

Talking Points of Robert M. May

Public Interest Committee Public Forum

Opposed to PIC Recommendation that Academy Advocate Disclosure of Market Value of Liabilities (MVL) for Public Pension Plans

Issue 1

PIC's Advocacy Position Decision Model Level 1 Qualifiers Not Met

- a. Threshold condition not met – Need of an identifiable public for MVL information
- b. No identifiable public has been identified
 - i. Not bond rating agencies
 - ii. Not Governmental Accounting Standards Board
 - iii. Not speakers at New York roundtable
 - iv. Not taxpayers or taxpayer groups
 - v. Not public employers
 - vi. Not state pension review boards
 - vii. Not other stakeholders of public pension plans
- c. Only certain actuaries (financial economics actuaries) believe MVL disclosure is needed
- d. PIC needs to be able to cite evidence of specific identifiable publics (stakeholders) needing MVL information, but
- e. Evidence does not exist, so
- f. PIC's Level 1 qualifier test not met, and
- g. Development of public statement should stop

Issue 2

Loss of Credibility of Academy

- a. Public plan boards and actuaries and their national and regional associations strongly oppose Academy advocacy on this issue
- b. This would cause some groups to distance themselves from the Academy Board and the Academy's ABCD.

- c. States could begin to license and discipline public plan actuaries in Texas and California, and perhaps other states, and not look to the Academy for guidance

Issue 3

Advocacy of MVL Disclosure Not a Good Choice for a PIC Statement

- a. Too technical in nature – public will not understand MVL
- b. Compare it to PIC’s Social Security statement – increasing retirement age easy to understand, but MVL hard to understand
- c. Term “market value” is misleading – there is no market because MVL is a theoretical concept
- d. MVL has not been clearly defined
- e. Major controversy exists among pension actuaries about MVL disclosure
- f. Most public pension actuaries oppose Academy’s advocacy of this issue
- g. Most boards of trustees of public pension plans oppose Academy’s advocacy of this issue
- h. MVL disclosure should be an ASB issue – not a PIC issue
- i. A good PIC issue – recommend public employers fund the actuarial required contribution of public plans

Issue 4

Unintended Consequences

- a. MVL disclosure leads to:
- b. MVL funding (higher required employer contributions), which leads to:
- c. Significant change in asset mix (more bonds/less stocks, which results in lower investment return) and leads to:
- d. More volatility of market value of assets because of less asset diversification, which leads to:
- e. Conversion of DB plans to DC plans or freezing of DB plans and creation of DC plans – an unintended consequence