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Chairperson's Corner

By Randall Dziubek

For my last Chairperson's Corner before I turn in my gavel, I wanted to talk about an issue that has been a source of frustration for many of us in the actuarial retirement community for many years yet has oddly fascinated me. I'm referring to the ongoing debate regarding the use of financial economics principles for financial reporting and funding of retirement systems. My frustration does not arise from the existence of financial-economics-based rules for U.S. private sector plans nor the lack of them in the public sector. Rather, it lies in the inability of our profession to effectively debate and agree on the applicability of these principles in our work as retirement actuaries.

In March 2018, the Actuarial Standards Board (ASB) issued an Exposure Draft for Actuarial Standard of Practice (ASOP) No. 4—Measuring Pension Obligations and Determining Pension Plan Costs or Contributions.

Among other less controversial modifications to ASOP No. 4, section 3.11 calls for actuarial funding valuations to “disclose an obligation measure to reflect the cost of effectively defeasing the investment risk of the plan.” This value is referred to as the Investment Risk Defeasement Measure (IRDM).

The Exposure Draft received 62 comment letters from major actuarial firms, retirement systems, national retirement organizations, actuarial organizations, and individual actuaries and interested parties.

Most of the comments addressed the IRDM in some fashion. Some I would classify as “middle of the road” and generally limited their scope to suggestions for improvements or modifications to the language of the Exposure Draft. The name of this value (IRMD) seemed to draw consistent disapproval—although this is not a valid reason to dismiss the entire concept.

Many other commenters strongly opposed the requirement to disclose such a value in funding reports, while others hailed it as an important and necessary step forward for our profession. The vast difference of opinion is remarkable but not surprising, since this has been the case for a decade or more.

The purpose of this article is not to debate the fine points of the Exposure Draft but instead to offer observations on the inability to reach consensus on this topic within our profession.

First, while my personal opinion is not necessarily important or relevant in this discussion, I will say for the record that I believe the benefits of requiring such a disclosure in actuarial funding reports outweigh the possible negatives. My position has certainly evolved over time due in part to actively engaging in this debate through my work on the Society of Actuaries (SOA) Retirement Section Council, and interaction with intelligent people with differing viewpoints. These interactions often took place at actuarial meetings, participating in volunteerism, or just having a drink with an old colleague.

Many of my fellow actuaries in the public sector retirement space, as well as retirement system leaders, oppose the required disclosure of a “settlement”-type value in actuarial funding reports. Their reasons are expressed in many of the comment letters and vary from philosophical to technical.

Regardless of the final version of ASOP No. 4, we need to continue to work together as a profession to continually move us forward.

Having practiced in the public plan arena for 15 years now, I have witnessed the relentless and often misleading attacks on public retirement systems by those who I believe are sometimes motivated by objectives other than the best interests of plan members or society. Yes, some of these critiques are factual and well-intentioned, but many are less so. Public plan practitioners are right to be leery of how a disclosed settlement-type value might be used to possibly elevate the attacks on public pensions. Public plan actuaries also have the opportunity and privilege to meet with many of the people who benefit from these plans—water and park department employees, municipal employees, firefighters, police officers and many others. Many of us are concerned that future benefit levels for these public servants, or even the very existence of these plans, will be too heavily influenced by misinformation and political agendas rather than facts.

However, I also believe our profession is capable of disclosing this information, describing it appropriately in our reports, using our public platforms to educate the users of our reports



on its meaning, and effectively refuting misstatements by those using this information incorrectly.

The California Public Employees' Retirement System (CalPERS) discloses a version of this number in 4,000 public agency reports across the state. I have spoken with many agencies across California regarding the meaning and applicability of this value. Questions from these agencies are generally resolved with nothing more than a relatively short conversation. Yes, our critics sometimes use this information to attack the richness of public sector plans, but they have been calculating their own solvency-type values for years without needing to reference ours.

In addition, the City of New York disclosed versions of these numbers for several years under the previous chief actuary Bob North, who stated in his comment letter "the world did not end, nor did the City of New York."

That said, I also do not believe the world would end if the ASB decides to remove this requirement from ASOP No. 4. This would be less significant for private plans as their reports already contain similar information. While public plan reports typically do not include a settlement-type value, public plan actuaries are for the most part doing great work identifying risks within these systems, partnering with the systems to develop responsible funding policies and, when asked to do so, evaluating and helping to implement creative plan designs that mitigate risk. I will acknowledge that there are significant challenges within the public sector, and advances do not always occur with the

speed one might hope. However, public plan actuaries have dealt with these challenges throughout their careers and are well-positioned to navigate them.

In support of public plan actuaries, the SOA continues to effectively engage in the discussion of these topics and provide valuable educational content and resources that contribute to the security and stability of these public plans. The winning entries for the recent Call for Models contest sponsored by the SOA for public plans are great examples of this. You may recall discussion of this contest in my previous Chairperson's Corner. The winning entries are now available on the SOA website, and the Retirement Section Council is in the process of recording podcasts with the winning authors. Other contest entries were awarded honorable mention and will also be available soon.

So, if by chance the ASB were to remove this required disclosure from ASOP No. 4, I believe public plan actuaries with the support of actuarial organizations like the SOA would continue to provide responsible assessment and communication of system risks.

I suspect the lack of agreement within our profession is not driven by extreme philosophical differences between us as we see in our political landscape. While there are passionate actuaries on both sides of the argument who devote their time to advancing this debate and reaching some consensus, it seems many others are content to remain entrenched in their positions, not adding to the conversation, and not being receptive to considering arguments from the other side.

For now, we must all let the ASB do its job and make the decisions that must be made. Regardless of the final version of ASOP No. 4, we need to continue to work together as a profession to continually move us forward. If you have a strong and informed position on this or any other actuarial issue, look for ways to share your thoughts in a productive and effective manner. Join an SOA section, attend annual actuarial meetings, participate in SOA, Conference of Consulting Actuaries (CCA) or American Academy of Actuaries webcasts, or, like I did three years ago, run for a seat on an SOA council. I know I have grown as a person and improved as an actuary through my time on the Retirement Section Council. While I did not succeed in solving all of the world's retirement related issues, I am grateful to the SOA for providing me and others a place to try. ■



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