

California Actuarial Advisory Panel



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Alan Milligan
Chief Actuary
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Rick Reed
System Actuary
California State Teachers'
Retirement System

Graham Schmidt
Senior Vice President
Cheiron EFI

May 5, 2014

Mark J. Freedman, FSA, MAAA
President
Society of Actuaries
475 North Martingale Rd., Suite 600
Schaumburg Illinois 60173

RE: Report of the Blue Ribbon Panel on Public Pension Plan
Funding

Dear Mr. Freedman:

The California Actuarial Advisory Panel (CAAP) appreciates the efforts of the Society of Actuaries Blue Ribbon Panel on Public Pension Plan Funding (Blue Ribbon Panel). Consisting of eight actuaries, CAAP was established with the enactment of California Senate Bill 1123 (Chapter 371, Statutes of 2008). Pursuant to California Government Code section 7507.2(a):

"...the panel shall provide impartial and independent information on pensions, other postemployment benefits, and best practices to public agencies..."

Legislation to create the Panel was recommended by the Public Employee Post-Employment Benefits Commission in a January 2008 report to Governor Schwarzenegger.

This letter provides CAAP's general comments on the Blue Ribbon Panel's report and process. We offer these comments in the spirit of collegiality and the hope that working together we can continue to move the profession forward.

- We agree with the Blue Ribbon Panel's findings related to funding principles and believe the report is thought provoking, helpful and should be beneficial in this area. In many ways the report's funding principles are consistent with the CAAP's *Actuarial Funding Policies and Practices for*

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Public Pension and OPEB Plans and Level Cost Allocation Model (released March 2013).

- We are concerned that the Blue Ribbon Panel report is overly prescriptive. Because of the complexity and diversity of public sector plans, establishing mandatory standards on the basis of the recommendations contained in the report will be counterproductive. For example, showing the impact of contributing 80% of the recommended contribution for plans that contribute 100% does not provide useful information and might encourage less rigorous funding.
- The Blue Ribbon Panel report would have benefited greatly from a process that was more inclusive. For example, the Blue Ribbon Panel should have included a broader range of actuaries practicing in the public sector. Further, asking for input on the draft report (not just input early in the process) would have strengthened the findings. Our profession is always better off when there is an ongoing conversation that includes a variety of experience and opinions.
- We are concerned that this report is being perceived as the position of the Society of Actuaries rather than as the opinions of a select group of individuals. Going forward, the Society should make it clear this report is not the position of the Society of Actuaries.

The above general comments are intended to promote the ongoing conversation about the funding of public sector plans, and we hope the Society will encourage this open discussion. We will be providing a subsequent letter that addresses in detail the Blue Ribbon Panel's specific recommendations.

Sincerely,

A handwritten signature in cursive script that reads "Leslie P. Finertie".

Leslie P. Finertie
Chair, California Actuarial Advisory Panel

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- c: Bob Stein, FSA, MAAA, CPA Chair, Blue Ribbon Panel on
Public Pension Plan Funding
Members of the Blue Ribbon Panel on Public Pension Plan
Funding
Members of the Society of Actuaries Board of Directors
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