

I am a pension actuary who has worked in the public sector for the past fifteen years, and in private sector consulting before that. I would not agree with the Academy's issuing a public statement encouraging the disclosure of so-called "market value of liability" (MVL) measures for public sector retirement plans.

I support transparency in reporting, and disclosure of clear and relevant information. MVL, however, with respect to public plans, is neither clear nor relevant. There is no marketplace for the trading of public sector plan liabilities, making the concept somewhat vague at best. A marketplace exists for plan assets, giving the market value of assets concept real meaning.

MVL is basically a plan termination liability. While this has some relevance in the private sector, it has none in the public sector. States do not go out of business; public sector plans do not terminate. Some of the large public sector plans are approaching one hundred years old. Additionally, constitutional guarantees applicable in many states apply to projected benefits, not accrued benefits. Therefore the entire concept of an accrued benefit in many public sector plans is very vague, and has little meaning.

The proper interest rate assumption to use is always open to debate. The MVL measurement would be based on an interest rate equal to a "risk-free" rate, basically that of U.S. Treasuries. The majority of public sector plans are invested in well-diversified portfolios, however, with significant equity and real estate allocations. While future investment returns are obviously unknown, it is likely that these portfolios will outperform the returns of U.S. Treasuries over the long-term horizon. If the Retirement System is funded using a risk-free interest rate assumption, it is likely that significant actuarial gains on assets will accrue over time, and one could argue that the current generation of taxpayers will be over-charged for the benefits of their public sector employees. The concept of inter-generational equity would be significantly and unnecessarily weakened. Additionally disclosure based on a risk-free rate would be confusing to the public as well – if the plan is being funded based on an 8% interest rate assumption, why are liabilities being disclosed based on 4%? – of what use is that? If the goal of this disclosure is to illustrate the impact on results from the use of different actuarial assumptions, there are better ways to accomplish that.

Public sector retirement plans have many stakeholders, each with their own agendas and goals. In the public sector, disclosure is never "just disclosure". Information is used, and often misused, to further the interests of one group. A concept as vague and with as questionable an applicability as MVL is almost certain to be misunderstood and misused, likely to the detriment of public plans, and public sector employees.

Given the significant lack of consensus on this issue within the actuarial profession, it would seem to be extremely premature for the Academy to even consider

making a public statement supporting one side or the other on this issue. The vast majority of practicing public sector pension actuaries is unified in its opposition to the disclosure of MVL for public plans. This does not represent a lack of understanding on their part, or a stubborn resistance to change, but rather a sincere, well-thought-out belief that it's the wrong thing to do. One would think that if the arguments in favor of MVL disclosure were so strong and incontrovertible that more practicing public plan actuaries would have been "converted" to the pro-MVL side of the issue. This issue has received extensive attention and debate over the last couple of years. For the most part, the MVL proponents appear to be made up of people who work in academia, or as investment bankers.

Thank you for the opportunity to provide comments.

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