

American Academy of Actuaries' Public Interest Committee  
Public Forum on Public Pension Disclosures  
Comments of Lance J. Weiss

In a recent letter to the editor of P&I, Bill Bluhm, President of the American Academy of Actuaries stated, “The academy's board of directors has recognized that the issue of market-value disclosures has important public policy implications, and deserves serious discussion. The board has referred the issue to its public interest committee, which will manage the academy's process. Public input will be sought as an appropriate part of that committee's process.” The academy takes very seriously its role in representing the actuarial profession to the American public, and in the need to serve the public good. The board of directors believes this is an issue that deserves discussion and potential action.”

I agree that some kind of market value disclosure could have legitimate value (within a broader context and assuming its purpose and limitations are explained). However, there is a real danger that a market value liability will be viewed as the only "right" number and that other disclosures that are likely more important to many users will be disregarded. Further and most importantly, I believe that the current narrow focus on the market value disclosure issue is actually distracting the actuarial profession from addressing the real critical issue facing public pension plans today--the need for improved public plan funding.

For example, according to a recent NASRA survey, the unfunded liability of 117 of the largest public sector plans is \$336 billion (on the basis of going concern assumptions selected by the system boards.) In my opinion, this is a major issue! Would the proposed change to market value assumptions result in public plans appearing to be substantially less well funded than they are on the basis of reasonable going concern assumptions? Of course! But, if the unfunded liability is \$336 billion on going concern assumptions or \$500 billion on market value assumptions, that doesn't change the overall conclusion that this is a major crisis that needs attention now.

For more than 30 years, ERISA has spelled out requirements and responsibilities for private-sector pension and health plans. Yet the absence of similar laws for public-sector plans allows policymakers to shift huge retirement costs to future generations. Public pension policy often suffers from an “It won't be my problem after I am out of the office” mentality. Although public pension costs are huge and poised to grow even larger, there's often little incentive for fiscal restraint. Policy leaders reap political rewards for creating new benefits for public employees or underfunding retirement systems and using the money for other short-term goals. As a result of such policies, future generations of tax payers face increasing bills for unfunded pension liabilities.

Solving the public pension crisis requires prompt action. Unfortunately, there is no “silver bullet” for solving the public pension crisis. Public officials must confront runaway public pension and retiree health benefit costs or risk voter backlash as these costs hit taxpayers in the pocketbook and force states to spend tax dollars on legacy obligations that otherwise could have been used for education, services and

infrastructure. Illinois Governor Blagojevich in his 2005 annual budget address warned “Unless we reform the way we fund our pensions...we will never eliminate the structural deficit that takes money away from education, from health care, from law enforcement, from parks, and from everything else we care about.” Unfortunately this will require strong political leadership and the willingness to confront entrenched interests.

The actuarial profession has the knowledge, skills and experience to assist in the effort to improve the funding of public sector plans. In fact, we owe it to the public to actively step up to the plate and assist in this effort.

The big question, however, is how do we do it? Actuaries cannot craft laws requiring minimum funding. But we can lobby for more rigorous disclosure. For example, what if actuaries were encouraged or even required (through the ASOPs) to disclose more information about the funded status and the projected cash requirements of the plans such as projected funded status, projected unfunded liability and projected cash requirements for 20 or 30 years under one or more funding policies -- current/recent funding policy, ARC funding policy or some other funding policy recommended by the actuary. Another idea would be to require the actuary to communicate his or her key findings to specified interested parties, such as the taxpayers of the state, local government officials, legislators, etc. There are other actions that could be considered, such as a stochastic assessment of the risk that the situation might deteriorate further due to adverse experience. The ultimate objective would be to greatly increase transparency and make it much harder for politicians to put off the hard and unpopular decisions to fund public pension plans.

Now who would pay for all of this additional work? If it is a requirement, then all actuaries would have to do it and the public retirement systems would have no choice but to pay for it. It is a small price to pay given the potential benefits -- greater public awareness, more responsible decision making, and ultimately better funded public pension plans.

In summary, I believe the public would appreciate and receive more value if, instead of just focusing on the very narrow issue of disclosure of market value of liabilities, the American Academy of Actuaries Public Interest Committee instead expanded their focus to address the broader issue of public plan funding within the context of enhanced plan funding disclosures as described above.

Please understand that the opinions expressed herein are my own and not necessarily those of my employer or any organization with which I am affiliated.

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