

Public Pension Plan Financing: The Devil's In The Actuarial Details

David J. Kehler

Copyright 2010 by the Society of Actuaries.

All rights reserved by the Society of Actuaries. Permission is granted to make brief excerpts for a published review. Permission is also granted to make limited numbers of copies of items in this monograph for personal, internal, classroom or other instructional use, on condition that the foregoing copyright notice is used so as to give reasonable notice of the Society's copyright. This consent for free limited copying without prior consent of the Society does not extend to making copies for general distribution, for advertising or promotional purposes, for inclusion in new collective works or for resale.

Comments on Kehler

By Eric Friedman, FSA, MAAA, EA

This article is on target in discussing many of the practical realities of communicating complex areas of pension finance. While much actuarial research involves determining the best ways to calculate pension costs and risks, such work has less impact when the ultimate results are not communicated effectively, not understood or when there are governance structures that obstruct optimal decision making. In essence, does it matter if you calculate the right number if your client doesn't understand it or use it as intended?

The first step to addressing these issues is to shine light on them, as the article does. Many of these issues are well-known but continue to haunt plan sponsors that don't understand them. One of the next steps is with specific ideas on possible solutions. To expand on the work of this paper, I'll suggest a few possible options:

- In some cases, people serving as trustees are doing this in addition to their regular jobs. Since volunteer roles often have challenges finding candidates who are both qualified and willing to devote ample time to do the job fully, in those cases, having professional trustees might allow for better qualified trustees to devote more time to this key function.
- A professional designation could be created for pension trustees. In order to get this designation, a trustee would have to study key topics on plan management and possibly pass a test to ensure understanding. This could result in more appropriately educated trustees, ultimately resulting in better decision-making.
- A professional organization or trade group could develop a formal list of principles of good plan governance. Widespread promulgation of this list would help shed light on proper governance practices so that unintended breaches of good governance are less common.
- A professional organization or trade group could develop short classes for new and experienced trustees. While there are already some learning opportunities available to trustees currently, a reader of this paper might conclude that there are gaps.

Of course, none of the suggestions above are perfect and all would need to be utilized to be successful, but they may work to minimize the “devil’s” role in the actuarial details.