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EXPERT PUBLIC PENSION PANEL RECOMMENDS IMPROVED FINANCIAL MANAGEMENT, INCREASED DISCLOSURES AND STRONGER ACTUARIAL STANDARDS

WASHINGTON, Feb. 24, 2014 Press Release– Recommendations released today by a multidisciplinary panel of experts provides a guide for trustees, legislators and plan advisors to improve the financial health of public pension plans. Using plans' own financial reporting, the total amount of unfunded public pension plan liabilities in the U.S. amounts to nearly $1 trillion, according to some estimates.

"Public pension plan funding is a complex issue, with many vexing questions and no easy near-term solutions," said panel chair Bob Stein, FSA, MAAA, former global managing partner of actuarial services at Ernst & Young. "Taken as a whole, the panel's recommendations will make available to all stakeholders in public pension systems – employees and retirees, plan sponsors and trustees, as well as taxpayers – more reliable and improved information about the financial status of a plan and the risks it faces. This should enable the development of a stronger funding program, more responsive to the rapidly changing environment in which all plans operate."

The Blue Ribbon Panel on Public Pension Plan Funding was commissioned by the Society of Actuaries (SOA) to assess the current state of pension plan funding and make recommendations to improve the financial strength of public pension plans going forward. Members of the panel represented a variety of disciplines and interest groups to ensure the panel examined the issue from multiple perspectives. The panel began its work in early 2013 and issued its final recommendations today at an event at the National Press Club in Washington, D.C.

"Leaving the policy decisions about the level of retirement benefits to states, cities, counties and their employees, the panel focused on how to strengthen the ability of sponsors to keep the benefit promises they have made," Stein added.

The panel's report lays out three principles of an effective public pension funding program:

- The costs of future retirement benefits should be pre-funded, and funded in a way that targets 100% funding of plan obligations. Median economic assumptions should be used to avoid being overly optimistic or overly pessimistic.
- Taxpayers receiving the benefit of today's public employees' services should pay the taxpayer portion of the costs of those employees' pension benefits; funding programs should restrain the tendency to shift these costs to future generations of taxpayers.
- While the panel believes that stable costs will be difficult to achieve, it does recognize the benefits that predictable costs can bring to the sponsor's budgeting processes over short periods of time.

The panel recognizes that funding entities frequently face significant competing demands on their resources and that the full recommended contribution cannot always be made. In such circumstances, sponsors should develop an effective funding program that moves the plan toward a fully funded status in a reasonable period of time.

IMPROVE FINANCIAL MANAGEMENT AND INFORMATION

The panel's report includes a number of specific recommendations designed to improve the information available to all stakeholders about the financial condition and level of risk taken by an individual plan.

These recommended disclosures include measures of:

- Plan maturity, such as the ratio of active employees to retirees and the ratio of the market- value assets to payroll;
- Plan cost, such as the ratio of the actuarially required contribution (ARC) to payroll and to the funding entities' total budget;
- Payment experience, the ratio of contributions paid to the recommended contribution;
- Investment risk, such as the plan liability at a risk-free rate; and
- Stress tests, consisting of projections of contributions and funded status under periods of higher or lower investment return, and in which recommended contributions were not fully paid.

"The panel has sought to encourage a higher level of financial management and more rigorous risk analysis among public pension plans," Stein added. "That focus is manifested in the comprehensive disclosures recommended, which should enable all parties involved to make more fully informed decisions about plan funding."

CREATE A STANDARDIZED CONTRIBUTION BENCHMARK

To provide a benchmark which plans can use to measure the aggregate level of funding risk, the panel recommends a standardized contribution be calculated and disclosed in actuarial reports. This standardized contribution can help trustees and other stakeholders assess the reasonableness of the assumptions and methods used in the plan's recommended contribution. The Standardized Plan Contribution would use a stipulated rate of investment return and other specified actuarial methods.

STRENGTHEN THE ROLE OF THE ACTUARY

The panel recommends that actuaries be required to disclose the information noted above and that the actuary be required to provide a professional opinion on the reasonableness of the assumptions and methods used in funding the plan. In addition, the panel makes several recommendations about how actuarial assumptions and methods are established and encourages the Actuarial Standards Board to consider including these recommendations in Actuarial Standards of Practice.

IMPROVE PLAN GOVERNANCE

Finally, the panel called for strong governance practices, including the establishment of governance structures that support payment of recommended contributions, the development of a strong risk oversight function at the board level, and the thorough consideration of the cost and risks of proposed plan changes before they are adopted.

ABOUT THE BLUE RIBBON PANEL ON PUBLIC PENSION PLAN FUNDING

The Society of Actuaries assembled the Blue Ribbon Panel on Public Pension Plan Funding in early 2013. The panel membership was composed of representatives from multiple disciplines and stakeholder groups:

- Chair: Bob Stein, FSA, MAAA, Former Global Managing Partner of Actuarial Services, Ernst & Young
- Andrew Biggs, Resident Scholar, American Enterprise Institute
- Douglas Elliott, Fellow in Economic Studies, Brookings Institution
- Bradley Belt, Vice Chairman, Orchard Capital Group and Chairman, Palisades

Capital Management; Former Executive Director, Pension Benefit Guaranty Corporation

- Dana Bilyeu, Former Executive Officer, Nevada Public Employees' Retirement System
- David Crane, Stanford University, Former Advisor to Gov. Arnold Schwarzenegger, CA
- Malcolm Hamilton, FSA, FCIA, Former Partner, Mercer; Senior Fellow, C. D. Howe Institute
- Mike Musuraca, Blue Wolf Capital Partners, former trustee of the NYC Employees Retirement Systems (NYCERS) and formerly of American Federation of State, County and Municipal Employees
- Laurence Msall, President, The Civic Federation (Illinois)
- Bob North, FSA, EA, MAAA, FCA, FSPA, Chief Actuary, New York City Retirement Systems
- Richard Ravitch, Co-chair, State Budget Crisis Task Force; Former Lt. Governor of New York
- Larry Zimpleman, FSA, MAAA, Chairman, President and Chief Executive Officer, Principal Financial Group ■