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## **Expert Public Pension Panel Recommends Improved Financial Management, Increased Disclosures and Stronger Actuarial Standards**

*Society of Actuaries-commissioned panel recommends solutions to public pension underfunding*

WASHINGTON, Feb. 24, 2014 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.

liabilities in the U.S. amounts to nearly \$1 trillion, according to some estimates.

sion plan funding is a complex issue, with many vexing questions and no easy near-term

at p 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.

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,

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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 taxpayer portion of the costs should be encouraged to 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 need to maintain stable costs over long 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 recommends that financial information be made 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 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. The panel also recommends the 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



fully support the p  
and recommendations. The 12 members of the Blue Ribbon Panel on Public Pension Plan Funding operated independently without input or influence from the SOA. The report does not reflect the view of SOA, its Board of Directors, members or staff. The full report is publicly available at <http://www.soa.org/brpreport364>.

#### **About the Society of Actuaries**

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credentials establishing actuaries as business leaders who measure and manage risk to support financial security for individuals, organizations, and the public.

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