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## PIC Comments

Public Interest Committee  
American Academy of Actuaries  
1100 17th St., N.W., 7th Floor  
Washington, DC 20036

Dear Members of the Public Interest Committee,

The California State Association of County Retirement Systems (SACRS) respectfully submits the following comments for your consideration in determining whether the Public Interest Committee (PIC) should recommend to the American Academy of Actuaries (AAA) Board of Directors that a statement by the AAA Board that disclosure of the market value of assets and liabilities in public pension plans would be in the public interest.

Collectively, the 20 California county retirement systems that comprise SACRS manage more than \$90 billion in defined benefit plan assets and administer related benefits for more than 160 governmental entities, covering more than 250,000 active employees and more than 125,000 retirees and beneficiaries.

SACRS is committed to accountability in the administration of our plans. SACRS believes that an integral component of accountability is the proper actuarial analysis of public pension plans, including the calculation and reporting of plan liabilities. In order to meet these goals, SACRS believes it is critical that: (1) The structure and operation of public pension plans is correctly understood; (2) Actuarial analysis in the public pension plan context properly matches the structure and operation of such plans; and (3) Actuarial reports regarding public pension plans provide a clear picture of the financial soundness of the public pension plan as it is structured and operated. Expressed another way, SACRS believes that actuarial reports regarding public pension plans should not be based on analysis that does not apply to public pension plans or contain information that is confusing or misleading because it is not reflective of the structure and operation of public pension plans.

Accordingly, while SACRS appreciates the AAA's ongoing interest in the adequacy of actuarial reporting, SACRS respectfully submits that the calculation and reporting of market value liability (MVL): (a) Is not suitable for public pension plans because it is not consistent with the structure and operation of our plans; (b) Will be misleading and confusing because it does not convey relevant information about the long term nature of public pension plans; (c) Could lead to detrimental and unnecessary changes in the funding approach (including cost volatility and cost allocation), the investment practices

and the ultimate cost to employers and employees of public pension plans; and (d) Could lead to various other unintended (or possibly intended) retirement policy and investment market consequences.

In addition, SACRS would note that virtually all actuaries who specialize in the analysis of public pension plans oppose the use of MVL for measuring the liability or establishing the funding method for public pension plans because it is not consistent with the nature of public pension plans and public employers as perpetual, going-concerns. While actuaries who analyze corporate pension plans (where the concept of MVL is relevant due to the real possibility of plan termination) support the use of MVL, SACRS respectfully submits that the opinion of those with expertise in public pension plans should carry the greater weight. At a minimum, SACRS submits that the stark difference of opinion within the profession strongly suggests that at this juncture it would not be appropriate for the AAA to appear to be endorsing one side or the other, or taking action that would impair ongoing discussion. To the contrary, SACRS believes that the AAA should be encouraging constructive dialogue and continued engagement on the subject.

Finally, SACRS must express concern over the process by which this issue is being considered as a potential recommendation to the AAA Board of Directors. In particular, SACRS would note that no public pension fund professionals have been included in any of the panels that will present oral testimony to the PIC. In addition, with but one exception, there are no representatives of the public employer plan sponsor community on the panels. The omission of the parties who would be most affected by the proposed change in actuarial practice and reporting is deeply disconcerting. The message it sends is that public pension plans are not ongoing entities, with a critical interest in the operation of and actuarial reporting for our plans. Instead, the message is that we are a 'cadaver' on which an 'actuarial autopsy' is performed. SACRS most strongly disagrees with such a perspective and respectfully submits that the long term credibility of the AAA is put at risk by a process that does not provide for full participation by the public pension plan community.

In sum, for the foregoing reasons, SACRS respectfully submits that the PIC should not recommend that the AAA Board of Directors issue a statement advocating the reporting of MVL in public pension plans.

Thank you for your consideration.

Sincerely,



Richard White  
President of SACRS

CC: SACRS Board of Directors