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September 11, 2008

Mr. Steven Lehmann
Chairman
Public Interest Committee
American Academy of Actuaries
1100 Seventeenth Street NW, Seventh Floor,
Washington, DC 20036

RE: Disclosure of Market Valuation of Assets and Liabilities for Public Pensions

Dear Mr. Lehmann,

The public retirement systems that cover State and Local Government employees across our nation stand out against the backdrop of growing retirement insecurity. Public pensions have not missed paying a monthly retirement income check to retirees. That is why I am especially concerned about proposals to adopt a liquidation value model for valuating public pensions using a snapshot approach to value liabilities that can only be paid over decades.

As I indicated earlier, one area where workers and retirees have good news is public pensions. I believe that public pensions get retirement security right. As a group, these systems are well funded and they have paid billions of dollars of secure retirement benefits for millions of retired public servants for many decades. They represent a cost-effective, efficient use of taxpayer funds. The public interest is being well served by these pensions. The record of the Joint Economic Committee at hearing in July 2008 clearly substantiates this fact.

As the American Academy of Actuaries continues its public discussions relating to the disclosure of public pension system liabilities, I urge the Academy to consider carefully, and guard against the risks of adverse consequences from its deliberations. Specifically, there are serious risks with respect to so-called "market value of liability" measurements. Unlike private sector pension plans, there is no liquidation risk for public pensions since state laws and constitutions protect pension benefits from being frozen or terminated on a given day. Artificial measuring the plan assets and liabilities at market value, is akin to "liquidation reserving". There is clearly no need for this misleading disclosure for public pensions called for by advocates of financial economics. Governments do not routinely disclose any type of liquidation measures and they should not need to do so for their pension promises. The flaws in this measure are numerous, the potential negative consequences are enormous, and the potential benefits are dubious. In times of economic contractions, pension contribution requirements would increase to the higher levels; while in more prosperous times annual contributions would trend lower. Virtually all experts on public pensions feel the calculation is unnecessary and fraught with risks and would not result in better funding of pension liabilities.

I am very concerned that the reporting of flawed measurement of a pension system's funded status will have negative consequences for pubic plans. Such an outcome would have adverse effects on employees' retirement security and would undermine the goal of fiscal responsibility to taxpayers. Simply put, such an outcome would run counter to the public interest.

Thus, I urge the Academy to exercise caution in its deliberations, and to permit broad consideration of all policy alternatives that may enhance the twin objectives of strengthening retirement security and responsible use of taxpayer funds.

Thank you for your kind consideration of my views on this subject and for your work on this important issue.

Sincerely,

EARL POMEROY
Member of Congress

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