



Office of the State Actuary

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August 21, 2008

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

Original Letter Via Postal Service

Electronic Version of Letter Via E-mail to picpubplanswritten@actuary.org

RE: SEPTEMBER 4, 2008 PUBLIC FORUM ON THE DISCLOSURE OF THE MARKET VALUE OF ASSETS AND LIABILITIES IN PUBLIC PENSION PLANS

Dear Members of the Public Interest Committee (PIC):

As State Actuary for the State of Washington, I provide actuarial services for the Washington state retirement systems. These public pension plans hold assets in excess of \$60 billion and serve more than 450,000 members and retirees. I am a public official who works closely with legislators, public plan representatives, and stakeholders. Both as a public servant and as an actuary, I have made a professional commitment to promoting the security of Washington's public pensions.

Since I am unable to personally attend the September 4, 2008 forum and speak to the issue before you, I am submitting my written comments in my dual capacity as a member of the American Academy of Actuaries, and as a public official serving the State of Washington. They can be summarized as follows:

1. This is not a simple "thumbs up or thumbs down" issue.
2. It is premature for the Academy to release a public statement.
3. The professional independence of actuaries is at stake.
4. The issue presents a unique leadership opportunity for the Academy.

The Academy Can and Should Define the Issue

I expect that on September 4, 2008, you will hear opinions from practicing professionals that are either in favor of or opposed to the disclosure of the market value of assets and liabilities for public plans. They will undoubtedly give valid reasons for those opinions. I do not question the professionalism or convictions of actuaries on either side of this debate. I do, however, find the current debate on this topic to be



somewhat polarizing and oversimplified. In my opinion, this issue is complex and does not lend itself to the kind of “thumbs up” or “thumbs down” response that some may seek from the Academy.

In order to understand whether public pension plans should be encouraged or required to make certain disclosures, it is important to understand the purposes of the disclosures. What public interests would be served by additional disclosures? What problems would the disclosures address? What issues would be raised by including or excluding the disclosures in actuarial reports? When would the disclosures be helpful? When would they be misleading or misused? Should the need for disclosure vary depending on whether the public plan is open or closed to new members? The Academy has the expertise to take the lead in answering these questions and should define the issue.

The Academy Can Consider the Broader Implications of Disclosures

In my judgment, it is premature for the Academy to issue a blanket statement about whether it is in the public interest for public plans to disclose the market value of assets and liabilities. As members of the Academy, we have a professional responsibility to thoroughly investigate the pros and cons of various approaches to disclosure for public pension plans. We should not simply pick one measure over another, or pick the most popular option and apply it across the board. A blanket pronouncement could create confusion and may mislead the public.

Instead, we should determine the best way to integrate any necessary changes to existing actuarial standards of practice. The Academy is well-positioned to consider the broader implications of disclosures made by actuaries for public plans. Any changes in our approach to actuarial disclosures should be implemented to improve risk management tools, enhance actuarial communications and inform public plan sponsors and stakeholders.

Policy-makers and stakeholders need to understand and manage risk according to their goals, objectives, and risk tolerances. Our disclosures to them should enhance their understanding. Building an enhanced understanding will strengthen our reputation as professionals who help clients manage risk to their advantage. To enhance understanding, we need to communicate any new or complex information about the financial condition of public plans in a manner that provides clarity, not confusion. That is our professional obligation to our clients and the public.



The Professional Independence of Actuaries is at Stake

Actuaries are trusted to select assumptions and methods that are appropriate for the purpose of a given actuarial measurement. Actuaries are also trusted to communicate actuarial information in ways that inform and do not mislead other parties. As a professional and practicing public plan actuary, I accept and appreciate the responsibility to exercise my professional judgment in this area and welcome any further guidance from the Academy through modifications to existing actuarial standards of practice.

Past guidance from the Academy respects the professional independence and judgment of actuaries, and stops short of providing regulations or broad pronouncements from the Board of Directors. I sincerely hope the Academy maintains this long-standing practice in response to this issue.

This Issue Presents a Unique Leadership Opportunity for the Academy

In closing, I applaud the PIC for approaching this controversial subject. The public interest in this issue presents a unique leadership opportunity for the Academy because this is not a "black and white" issue of whether or not to disclose certain actuarial information. The issue is far too complex and there is too much at stake to simplify the issue with such a narrow perspective.

I encourage the PIC to step back and consider the larger implications of actuarial disclosures. I recommend that we gather factual information, define the problem, and articulate the problem to our membership before we even consider issuing a public interest statement. We must protect and continue to strengthen the professional judgment of all practicing actuaries. I also encourage the leaders of the Academy to seize this leadership opportunity and bring both sides of this polarized debate together. Developing an informed, well-reasoned and thoughtful approach will advance the actuarial profession. That outcome is in the best interests of the profession and the public we serve.

Sincerely,

Matthew M. Smith, State Actuary

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