Comments of the Honorable Nancy K. Kopp
Treasurer of Maryland
Chairman, Board of Trustees, State Retirement & Pension System of Maryland

Public Forum on Public Pension Disclosures
American Academy of Actuaries
Public Interest Committee

Ronald Reagan Building and International Trade Center
Washington, D.C.
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Chairman Lehmann and Members of the Committee:

My name is Nancy Kopp and I serve as Treasurer for the State of Maryland as well as Chairman of the Board of Trustees for the Retirement and Pension System of my state and it is in that capacity that I appear before you today. The System is a member in good standing of both the National Association of State Retirement Administrators and the National Council on Teacher Retirement. The position I am expressing today is consistent with that of both organizations.

I appear before you today on behalf of the staff and my fellow trustees of the Maryland State Retirement and Pension System to express to express our opposition to "Market Value of Liability (MVL)" disclosure by public pension plans, and do so for the following reasons:

<u>Requiring public pensions to disclose their liabilities on a so-called "market value" would not be in the public interest.</u>

Disclosure of pension liabilities must provide information that is meaningful and useful to stakeholders. For public pensions, those stakeholders include public employers and policymakers, public employees, creditors and potential creditors of governments, and taxpayers. Changes in the nature or amount of information currently disclosed under existing governmental accounting and financial reporting standards should enhance the overall value of such disclosures to these users.

We believe that MVL not only fails to offer such an improvement, but could actually provide a distorted view of plan funding that would confuse and mislead rather than inform and enlighten stakeholders.

This effect has already been experienced in corporate pension plans where the shift to MVL has resulted in significantly greater volatility in their funding levels and required contributions. In the public fund context if, as many experts attest, applying a rate consistent with MVL to the liabilities would require significantly more in contributions today than is necessary to fund the promised benefits, this would produce a major intergenerational policy effect.

- This is not to say that changes to current actuarial standards should not be considered. Governments and their operating environment are not static; the manner in which the need for public accountability is satisfied must therefore be capable of reflecting such an ever-changing landscape. This evolution in standards, however, should continue to respect the unique nature of governmental entities and should not intervene in policymaking. The MVL disclosure proposal fails in this regard.

<u>Requiring public pensions to disclose a market value of liabilities ignores fundamental differences between public and private sector pensions.</u>

Governments rarely go out of business, nor are they acquired, conditions that would necessitate the sale or transfer of pension liabilities and the reason for which a market value of liabilities is needed for corporate pensions. Rather, governments are ongoing concerns, have the ability to invest pension assets in a variety of securities and as a result are expected to earn a rate of return based on their diverse investments.

Governmental accounting and financial reporting standards should continue to reflect the important and fundamental differences, particularly in long-term sustainability and benefit protections, between state and local governments and private sector employers and the pension plans they sponsor. Financial reporting models applicable to terminable private sector corporations and their pension plans that require the reporting of MVL are inappropriate for governments and are inconsistent with the long-term nature and purpose of public retirement systems.

<u>Requiring public pension funds to disclose a market value of liabilities could result in unexpected consequences, including the reduction of funds available to pay pension benefits.</u>

We believe the application of the MVL approach to governmental plans would be harmful to these plans in the following ways:

- It could lead to the disclosure of plan costs and liabilities that do not accurately represent the dynamics and unique operating environment of governmental plans;

- It could lead to the application of investment approaches that unnecessarily limit the asset allocation and investments returns that can be earned by plans; and

- It would create confusion among decision makers, taxpayers, and the media about the funded levels of public pension plans.

  Public pension plans are overall well-funded as concluded by the U.S. Government Accountability Office (GAO) in a recent study, which reports: “The funded status of state and local government pension funds is reasonably sound …” and “most state and local government pension plans have enough invested resources set aside to pay for the benefits they are scheduled to pay over the next several decades …”

  The push for the adoption of MVL by governmental plans ignores the evidence presented by the GAO. Rather, it risks resetting the funded status of these plans in such a way as to suggest their certain failure absent massive increases in contributions.

As a state treasurer, public pension trustee, and former state representative for more than two decades, I have found public pension disclosures to provide sufficient clarity with respect to current and future costs and required risks.

Maryland is one of seven states that enjoy a triple-A rating from each of the each rating agencies. We are proud of that distinction and, as State Treasurer for the past six years, I have worked very hard with the other leadership of our State government, executive and legislative, to ensure our preservation of that rating.

Fundamental to our ratings are the clarity and transparency of our State financial disclosures, including that of our pension and other retiree benefit liabilities. I firmly believe that our current methods of disclosure meet the tests of clarity and transparency in every respect.

Mr. Chairman and members of the committee, I believe the required disclosure of Market Value of Liabilities by public pension plans would fail to provide a clearer view of the financial soundness of public pension plans and, therefore, should not be adopted. Thank you.