AMERICAN ACADEMY of ACTUARIES

NEWS RELEASE

FOR IMMEDIATE RELEASE
November 21, 2013

Contact: David Mendes
Phone: 202.384.2075
Email: mendes@actuary.org

How Do Pension Plan Obligations Measure Up? American Academy of Actuaries Explains Why Estimates Conflict

WASHINGTON – Conflicting estimates of public pension plan obligations are drawing increased public scrutiny, but a new issue brief released by the American Academy of Actuaries Pension Practice Council, "Measuring Pension Obligations," explains to public policymakers, pension plan participants and administrators, and taxpayers what's often behind seemingly contradictory estimates. Part of understanding how well-funded, or how underfunded, a pension plan is involves an examination of the method used to select the interest rate for discounting benefits and the trade-off between certainty and risk included in that rate, the brief explains.

"Highly visible disputes over pension funding have brought some wildly varying estimates of pension obligations to light," said Academy Senior Pension Fellow Donald Fuerst. "Expressing many future payments as a single value today requires choosing a discount rate to adjust future benefits to a current value. Discount rates can be based on market data or expected future returns. The Academy Pension Practice Council's new issue brief puts the difference into perspective to help stakeholders have a productive dialogue about how best to address the financial security of pensions."

The issue brief explains:

- How the use of different discount rates can lead to different estimates of an obligation.
- That the solvency value is the amount needed to fulfill all benefit obligations with certainty and is measured using the rate of securities free of default risk, usually U.S. Treasury securities.
- That the budget value is the amount expected to be sufficient if invested in a diversified portfolio, which can contain stocks and other riskier assets.

(MORE)

Understanding these different measurement methods is an important public policy consideration, since federal and state bills include provisions related to pension measurement, such as the disclosure requirements in the Public Employee Pension Transparency Act (H.R. 1628) introduced by Rep. Devin Nunes, R-Calif., in April 2013.

The pension measurement issue brief is part of a larger American Academy of Actuaries' initiative to help legislators, regulators and other stakeholders at the federal, state, and local levels understand the nature of pension risks and the complex issues surrounding public pension plans. In July 2012, the Academy published the issue brief, "The 80% Pension Funding Standard Myth," offering fuller criteria for judging the actuarial soundness of a pension plan. For more about the Academy's work in this public policy area, see its Public Pension Plans Actuarial E-Guide.

Download these resources, and learn more about the American Academy of Actuaries, online at www.actuary.org.

###

The American Academy of Actuaries is a 17,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

Media Only: *To set up an interview with Senior Pension Fellow Donald Fuerst, contact Assistant Director of Communications, Public Affairs, David Mendes at mendes@actuary.org or 202.384.2075.*