

6 Buckingham Drive
Princeton, NJ 08540
August 8, 2008

American Academy of Actuaries
Public Interest Committee
1100 17th Street NW, 7th floor
Washington, DC 20036

Re: Pension Plan Public Forum - September 4, 2008

Dear Sirs:

In response to your E-Mail of July 25, 2008, I am requesting the opportunity to be an oral presenter at your September 4, 2008 Public Forum seeking views over the disclosure of the market value of assets and liabilities for Public Pension Plans.

An overview of my comments, from which would come a shortened set of anticipated remarks, follows:

- I am Robert C. North, Jr., Chief Actuary for the five actuarially-funded New York City Retirement Systems ("NYCRS"). The opinions expressed are mine alone and not those of the New York City Retirement Systems or the City of New York.
- Since 2003 I have been including a disclosure of the Market Value of Liabilities (referred to as the Market Value Accumulated Benefit Obligations ("MVABO")) in the Comprehensive Annual Financial Reports ("CAFR") of the NYCRS.

These MVL disclosures were placed into the CAFRs both to provide a better representation of the economic value of pension benefits and in response to some of the then-existing limitations in accounting disclosures.

- Disclosure of MVL provides a measure of value. For most Public Pension Plans, where the likelihood of benefit default is negligible, MVL is determined by discounting the future expected cash flows of the portion of the benefits earned to date, using discount rates consistent with those of risk-free assets (e.g., U.S. Treasury securities).

MVL may be described as a Market Value of Accumulated Benefit Obligation ("MVABO") that is similar to an Accumulated Benefit Obligation ("ABO") calculated using Traditional Actuarial Practice ("TAP"). The difference between MVABO and ABO is the use of a market-related discount rate with MVABO versus the use of an expected rate of return on investments discount rate for an ABO calculated using TAP.

The oft-heard criticism that MVL is a termination liability is not valid.

- For users of financial information, MVL disclosure provides an economically-sound measure of Pension Plan obligations that:
 - o Reflects only benefits earned to date, just as assets include only amounts accumulated to date.
 - o Reflects interest rates currently available in the economy.
 - o Excludes advance recognition of asset risk premia (e.g., equity risk premium).
 - o Is independent of asset allocation.
 - o Compares directly on an economic basis with the reported Market Values of Assets ("MVA").
 - o Is consistently developed for all Pension Plans.

- Having MVL information highlights:
 - The asset/liability mismatches that may exist with existing Investment Policy and the resultant volatility of the relationship between MVA and MVL.
 - That a Funding Policy based on TAP (i.e., discounting future cash flows using expected rates of return on investments) may establish expected employer contribution rates that are level percentages of payroll but also leaves the risks of such Funding Policy not clearly stated and usually to be borne by future generations of taxpayers.
 - That the value of benefits being paid and/or changes being considered are likely being underpriced on an economic basis in the current economic environment.
- That said, please note that having MVL information available does not automatically require:
 - Revising Investment Policy to hold only assets whose durations match those of the obligations.
 - Revising Funding Policy to require payments designed to fully fund the MVL at each measurement point.
 - Revising Benefit Policy to freeze or eliminate defined benefit plans and replace them with defined contribution plans.

- With MVL information, policy makers can be more fully informed when reviewing their goals and can better decide amongst the trade offs to be considered.

For example, employer contributions and funded ratios can be made more stable if Investment Policy is designed to match the expected cash flows of assets and liabilities (e.g., a matched duration bond portfolio). However, in the current economic environment, one of the implications of such an Investment Policy is that employer contributions would likely be greater than those typically computed using TAP.

- It is true that providing MVL disclosures can lead to challenging publicity. Nevertheless, the disclosure of MVL enhances the economic transparency of Pension Plan finances, and actuaries should look positively at the challenge and opportunity to better illuminate the financial status of the Pension Plans they serve.

In particular, I believe that providing economically-sound financial information on the funded status and costs of Pension Plans helps overcome complaints about lack of transparency and allows for a more appropriate debate about how best to provide economic security for employees.

Opponents of defined benefit Public Pension Plans often argue against these plans and their financial obligations, utilizing any information, including on occasion MVL disclosures, that they believe help make their case.

Policymakers, who focus on the big and proper goals of Benefit, Funding and Investment Policy, are better served in defending their decisions where MVL has been disclosed and its implications factored into the analyses.

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- Finally, I personally believe that the accounting and actuarial worlds are trending (or being pushed) toward the terminology and concepts of the economics and financial worlds where the routine measurement and reporting of MVL would be expected. Partly as a consequence, I also believe that within 10 years MVL disclosures will be routine and expected for public pension plans.

I therefore respectfully suggest that the actuarial profession could be of great help to its multiple constituencies and the public as a whole if it were to provide technical and informational leadership on this issue.

Thank you for considering the opportunity for me to present at the September 4 Forum.

Note: I am still in the process of determining if I can forgo a previous commitment on September 4. If you do choose to invite me, I will do my best to rearrange my schedule and will advise you of my availability to attend as soon as the scheduling situation is resolved.

Should you not choose for me to present in person, I would appreciate you treating this letter as my written remarks.

Thank you again.

Yours truly,



Robert C. North, Jr.
Chief Actuary

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