

Ronnie G. Jung, Executive Director
Teacher Retirement System of Texas
1000 Red River, Austin, Texas 7870

Ann S. Fuelberg, Executive Director
Employees Retirement System of Texas
1801 Brazos, Austin, Texas 78701

Eric Henry, Executive Director
Texas Municipal Retirement System
P.O. Box 149153, Austin, Texas 78714

Gene Glass, Director
Texas County & District Retirement System
PO Box 2034, Austin, Texas 78768



August 28, 2008

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

Dear Members of the Board:

Thank you for the opportunity to submit written testimony regarding potential revisions to Actuarial Standards of Practice No. 27 with respect to Market Value of Liabilities (MVL). The four undersigned Retirement Systems are opposed to a recommendation for disclosure of MVL in the public sector by the Public Interest Committee of the American Academy of Actuaries.

We represent the four statewide pension systems in Texas, and collectively have more than 2 million beneficiaries, and \$167 billion of pension assets that are invested on their behalf. Beneficiaries of these funds include active and retired teachers, state employees, judges, fire and police, municipal and county employees. Naturally, they are always concerned about issues that have a potential effect on their benefits.

It is our understanding that revising ASOP No. 27 could have the impact of requiring state and local government retirement systems to disclose their "market value of liabilities," a figure based on risk-free investment returns; frozen pension service credit accruals; and the market value of assets, rather than the actuarial value. This short-term "settlement value" produced by MVL disclosure is in direct conflict with the long-term nature of a public sector retirement system.

This measurement is inconsistent with the way the State of Texas and its political subdivisions operate. Public retirement systems in Texas are professionally managed and invest their assets in diversified portfolios that are expected to generate returns in excess of a "risk free rate." Plan members, and their employers, reasonably expect investment earnings to account for a significant portion of the fund's revenues.

For example, the Teacher Retirement System of Texas, whose assets account for more than one-half of all public pension fund assets in the state, earned an average annualized return of 8.4 percent for the 10-year period ended June 30, 2007. Other public pensions in Texas

have experienced similar returns over long periods. This return is consistent with the historic experience of most plans.

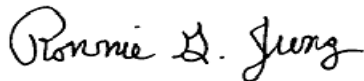
Considering actual experience shows that a return of eight percent is a reasonable long term expectation, we object to a requirement that public pension plans determine the cost of their liabilities on the basis of a return significantly lower than one they can reasonably be expected to realize. We must also question the value of such a measurement.

It also is our understanding that MVL is the equivalent of a termination figure, or the amount a system would owe were it to close down and pay off its liabilities. Although such a scenario occurs among corporate pension plans, the State of Texas, including its schools, state government, cities, and counties, is not going to shut its doors. Barring anything but unforeseen cataclysmic events, the state will continue to operate in some form into the future. Requiring the state's pension plans to report a liability figure based on a theoretical and highly unlikely scenario is out of step with reality.

The revenue stream of the state, cities, and counties is fairly reliable and predictable. If the cost of the pension funds swings wildly from one year to the next, as we understand it could under MVL, it could unnecessarily complicate and compromise the budgeting process. Using smoothing methods to reduce volatility in pension funding levels and required costs is vital to the employer's ability to fund them.

Based on our experience and perspective, the existing arrangement of disclosures, liability measures, and financial reporting provides policymakers and other stakeholders with the information they need to make informed public pension plan decisions. We therefore urge you to avoid the implementation of mandatory rules and regulations that could result in increased funding volatility and unnecessarily higher costs for maintaining public pensions, and which could jeopardize the continuing existence of these defined benefit plans.

Sincerely,



RONNIE G. JUNG
Executive Director
Teacher Retirement System of Texas



ANN S. FUELBERG
Executive Director
Employees Retirement System of Texas



ERIC HENRY
Executive Director
Texas Municipal Retirement System



GENE GLASS
Director
Texas County and District Retirement System