



COUNTY OF KINGS BOARD OF SUPERVISORS

KINGS COUNTY GOVERNMENT CENTER
1400 W. LACEY BOULEVARD, HANFORD, CA 93230
(559) 582-3211, EXT. 2362, FAX: (559) 585-8047
Web Site: <http://www.countyofkings.com>

JOENEVES
STRATFORD & LEMOORE - DISTRICT I

JON RACHFORD
CORCORAN & AVENAL - DISTRICT II

TONY OLIVEIRA
NORTH HANFORD & NORTH LEMOORE - DISTRICT III

TONY BARBA
HANFORD & ARMONA - DISTRICT IV

ALENE TAYLOR
HANFORD - DISTRICT V

August 29, 2008

Comments to the Public Interest Committee of the American Academy of Actuaries

I am writing today to provide you with my views on the disclosure of the “market value” of assets and liabilities for public pension plans.

As a county supervisor, I represent the taxpayers of Kings County, California. I am also a member of the Board of Administration of the California Public Employees’ Retirement System (CalPERS), the largest public retirement system in the U.S. with more than 1.5 million active and retired members. I was appointed to the CalPERS Board by Governor Schwarzenegger to represent local government employers. Representing employers means representing taxpayers, the people who pay government expenses and consume government services.

I want to share with you some grave concerns I have about a proposal before your committee to adopt a public interest statement supporting the disclosure by public pension plans of their market value of assets and liabilities. While this may be appropriate for some public pension plans, it is not appropriate for all of them. This decision should be left to people closest to their situation in each state, county, city, or local jurisdiction. There is a commonly accepted principle that government decisions should be made by the lowest level of government that can reasonably make the decision. While not exactly parallel – since the Academy is not a level of government – that principle should be followed here. Leave the decision making to those closest to the situation.

Why, you ask, would issuing a statement supporting disclosure of the market value of liabilities (MVL) be a problem? After all, since the statement would not be a binding standard of practice, actuaries would not be required to disclose the number. However, as a practical matter, required or not, because of the pressures on governments to be open and transparent, there would be great pressure on all public pension plans to disclose the MVL if the Academy issued a public statement advocating such disclosure.

In government, we have a concept known as “underground regulation,” a set of practices or guidelines that has the force and effect of a regulation but which has not gone through the public process of being formally vetted and adopted as a regulation. I fear that adoption of a statement regarding disclosure of the MVL would result in an underground standard of practice.

The main rationale for requiring corporate plans to disclose liabilities based on a risk-free discount rate is because it supposedly displays a “more accurate” value of liabilities of a pension plan. This liability number may be useful and have applicability to private sector plans because it is necessary to put a value on the plan sponsor and because those plans are some times terminated as a result of corporate mergers, acquisitions, and bankruptcy. But public pension plans are different in this regard. Public plans are ongoing concerns that are rarely, if ever, terminated. There is no need to put a market value on the sponsors of public pension plans – because government entities are not bought or sold.

A second liability number would be misleading and confusing to the public and policy makers. It could lead policy makers to erroneously conclude that higher employer pension funding levels are required, which would result in unnecessary and higher costs to taxpayers and, therefore, harm taxpayers financially. A second liability number, however theoretical, would also unwittingly provide ammunition to anti-government organizations that want to eliminate traditional defined benefit retirement plans for public employees.

This would be harmful to public employers. If the public and policy makers were misled into believing that employer retirement costs have to go up, it could generate public opposition to traditional pension plans for public employees, which would harm government's ability to recruit and retain the best public employees.

This is the kind of harm to taxpayers that can result from disclosure by public pension plans of a liability figure based on risk-free or near risk-free discount rates. I am not aware of any significant benefit to taxpayers.

A key concern of taxpayers is the ability to offer cost-efficient retirement benefits to public employees that facilitate the recruitment and retention of skilled public employees to provide essential government services. While I generally believe that more disclosure is better than less disclosure in government, I firmly believe that issuing a public statement supporting the disclosure of second, potentially misleading liability number, especially in the current political environment, would be harmful.

Your committee is trying to decide whether a statement in support of requiring public pension plans to disclose their MVL is in the public interest. With respect to taxpayers, I would argue that such a statement is not in the public interest and, in fact, would be harmful to taxpayers.

I am proud of the fact that CalPERS has an excellent 75-year track record of providing cost-efficient retirement benefits for California's public employees, public employers, and taxpayers. In the current environment in California, disclosure of a second liability number is not in the interest of any of these important stakeholders. Therefore, I urge you not to issue a public statement urging public pension plans to disclose their MVL. It would harm, not benefit, taxpayers.

Sincerely,

/s/ Tony Oliveira
Tony Oliveira, District 3
Kings County Board of Supervisors