Former hedge fund manager Andy Kessler opines about assumptions made by actuaries in setting expected rates of return when determining funding targets for public pensions in his April 10 Wall Street Journal op-ed. Contrary to the artful “guess” of Mr. Kessler, actuaries determine funding targets with the consideration of multiple risks.

Actuaries are experts in risk and financial security whose work product is subject to Actuarial Standards of Practice, which require consideration of multiple factors and risks when setting assumptions. Actuaries use observations about current and historical market data, and advice from other experts, to formulate estimates of expected future rates of return and assess the risk inherent with those rates of return. Actuaries communicate these risks and the uncertainty of results as part of their work.

Those in the pension arena must come to recognize that appropriate pension funding is much more than an “actuarial problem,” and that it includes a commitment toward responsible governance of those plans. It is time to challenge all stakeholders in retirement plans to engage in a thoughtful public discussion of the issues if we are to assure financially secure and sustainable systems.

Sincerely,

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