Security titled, “A Better Bang for the Buck: The Economic Efficiencies of DB Plans,” which finds that a DB plan is a significantly more efficient pension vehicle than a DC plan.

Also, we see no evidence that a problem was first explicitly identified or that alternative tools to MVL disclosure were thoroughly considered. This is a perceived solution (MVL) looking for a problem (better disclosure) and is a classic case of putting the cart before the horse. All of this together has resulted in a fractured, disjointed and divisive process. This is clearly not the decision-making environment envisioned by the Academy’s mission statement.

We believe the Academy should not make any decision regarding MVL disclosure at this time, but instead step back and look at the public pension sector holistically. Here’s a suggested process that would better fit the Academy’s mission statement:

- Gather input from key stakeholders, including significant inclusion of public pension actuaries and other public sector professionals.
- Identify and prioritize the top issues/problems relating to public pension plans.
- Research and discuss the issues, including the evaluation of benefits, costs and risks of possible solutions. Consider the impact of solutions, both intended and unintended.
- Have an open and inclusive process in developing position papers that responds directly to the identified problems, using both compromise and consensus-building to achieve a solution agreeable to as diverse a group as possible.

If this holistic process had been followed, the top issue for public plans might not have been a lack of MVL disclosures. The inadequate funding of some public sector plans,

August 29, 2008

Page 3

volatility in year-to-year contribution requirements for public sector plans, a lack of understanding of public sector plans by the media and the public, or other issues — may have, if given the chance, been deemed as more in need of attention. Also, because the conversation did not start with defining the problem, other potential tools did not receive full consideration. For example, assume the problem is that public pension funding is in jeopardy because plans are not aware of the risk associated with investment return. One way of showing this risk could be to use capital market assumptions to simulate future returns, showing results as probability distributions of employer contributions in future years.

We welcome the Academy's interest in the public pension sector and are hopeful that all voices will be heard in future deliberations. We envision these future discussions to be inclusive, open and deliberative, transparent, collegial in atmosphere, apolitical, and open-minded with no preconceptions.

Although we strongly disagree that MVL disclosure is relevant to the public sector, we take as much issue with the process the Academy used in deliberations thus far. If the Academy goes through a transparent decision-making process similar to that suggested above, we would be more inclined to accept the results.

Sincerely,

A handwritten signature in black ink that reads "Gene Glass". The signature is written in a cursive, slightly slanted style.

Gene Glass  
Director