



AMERICAN ACADEMY of ACTUARIES

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November 14, 2014

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

Re: ASOPs – Public Pension Plan Funding Request for Comments

The American Academy of Actuaries¹ Public Interest Committee is pleased to present the following comments in response to the Actuarial Standards Board's (ASB's) request for comments on Actuarial Standards of Practice (ASOPs) and Public Pension Plan Funding. The Public Interest Committee helps actuaries act in a "manner to fulfill the profession's responsibility to the public."²

We applaud the effort that the ASB has made to seek input on how the standards of practice should be applied or modified to public sector pension and employee benefit plans. In these comments, we offer a brief overview of a path forward for advancing the public interest.

Question #6 in the request raises and partially conflates two very important separate but related ASOP 41 concepts: "principal" and "intended user." More broadly, we consider the question of identifying the stakeholders to whom the actuary owes a duty of service.

In the public sector, a governmental unit represents its constituent taxpayers and residents, who in turn need to make informed decisions about the actions of its governmental officials. To make those informed decisions, the electorate has a need for objective and independent information. Actuaries are well positioned to provide this information with regard to pension and other benefit plans.

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.

² Precept 1 of the *Code of Professional Conduct*

Current ASOPs applicable to pensions and benefits are influenced by the needs of the private sector, where the principal and key stakeholder is the sponsoring organization and the intended users are generally limited to those identified by the principal for its needs.

Because of the broader range of stakeholders (that is, “intended users”) of the actuary’s work product in the public sector, we believe that there is an unmet need for guidance with respect to these plans.

The remaining questions in the ASB’s request largely relate to stakeholders’ needs for actuarial information. For purposes of this discussion, we consider two broad classes of actuarial information:

- Certification of technical application of rules imposed by legislation, regulation or an outside (non-actuarial) body. Very often, these technical rules use actuarial-sounding language, even though the required results are based more on political compromise than actuarial science;
- An opinion requiring analysis of alternatives, sound judgment and reasoned support.

For many principals, both private and public sector, the limited technical calculation – often described as “best estimate” – is all that the principal requires or expects of the actuary; current standards of practice in the pension area permit and support actuarial practice at this very basic, technical level.

In contrast, the broader group of public sector stakeholders/intended users should ideally be able to rely on actuaries to provide objective information beyond the current year best estimate, including planned patterns of costs over time, the effects of sponsor decisions, and the risks and uncertainties about those plans or estimates. These needs – in essence, good risk assessment and measurement – require the greater context and more nuanced opinions of the second type to help stakeholders understand the potential for changes in the amount or cost of benefits. Actuaries outside the pension area often deal with these broader issues and wider groups of intended users. The high-level processes and lessons learned in these other practices might help inform the discussion in the pension area.

In general, actuarial standards function better when they are organized by *what* an actuary does (for example, technical certification vs. considered opinion as described above) rather than for *whom* it is done (for example, public vs. private). However, we recognize that making some progress relatively quickly on public sector issues is better than waiting a long time to make progress in all pension and retirement benefit practice.

To summarize, the current paradigm of directly serving only a principal (typically the plan sponsor) with little regard for other stakeholders has proven damaging to those stakeholders and to our profession. We agree that there is a “public interest” in the operation of public sector pension and benefit plans, and we believe that there is potential for actuaries to serve that interest by providing robust, independent and objective analysis and options. We also believe that this is significant opportunity for improving current

standards of practice in this area. We commend the ASB for beginning this project and look forward to seeing an exposure draft of proposed solutions.

Please contact me or Assistant Director of Public Policy Bill Rapp (rapp@actuary.org; 202/223-8196) if you have any questions or would like to discuss these issues further.

Sincerely,

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Chairperson, Public Interest Committee
American Academy of Actuaries