*Supporting Retirement Security for America's Teachers*

# NATIONAL COUNCIL ON TEACHER RETIREMENT




*9370 Studio Court*
*Suite 100 E*
*Elk Grove, CA 95758*
*Tel: (916) 897-9139*
*Fax: (916) 897-9315*
*Web: www.nctr.org*


June 20, 2013

Dear NCTR System Directors and Trustees:

As you may know, in April of this year, the Society of Actuaries (SOA) established a new, "blue ribbon" panel to determine the causes of underfunding in public pension plans and make recommendations to plan trustees, legislators and plan advisors on how to improve plan management and strengthen plan funding going forward. The panel is to seek input from public plan actuaries and other key constituencies, and to produce a draft report by the end of 2013. You may read more about the SOA's undertaking at http://www.soa.org/News-and-Publications/Newsroom/Press-Releases/SOA-Forms-Blue-Ribbon-Panel-to-Explore-Causes-of-Underfunding-in-Public-Pension-Plans.aspx.

NCTR is very concerned with the SOA's project for several reasons. First, to my knowledge, no public pension plan director was consulted regarding the panel's make-up, and, as announced, no public plan director is a member. Second, in explaining the panel's charge, the SOA states that past decisions about benefit design, funding and investing "have led to widespread and persistent underfunding of public sector plans." I do not agree with this statement, and I think that beginning a project based on this basic premise is very problematic. Third, several of the panel members, including its co-vice chair, Andrew Biggs with the American Enterprise Institute, and David Crane, former advisor to Governor Arnold Schwarzenegger of California, are well-known, vocal opponents of public sector defined benefit plans and staunch proponents of the use of the market value of liabilities and a so-called "risk-free" rate of return.

As part of its effort to seek input from "key constituencies," the panel has created an on-line survey available at http://soa.qualtrics.com/SE/?SID=SV_bjdB6HD7QUV9ILX. The survey is made up primarily of 30 open-ended questions and is open through June 28, 2013.

I am also very concerned with this survey. Many of the questions are very leading and appear to subsume a response, typically one that is critical of public plan management. Also, I would note that of the 26 substantive questions, at least four deal directly with the discount rate, and several others implicate it. While the discount rate is certainly critical to funding issues, there are many other aspects to the funding challenge, and this emphasis on the use of the long-term rate of return on assets suggests to me a predisposition as to where this panel's real focus lies.

Should public pension plans respond to this survey? I understand that in doing so, there is the potential danger of lending legitimacy to the overall SOA effort, and, accordingly, to what appear to be its pre-determined conclusions. However, in my opinion, unless public pension plans respond, there is a real danger that only the views of proponents of a risk-free rate of return and the abandonment of the DB model will be heard. I understand that the deck may already be stacked, but I think we must do everything that we can to prevent the SOA from publishing a report unfairly critical of the management of governmental plans and supportive of methodologies that we know will prove harmful to public plans, their participants, beneficiaries, and, ultimately, their sponsors.

Therefore, I would appreciate your considering a response to the SOA survey. If you do not have the time to respond to all of the questions, at least consider responding to those dealing with the discount rate. For your information, here is a link to the response that I intend to file on behalf of NCTR.

Please feel free to contact me or Leigh Snell, NCTR's Director of Federal Relations at lsnell@ntr.org or (540-333-1015) if you have any questions. And thank you for all that you do to support NCTR and its efforts.

Sincerely,

Meredith Williams
Executive Director