



AMERICAN ACADEMY
of ACTUARIES

NEWS RELEASE

FOR IMMEDIATE RELEASE
Feb. 19, 2014

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

For Public-Employee Pension Plans, Better Funding Policies Are Essential for Better Funding

WASHINGTON—The American Academy of Actuaries issued important new [analysis](#) of the factors that contribute to well-governed public-sector employee pension systems, and funding policy decisions that have led to the underfunding of many plans throughout the United States in recent years.

“The nature of public pension plans throughout the country — that they are unique to the jurisdictions that create them and the beneficiaries they serve — does not readily lend itself to having a national discussion on what works and what doesn’t,” said Academy President Tom Terry. “Underfunding typically results when sponsors do not make contributions required by a plan’s funding policy on a consistent basis, or when a funding policy is out of balance — that is, overly emphasizing one objective at the expense of others. The American Academy of Actuaries wants to advance the public debate — among taxpayers, public employees, and plan sponsors — on this problem by describing the objectives and principles needed for a balanced, disciplined approach.”

The Academy’s issue brief, “Objectives and Principles for Funding Public Sector Pension Plans,” recommends that funding policies for public pension plans:

- Recognize that several competing objectives need to be balanced: security for the promised benefits; making contributions stable and predictable; and ensuring that the costs borne by different generations of taxpayers and employees are handled equitably.
- Communicate how the objectives have been balanced and how the costs are expected to be met.

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- Provide a procedure that determines amounts to be contributed at specific points in time — and an enforcement mechanism up to a “legally enforceable contribution demand of plan members to prefund the benefits on an actuarially determined basis.”
- Target the accumulation of sufficient assets for an employee by retirement and establish a plan to make up for any variation in actual assets within a reasonable period.
- Identify any risks that could make it difficult to achieve the objectives.
- Provide for clear disclosure of the effectiveness of contribution policies over time.
- Ensure that funding results are monitored and adjustments made as needed.

This issue brief was developed by the Academy Pension Practice Council’s Public Plans Subcommittee. For more information about the Academy’s work in this public policy area, see its [Public Pension Plans Actuarial E-Guide](#).

Learn more about the American Academy of Actuaries at www.actuary.org.

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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.

Media Only: To set up an interview with American Academy of Actuaries Senior Pension Fellow Donald Fuerst, contact David Mendes, assistant director of communications, public affairs, at 202.384.2075 or mendes@actuary.org.