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BLUE MODEL BLUES

Actuarial Establishment Tries to Suppress Explosive Paper on Public Pensions

America's slow-motion public pension train-wreck (by some estimates, the shortfall currently exceeds $3 trillion) has been kept in motion for years by deeply dishonest accounting practices employed by state and local governments, which presume unrealistically that pension funds can consistently earn white-hot annual returns approaching eight percent. So it's disappointing, but not particularly surprising, that the actuarial establishment moved to suppress a report pointing this out. *Pensions and Investments* reports:

> The American Academy of Actuaries and the Society of Actuaries Monday abruptly disbanded its longtime joint Pension Finance Task Force, objecting to a task force paper challenging the standard actuarial practice of valuing public pension plan liabilities.
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> "This paper (is) being censored by the AAA" and SOA, said Edward Bartholomew, who was a member of the former task force, in an interview. "They didn't want it to get out."
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> Others who were members of the task force also said in interviews the two actuarial groups are trying to suppress publication of the paper.

There are powerful interests that don't want public pensions to be governed by the same kinds of accounting principles used in the private sector because… well, because if they were, public pensions would go from seriously underfunded to catastrophically underfunded.

Union officials and state legislators (in both parties) seem to believe that it makes more sense to allow public pension funds to play "let's pretend" with public money. To be sure, the sudden imposition of a tougher standards would cripple business as usual in many state and local governments, so there can and should be some reasonable accommodations made to allow the adjustment to take place in a less disruptive fashion. Governing by catastrophe is almost never a good idea, and a series of small and incremental changes is usually (though not always) a better way to manage public affairs.

In the long run, shifting to a more portable system of public pensions—defined contribution, rather than defined-benefit—wouldn't just help save states and municipalities from fiscal ruin. It would also do much to improve the performance of the civil service. The current system creates a jobs-for-life mentality in public employment because workers need to stay at their positions for decades to collect the full value of their pensions. Somebody who was a good teacher at 30 but wants to leave and should leave at 40 is currently trapped. Also, one of the reasons the unions fight quality evaluations so fiercely is that the loss of job and pension is so much more draconian than simply losing a job.

The report from dissident actuaries might have helped push state and local pension systems down a more sustainable path. And the conduct of American actuarial leaders—disbanding a reputable task force that had prepared a report that the bureaucracies didn't like, and then hinting at legal action if the report is published—is irresponsible at best and corrupt at worst. Is it any wonder that Americans are fed up with experts and the institutions they manage?

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