

Outline of Comments to the Public Forum on Public Pension Disclosures By Alan Milligan, Managing Actuary, CalPERS

In making my comments, I represent the California Public Employees' Retirement System, the largest retirement system in the country, with over 1.5 million active and retired members.

The Academy should not issue a public interest statement advocating the disclosure of the market value of liabilities for public pension plans.

There are many reasons why this would not be in the public interest; I would like to focus on three of those reasons;

- The term "Market Value of Liabilities" is a poor choice and will mislead the public and hence would not be in the public interest but would in fact damage the public interest.
- The proposed statement has not been well thought out and needs to be refined – an example of this is the inappropriate narrowness of the statement.
- The statement focuses on the wrong issue. The biggest issue facing public plans is governance; if plan sponsors do not fund the required contributions, it does not matter how the liabilities are calculated and disclosing an additional value will just confuse the issue and distract attention from the more pressing concern.

The term "Market Value of Liabilities" is a poor choice and could mislead the public

- The classic definition of "market value" is the value at which a willing buyer and a willing seller would elect to transact. While the "Market Value of Liabilities" may be an estimate of this number, there is objective evidence that the estimate is flawed.
- By definition, if there is no market, there can be no market value
- It is a term that is likely to mislead the public – the public is likely to believe that the market value is an observed value rather than a calculated value. Rather than attempting to understand what this new number means, the public is likely to assume that it knows what it means and not ask questions.
- The term is not necessary. The IAA recently issues "A Note on Financial Economics" discussing relevant issues for actuaries. In that document, they did not, as far as I have been able to determine, use the term "Market Value of Liabilities". If the term is not needed and could be misleading, we should not use it.

The proposed statement has not been well thought out and needs to be refined

- If the Academy feels that a statement supporting either the disclosure of liabilities on a basis consistent with financial economics or additional disclosure regarding the risk of not meeting investment assumptions is in the public interest, considerable thought needs to be taken to ensure that the statement is the most effective possible.
- A narrowly focused statement would not be the best. If such a statement is in the public interest it should also be in the public interest to apply it to
 - Social Security / other social insurance schemes
 - Private sector defined benefit plans, both qualified and non-qualified and
 - Other post-employment benefit plans
- A better template already exists. The public plans subcommittee has proposed an alternative statement that focuses on the broader topic of disclosure of the risk of not meeting the assumed investment return.

The statement focuses on the wrong issue.

- The biggest issue facing public plans is governance; if plan sponsors do not fund the required contributions, it does not matter how the liabilities are calculated and disclosing an additional value will just confuse the issue and distract attention from the more pressing concern.
- The issue of the plan sponsor not contributing at least the amount recommended by the actuary is at the root of the problems that have plagued the retirement systems in San Diego and New Jersey. This issue is where we should be focusing our efforts.
- By directing attention to the wrong issue, the Academy is diverting and will continue to divert attention away from the more pressing problem. By doing so, the Academy is not, and will not be acting in the public interest.