



August 29, 2008

**PUBLIC EMPLOYEES'
RETIREMENT SYSTEM
OF MISSISSIPPI**

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**Public Employees'
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**Mississippi Highway
Safety Patrol Retirement System**

**Government Employees'
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**Mississippi Municipal
Retirement Systems**

**Supplemental Legislative
Retirement Plan**

**Retiree Group Life
& Health Benefits**

**Optional Retirement Plan for
Institutions of Higher Learning**

Members of the Public Interest Committee
American Academy of Actuaries
1100 Seventeenth St., NW
Washington, DC 20036

Dear Committee Members:

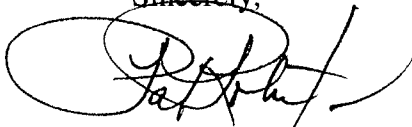
On behalf of the Public Employees' Retirement System of Mississippi, the Mississippi Highway Safety Patrol Retirement System, the Municipal Retirement Systems and Fire and Police Disability and Relief Funds and the Supplemental Legislative Retirement Plan of Mississippi, I appreciate this opportunity to communicate my strong opposition to the disclosure of the market value of liabilities (MVL) for public pension plans and emphasize the point that disclosure of this nature would not be in the public interest. The system I serve administers defined benefit plans that promote financial security for more than 77,000 retirees and 361,000 members who could collectively experience unfavorable unintended consequences as a result of the adoption of this approach to determining pension liability. I would like to take the opportunity to outline some of the various aspects of MVL which I believe to be contrary to the public interest.

- The Pension Promise, i.e., the promise of a future stream of payments at retirement is viewed by MVL proponents under the "law of one price" as perfectly known and a risk-less series of payments due at a time certain in a pension member's life and, as such, exhibit the same characteristics as government-issued bonds. This view ignores the reality of the pension promise. In the practical world there are unknowns, unlike a bond for which the payments are certain. The view that pension liabilities can be closely matched or linked with assets does not adequately consider future events, such as future terminations, deaths, disability or spousal benefits. Therefore, there is no "matching asset" for the benefit stream in amount, timing and probability of payment. Moreover, there is no market for the pension promise and it is not tradable.
- Accepting the negative consequences of MVL reporting is not in the public interest as public pension plans operate on a reliably continuous basis, unlike corporate pension plans. Reporting in a manner that is contrary to the reality of the funding of public pension plans would be irrelevant, misleading and confusing. Valuing liabilities on a termination basis is incongruous with the long term nature of public pension plans sponsored by governments.

- MVL disclosure will likely result in unnecessary negative funding consequences for public pension plans. MS PERS is similar in structure and funding adequacy to a number of public pension plans across the U.S. MS PERS unfunded accrued liability at year end 2007 was \$7 billion and the employer contribution rate required to cover normal cost and amortize the unfunded liability was 11.85% of covered payroll. When applied in a real world setting, MVL disclosure would incorrectly suggest that MS PERS unfunded accrued liability was understated by over \$6 billion and that the employer contribution rate should nearly double, to 21.26%. The very real consequence of this would, most likely, be a shift from defined benefit plans to defined contribution plans for public employees, eroding the heart of their future retirement security.
- Determining the liability based on an incorrectly labeled “risk-less” investment rate of return ignores actual results in the financial market. For example, MS PERS’ average rate of return over a 24 year period, the average length of service in our plan, is 10.9%. Application of a “bonds only” rate of return to the liability would present a confusing picture of funding status and required contributions. If a plan is financing the pension promise consistent with MVL reporting, it would require more in contributions today than is truly necessary to fund the promise on a level percent of payroll basis, thus creating intergenerational equity issues.
- There are many illustrations of the detrimental effects of adopting MVL for public pension plans, including the inability to closely match assets with liabilities, contribution rate and pension liability volatility, confusing, irrelevant and misleading information which could place an enormous financial burden on the public employers to fund higher contributions rates due to lower investment return assumptions. Failure to consider the impact of opportunities in the investment markets translates to higher contribution rates or lower future benefits for career public workers or the elimination of DB plans altogether, making MVL reporting an ill-suited approach with far-reaching and unnecessary negative consequences for public pension plans.

Thank you for soliciting observations and providing this opportunity to comment.

Sincerely,

A handwritten signature in black ink, appearing to read "Pat Robertson", written over a large, stylized circular flourish.

Pat Robertson
Executive Director

PSR/jc