



AMERICAN ACADEMY *of* ACTUARIES

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November 15, 2014

Actuarial Standards Board
1850 M Street NW, Suite 300
Washington, DC 20036-4601

Re: ASOPs – Public Pension Plan Funding Request for Comments

Members of the Actuarial Standards Board:

The American Academy of Actuaries'¹ Joint Committee on Retiree Health appreciates the opportunity provided by the July request of the Actuarial Standards Board (ASB) for comments on Actuarial Standards of Practice (ASOPs) and Public Pension Plan Funding and Accounting. The Joint Committee's mission is to bring to the public and the United States actuarial profession expertise regarding group benefit plans, with particular focus on health care benefit plans for retirees. We commend the ASB for directing extra attention to the issues surrounding public plans. This is a high profile area of growing public concern. The purpose of this letter is to provide general comments on issues that may be relevant to this matter, and only selectively address the specific questions posed in the request for comments.

In the press and in public policy debates, concerns about public plans will increasingly include retiree health benefits, as the Government Accounting Standards Board (GASB) standards move other postemployment benefit (OPEB) plans to the same reporting policy as pensions. The financial reports of some public entities will indicate higher unfunded liabilities for their OPEB plans than for their pension plans, causing even more scrutiny of actuarial involvement. Decisions by the ASB in regards to the current questions may have an effect on the actuarial work involving public plan retiree health and OPEBs.

Other postemployment benefits are mentioned in the first paragraph of the July 2014 ASB request, but not thereafter. The general thrust of the ASB request is towards pensions and funding, although there is mention of accounting in the title and OPEBs in the initial paragraph. If the ASB does undertake a comprehensive review of ASOPs as

¹ The American Academy of Actuaries is an 18,000+ 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.

they pertain to public plan actuarial valuations, it is reasonable to assume the review will go beyond pension funding. We strongly recommend that any focus on public OPEB plans be inclusive of actuaries specializing in OPEB plan valuation, both private and public. Perhaps a special OPEB task force of the ASB could bring such expertise to the Board's review.

The recently adopted revision of ASOP No. 6 does address in some detail an aspect of retiree health actuarial practice that is more common in the public sphere than in the private sphere – the pooling of health financial risks, often in the context of “community rating” of health plan premiums. Under circumstances that are relatively common for public plans with such pooling, a cursory analysis of recent term costs may result in disguising the real cost of providing retirement benefits. By sharpening a focus that was present in earlier versions of ASOP No. 6 and providing additional guidance, the ASB and its subcommittee for Retiree Group Benefits amended the guidance in an aspect of practice that has been found to be particularly problematic in public plans. Although some practitioners disagreed with the change, our committee agrees that the recent revisions to ASOP No. 6 will assist actuaries in performing their work and advising their principal, whether public sector or private sector.

For the additional guidance about pooled health plans and community rating, mention in the existing ASOP seemed an appropriate path for providing that guidance. Our committee has no current position on whether, for public pension and OPEB plans, the actuarial standards for measurement and valuation should differ from that of the standards for private sector plans.

With its focus on intended users, Question #6 highlights the public responsibility actuaries bear in public sector financial measurement, as the potential number of users of actuarial findings for public plans is more extensive than for private plans. Whatever direction the ASB chooses to move on the issues it has raised, the resulting ASB statement about that direction should be articulated in a manner to give actuaries, and the larger interested public, a clear understanding of our profession's stake in the ongoing debate about the measurement of public employee compensation and retirement benefits.

The American Academy of Actuaries' Joint Committee on Retiree Health appreciates the opportunity to comment on these issues. When the ASB review or discussion moves in the direction of involvement with OPEB practice, we would welcome further dialogue. Please contact Matthew Mulling, our Academy staff liaison (mulling@actuary.org; 202-223-8196) if you have any questions or would like to discuss these items further.

Sincerely,

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American Academy of Actuaries