Impact of Blue Ribbon Panel Recommendations

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Blue Ribbon Panel Recommendations

- The Blue Ribbon Panel recommends the following be required of Public Plan actuaries, so these would likely be added to the valuation report or provided as a supplement:
  - Trends in financial and demographic measures
  - Measures of risk to the plan's financial position
  - Stress testing
  - Undiscounted cash flows
    - Tied to the total Present Value of Future Benefits
    - Tied to the Accumulated Plan Benefits

New Schedules Recommended

- Trends in financial and demographic measures
  - Plan maturity measures
    - Ratio of active to retired
    - Ratio of benefit payments to payroll
    - Ratio of liability to payroll
    - Ratio of market assets to payroll
  - Plan cost measures
    - Ratio of Actuarially Determined Contribution (ADC) to payroll
    - Ratio of ADC to sponsor budget/revenues
    - Ratio of actual contribution to ADC
  - Achievement of economic and demographic assumptions (i.e., gain/loss analysis)

New Schedules Recommended

- Measures of risk to the plan's financial position
  - Investment risk measure – disclose asset class return standard deviation
  - Plan liability at a risk-free rate
    - Comparison of plan Normal Cost and Liability using (1) plan interest rate and (2) using U.S. Treasury yield curve based interest rate
  - Standardized plan contribution
    - Interest return assumption specified using risk-free rates plus a margin (estimated at 6.4% in the Panel's report)
    - Other economic assumptions (e.g., COLAs and general wage growth) would be consistent with the inflation assumption underlying the specified interest rate
    - Individual Entry Age funding method
    - Five-year asset smoothing
    - Fifteen-year rolling, level percent of payroll, amortization

New Schedules Recommended

- Stress Testing
  - Effect of 80% of the required/recommended contribution for 20 years, followed by 10 years of 100% contribution
  - Effect of investment returns being 3 percentage points <u>above</u> the standardized contribution interest rate for 20 years followed by 10 normal
  - Effect of investment returns being 3 percentage points <u>below</u> the standardized contribution interest rate for 20 years followed by 10 normal
  - For each of the above, the impact would be shown on:
    - Expected contributions (dollars and percent of payroll)
    - Funded ratios
    - Ratios of both benefit payments and liability to payroll
    - Ratio of market assets to payroll

Blue Ribbon Panel Recommendations

- The Blue Ribbon Panel has recommended that the new schedules be required of Public Pension Plan actuaries through the Actuarial Standards of Practice (ASOPs)
- Most Relevant ASOPs for Pension Plans:
  - ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions* (revised December 2013)
  - ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations* (revised September 2013)
  - ASOP No. 35, *Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations* (revised September 2010)
  - ASOP No. 44, *Selection and Use of Asset Valuation Methods for Pension Valuations* (revised September 2007)

The Intent of ASOPs

- Historically, ASOPs have been principles-based
- ASOPs generally are not a list of rules
- The Actuarial Standards Board (ASB) is responsible for creating the ASOPs

Questions Being Asked by the ASB

- Is additional guidance needed, beyond that in the recently revised pension ASOPs, regarding appropriate public plan actuarial valuation practice to assist actuaries in performing their work and advising their principal?
- Should the ASOPs related to public plan actuarial valuations be more prescriptive?
- The current definition of an “intended user” of an actuarial communication is “any person who the actuary identifies as able to rely on the actuarial findings.” Should the ASOPs require the actuary for public pension plans to perform additional, significant work (which would be incorporated in the guidance provided in the ASOPs) that is not requested by the principal if that work provides useful information to individuals who are not intended users? If so, should this requirement be extended to all pension practice areas?

Conclusion

- It is our best guess that the Panel’s recommended new schedules will not become required under the ASOPs
- Some of the information that the Panel has recommended is likely already included in many actuarial reports
- Public Plan actuaries should work with plan sponsors to determine whether any or all of the Panel’s recommendations should be included in actuarial reports or supplements

Other Resources

- Other groups addressing Public Pension Plan funding:
  - The California Actuarial Advisory Panel
    - http://www.sco.ca.gov/Files-ARD/BudLeg/CAAP_Funding_Policies_w_letter.pdf
  - The American Academy of Actuaries
    - http://www.actuary.org/files/Public-Plans_IB-Funding-Policy_02-18-2014.pdf
  - The Government Finance Officers Association
    - http://www.gfoa.org/core-elements-funding-policy
  - The Conference of Consulting Actuaries
    - http://www.ccactuaries.org/publications/news/PPC-Model-Funding-Discussion-Draft-2-18-14.pdf