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The Board of Directors  
The American Academy of Actuaries  
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Sent via email on August 29, 2008 to [picpubplanswritten@actuary.org](mailto:picpubplanswritten@actuary.org)

Dear Members of the Board and Committee

As the administrator and fiduciary of the pension plan for the public school teachers of California, CalSTRS is pleased that the American Academy of Actuaries' (Academy) Public Interest Committee (PIC) is holding a public forum to hear stakeholder views on the disclosure of market value of assets and liabilities for public pension plans. CalSTRS is responding to the call for written comments on this issue.

Since our comments are limited to 1000 words, we will only have comments on the areas that we believe most critically affect this retirement system. The limited nature of these comments should not be interpreted as a lack of interest or lack of opinions on the full range of issues concerning the market value of assets and liabilities. Rather we feel that the critical effect on our system of the inclusion of so called "financial economics" deserved immediate comment.

The disclosure of market value of liabilities for public plans is a highly complex and extremely controversial issue. Many stakeholders are not yet aware of the Academy's proposed action and therefore are not responding to the Academy's call for comments. Therefore much more outreach is needed before any public statement is considered. Nevertheless, the public retirement systems and related stakeholders that have commented on disclosure have been overwhelming against the Academy encouraging disclosure. In the public arena, encouraging disclosure is equated to requiring disclosure and the blessing of the disclosure as the correct answer. In the public arena, disclosure serves a wider role and is much more important than what it may appear on the surface. In CalSTRS' opinion, for the Academy to comment on a subject that is only the theory of a few economists, untested, with many unanswered questions would appear to be counter to the thoroughness expected of an organization such as the Academy. For its part, CalSTRS has just begun an extensive study of the issue of the disclosure of the market value of liabilities for public pension plans. We expect this study to cover many of the yet unanswered questions posed on this issue. Therefore CalSTRS strongly recommends against the Academy issuing a statement on this issue anytime in the near future.

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We have already written the Academy's Actuarial Standards Board with comments on the market value of liabilities. We will not repeat all of the comments in this letter; however, we want to request PIC members review that letter. We will note that on the issue of the role of the market value of liabilities, there have been many questions posed and criticisms made, but few of these questions have yet been answered. CalSTRS would recommend that an ongoing debate and discussion of the issue take place, with questions, criticisms, and responses posted on the Academy's website.

As an organization with a reputation for its technical skills, knowledge and thoroughness, it is important that any change of this magnitude be based on thoroughly debated questions and demonstrated conclusions, rather than theories. Following this path will take time. For example, the Governmental Accounting Standard Board (GASB) is also looking at disclosures for public pension plans. GASB is taking several years to carefully study these issues before making any changes.

Actuarial assumptions are the actuary's prediction of the future; therefore, the best actuarial assumption is the assumption that most accurately predicts the future. Any new approach or any refinement of actuarial practices should work toward improving the ability of actuaries to choose assumptions that best predict the actual future as it relates to pension plans. Financial economics does not attempt to improve the ability to better predict future events, rather it measures liabilities as if only one set of circumstances exist, even if there is virtually no possibility that those circumstances exist for public plans. As a result, disclosure of measures under financial economics should not be encouraged because it would lead to confusion and misinformation by users who are not experts.

Any statement on this issue should be based on demonstrated and tested results. In other professions respected for their thoroughness, such as medical research for example, changes are not introduced until they have been tested. Are new drugs introduced without thorough testing? On which public retirement systems have the theories of financial economics been tested? What are the results?

Finally, CalSTRS hopes that this forum is one in a continuing dialogue between the Academy and its stakeholders on this issue before statements are made by the Academy.

Sincerely,

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