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Author's Response to Comments by Daniel Moore and Bill Hallmark

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Daniel Moore's review focuses on the dashboard indicators, but he also makes very useful comments on the difficulties of achieving the report's objective of effective communication. He notes that the standardized approach that the report proposes could be achieved in principle with either a voluntary or a mandatory approach. In addition, the report could be prepared by an independent party. All three options are worth considering, although I suspect that in practice a voluntary approach will be the most feasible.

Moore recommends that the dashboard take account of the Governmental Accounting Standards Board (GASB) disclosures. Among his suggestions is that, when a plan is required to use a blended discount rate, as is the case when its assets are not sufficient to cover 100 percent of its liabilities, the fund's exhaustion date should be added. In addition, because GASB requires that "substantively automatic" cost-of-living adjustments (COLAs) be included in a measure of total plan liabilities, that inclusion should be noted in the dashboard. He also suggests that the term "amortization method" be replaced by "ARC amortization method," since "amortization method" is really referring to the calculation of the annual required contribution (ARC). The dashboard could also state whether gain-sharing or interest guarantee procedures have or have not been valued using alternative valuation procedures.

I think that these recommendations as well as the proposed illustration of the implications of the assumed mortality table and the inclusion of the plan portfolio's beta are well taken. Moore's suggestion that the dashboard include data from each of the previous five years is also worth considering, although it would come at the cost of the loss of more distant data.

Bill Hallmark has written a very critical review of the report. In addition to a large number of comments on the indicators that the report proposes, he faults the report for effectively putting old wine in new bottles. The main conclusion of his critique is that there is no point in a new report that simply recycles old information. The report is said to fail at communicating effectively with interested readers. There are no projections, and the report fails to explain how it would judge the financial health of a plan. In my comments, I will concentrate on these more general criticisms, although I will make a few observations on his comments on particular indicators and the dashboard.

The conclusion that there is no point in a new report, presumably even if the present report were modified in the way that Hallmark suggests in his more detailed comments, is never defended; it is only asserted. I disagree strongly with this view. If public sector plans do not routinely prepare such reports, then doing so would be a very good idea. The comprehensive annual financial report (CAFR), despite all the information it typically contains, is not an efficient vehicle to convey a concise report on a plan's current financial position and prospects. Accessible information, old or new, is better than inaccessible information.

Hallmark, for some reason, overlooks the discussion in the report of the usefulness of projections. The fact that I was not in a position to commission them does not mean that I considered them to be unimportant. On page 3, the report states that "[h]aving been prepared by an outsider, they are limited in some respects. An outsider cannot commission simulations on the impact of changes in actuarial or economic assumptions, for example . . . Without a simulation model of a plan, it is very difficult to gauge the impact of measures taken to improve the plan's finances." In light of this statement, I was puzzled by Hallmark's repeated criticism that the two reports lacked simulations. It should be obvious that, in the best of all possible worlds, a report would include an analysis of simulations of the impact of changes in underlying assumptions.

I am also puzzled by the claim that the report says nothing about how a plan's finances might be assessed. The contrasting discussion of the financial position of the Adams PERS and the Jackson PERS should make clear the importance the report attached to the asset-to-liability ratio.

The report's choice of indicators was most definitely not meant to be carved in stone. I found many of Hallmark's specific observations on what should have been included and what could be dropped quite helpful. In particular, the dashboard's financial indicators could be pruned, as he suggests, and the expected returns and standard deviation of investments would also be a useful addition. However, they were not available for the two plans that were the object of the report. The graph he includes in his comments would also be a very useful addition. The design of the dashboards and the organization of the two plan reports could be improved.

I was, however, struck by the fact that taking many of Hallmark's observations on board would improve the reports and would strengthen the argument for their usefulness. More generally, I didn't think that taken together Hallmark's specific comments support his contention that a new report was contraindicated. If anything, they simply argue for some changes to the content and organization of the prototypes.

I did not understand why the discussion of benefits was irrelevant to the report's purposes. Low retirement ages, high replacement ratios and automatic 100 percent COLAs would magnify the effect of increased longevity on a plan's finances and would also suggest that there was some scope for reducing their generosity. That most Adams plan members are not covered by Social Security is not a piece of extraneous information; it helps explain why replacement rates are comparatively high. Perhaps because I was on the staff of the International Monetary Fund for many years, the structure of a public plan's benefits would be the first thing I would look at. Surely it is relevant to

Greece's predicament that a full pension with a high replacement rate could be obtained at a very young age.

In sum, Hallmark has provided some good ideas for improving the report, but his rejection of its rationale is unconvincing.

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