



TEXPERS
2009 Summer
Educational Forum

Understanding the Role of the Actuary vs. the Board

Actuarial Speaking: Is the Board Listening?

Leon F. (Rocky) Joyner, Jr. FCA, ASA, MAAA
Vice President and Actuary

The Segal Company


(678) 306-3119



**Conflict is inevitable, but
combat is optional.**

Max Lucado





Whenever you're in conflict with someone, there is one factor that can make the difference between damaging your relationship and deepening it.

That factor is attitude.

William James



What is an actuary?

- From the PRB - A statistician versed in the collection and interpretation of numerical data whose profession it is to calculate annuity values.
- IFEB - A person professionally trained in the technical and mathematical aspects of insurance, pension and related fields. The actuary estimates how much money must be contributed to a pension fund each year in order to support the benefits that will become payable in the future.
- University of Illinois - An actuary is a combination of business executive, mathematician, financier, sociologist, and investment manager. Actuaries are problem solvers who use actuarial science to define, analyze, and solve the financial, economic, and other business applications of future events.
- The actuary is hired by the Board, or the governing entity, to provide requested services.

What is the Board?

- A committee or governing body of elected or appointed individuals, that takes responsibility for managing, and holding in trust, funds, assets, or property belonging to others, for example, charitable or pension funds or assets.
- IFEB – A fiduciary is any person who (a) exercises any discretionary authority or control over the management of a plan or the management or disposition of its assets; (b) renders investment advice for a fee with respect to the funds or property of a plan, or has the authority to do so, or (c) has any discretionary authority or responsibilities in the administration of a plan.
- The Board, or governing entity, hires the actuary.

To whom is the actuary responsible?

- The Board of Trustees
- The plan participants
- The governing entity
- The taxpayers
- The actuary's professional bodies
- The actuary's professional code of conduct

To whom is the Board responsible?

- Legal Doctrine:
 - ALL plan participants and beneficiaries
- Liability Exposure:
 - Electing or appointing constituency
 - Governing entity
 - Taxpayers
 - Potential investors in the governing entity
 - The Constitution of State of Texas

What are the root areas of conflict?

➤ Actuarial Issues

- Agreement on assumptions (particularly investment return, salary scale, mortality and retirement patterns)
- Interpretation of the plan of benefits
- Funding methods and procedures (including amortization and asset smoothing)
- Report presentation
- Comprehension (it does involve complicated mathematics)

What are the root areas of conflict?

- Non-actuarial Plan Issues
 - Lack of institutional knowledge—Board Member Rotation
 - Control of report language and presentation
 - Governing entity reporting (what do you give the city)
 - Budget pressures (high or low, let's discuss)
 - Constituent pressures (benefit improvements)
 - Communication (it does involve presentation and listening)
 - Fees

What are the root areas of conflict?

- Other Issues
 - Complex Issues that require knowledge
 - Ethical concerns
 - Money (whose is it?)
 - Legal liability exposure (both actuary and Board)
 - Taxpayer/Elected Officials concerns
 - Federal changes/pressures
 - Perception (it does involve awareness of surroundings)
 - Unmet expectations

What causes the conflict to boil over?


- It's the Actuary's fault
 - Arrogant (talks down to the Board)
 - Not prepared
 - Did not listen to the Board's needs
 - Completely inflexible
 - Seems preoccupied
 - Incomprehensible
 - Surprise results (that should not be a surprise)

What causes the conflict to boil over?

- It's the Board's fault
 - Not present in either mind and/or body
 - Members leave the room
 - More interested in their PDA's
 - Or USA Today
 - Focused only on their own agenda
 - Selected memory—hearing what you want to hear
 - Forgot which hat they had on that day
 - Unwillingness to accept the inherent complexities
 - Lack of understanding of actuarial limitations

What causes the conflict to boil over?

- It's someone else's fault
 - Misinformed City Council
 - Overzealous (and wrong) newspaper reporter
 - Federal government "assistance"
 - The investment markets
 - Participant pressure



**Peace is not absence of conflict, it is
the ability to handle conflict by
peaceful means.**

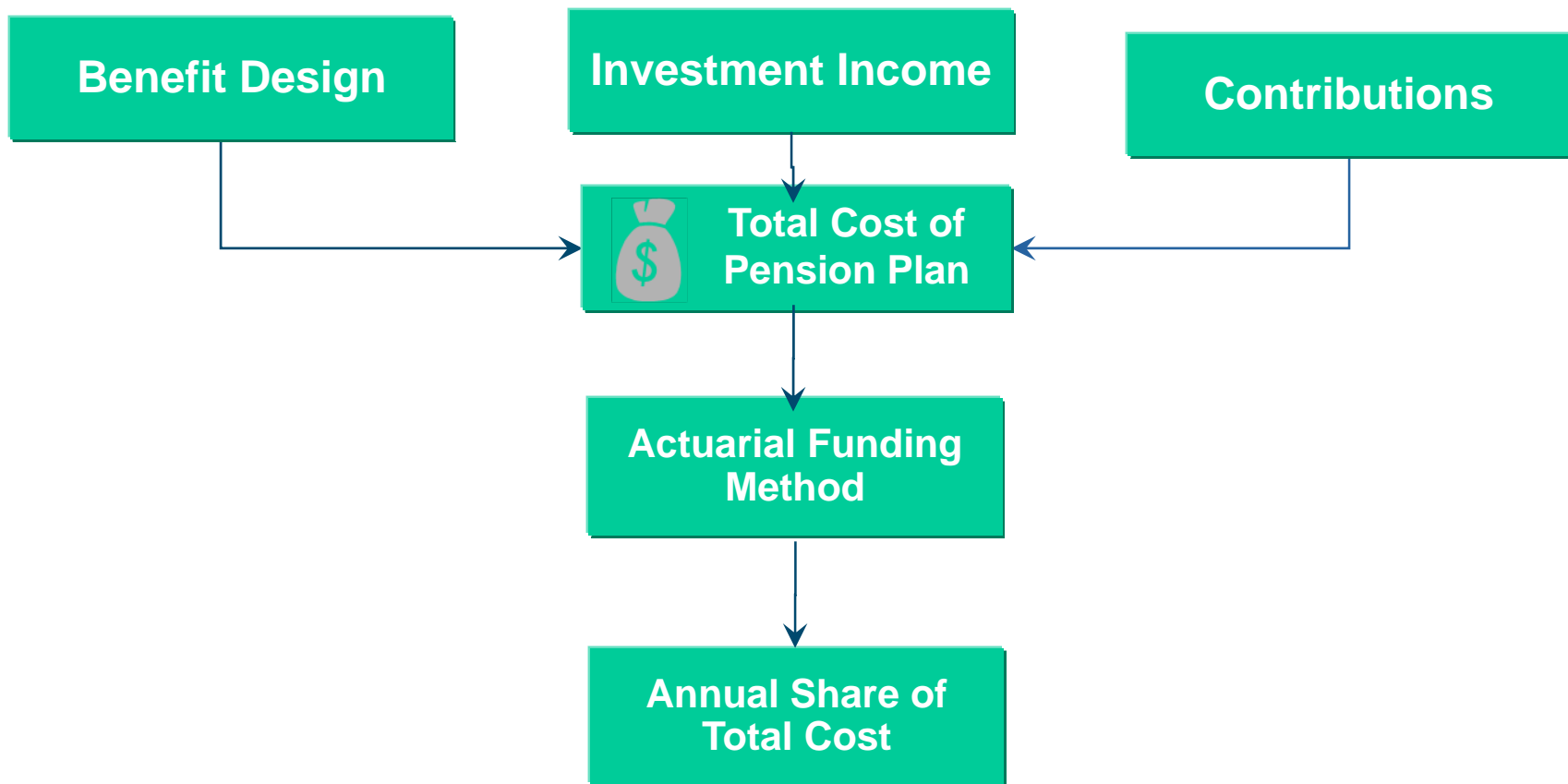
Ronald Reagan



So, Let's Plan for Success

- What is Funding, since money is a source of conflict?
- How can we quantify, evaluate and “control” volatility?
- What is the Plan for peaceful coexistence?

What Are The Main Funding Components?

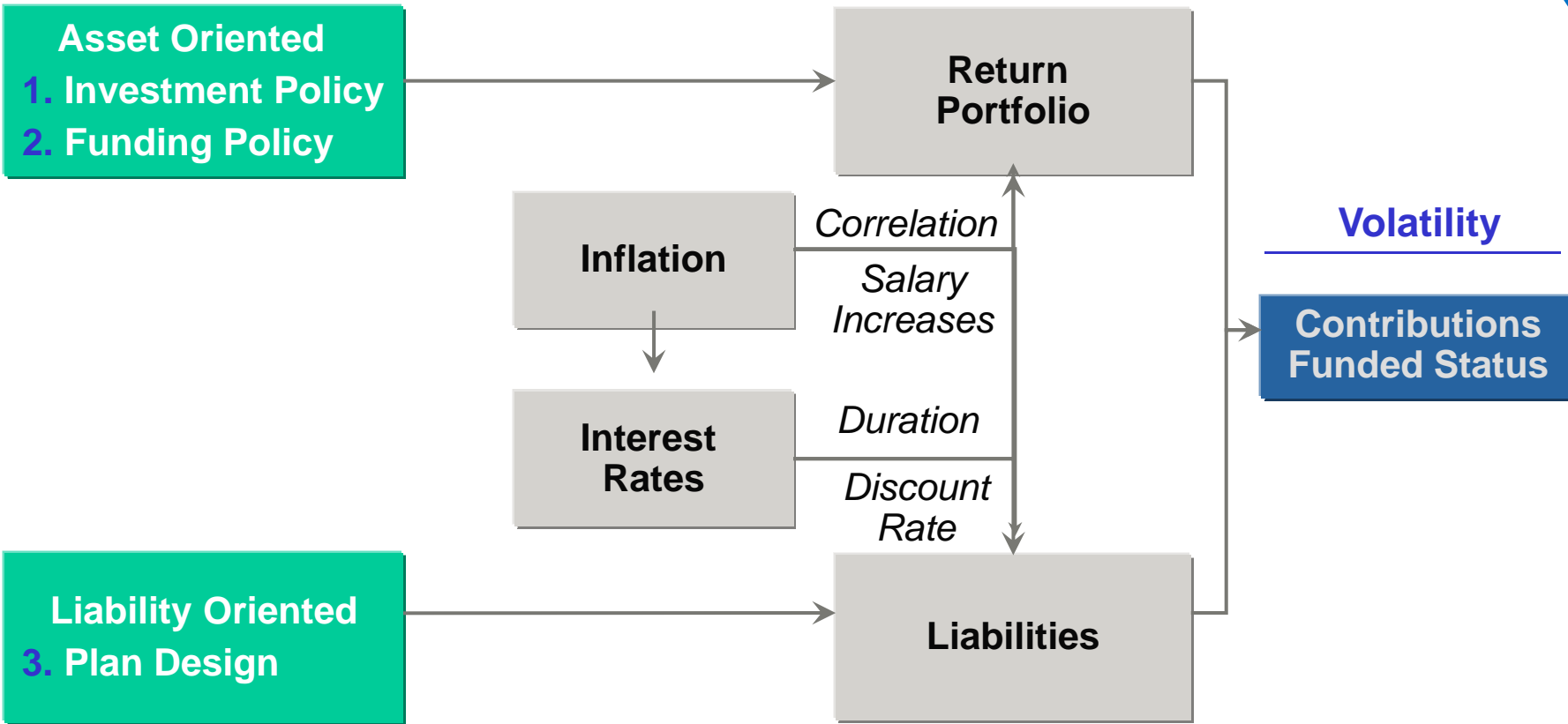


How does the interaction among these components drive funding levels?

How To Assess Volatility?

Controllable by Board

Not Controllable by Board



By making definitive changes on the left, plan sponsors then look to the right to assess the impact that those changes may have on the volatility of annual contributions and funded status.

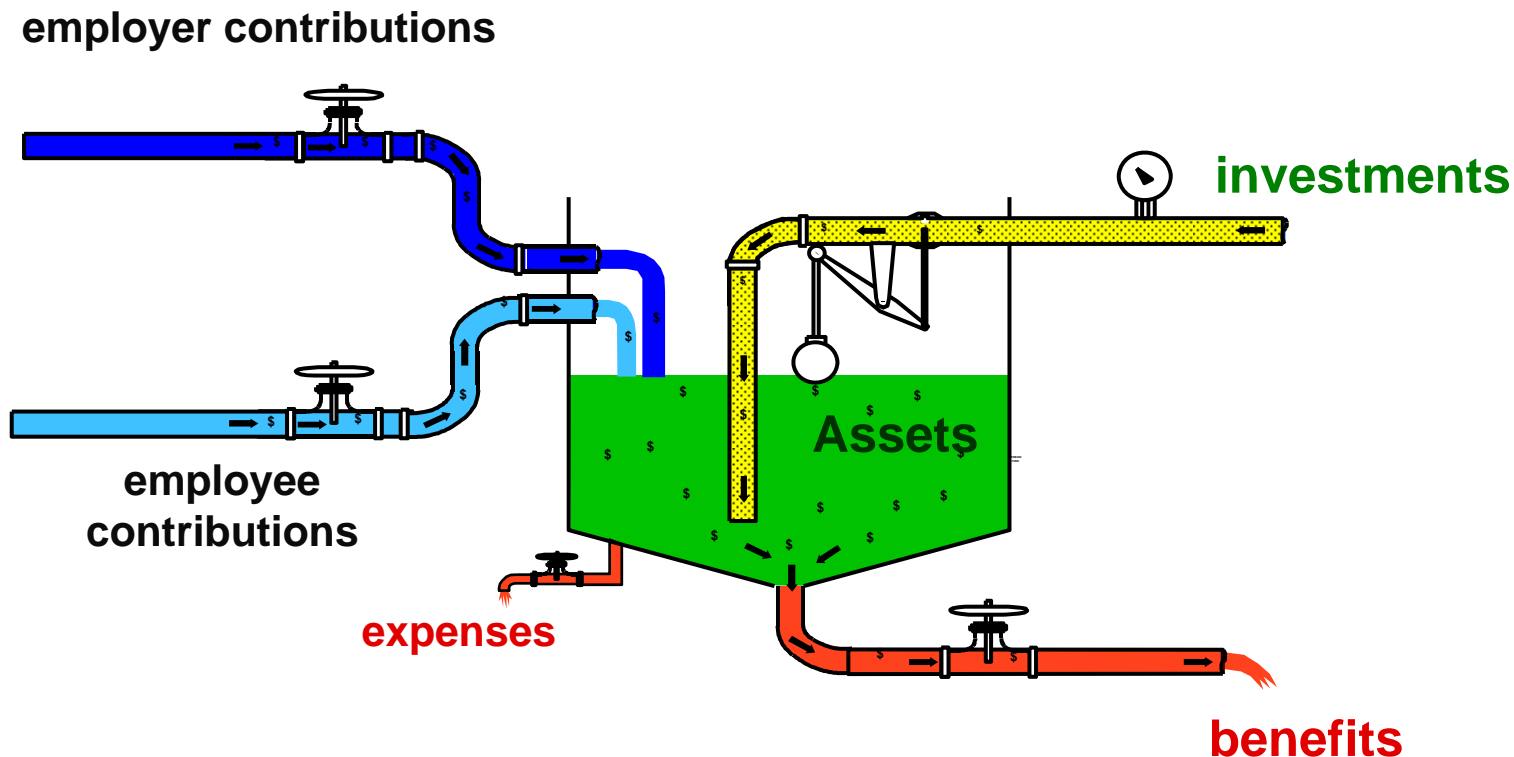
STAR Trustee Checklist

★ Strategic	Technical	Administrative	Reviews
<ul style="list-style-type: none"> <input type="checkbox"/> Set retirement security policy <input type="checkbox"/> Work with trusted advisors <input type="checkbox"/> Design benefits to illicit desired behavior <input type="checkbox"/> Communicate value <input type="checkbox"/> Know your audiences <input type="checkbox"/> Assess outreach and feedback 	<ul style="list-style-type: none"> <input type="checkbox"/> Set Funding Policy to support Benefit Structure <input type="checkbox"/> Master the relationship between funding and contributions <input type="checkbox"/> Understand the contribution volatility factors <input type="checkbox"/> Looking forward – Use Asset Liability Modeling to assess future impact of today’s actions <input type="checkbox"/> Looking back – Use Actuarial Audits to assess past accuracy 	<ul style="list-style-type: none"> <input type="checkbox"/> Measure compliance adherence <input type="checkbox"/> Validate benefit accuracy <input type="checkbox"/> Negotiate remedies <input type="checkbox"/> Determine system capacity <input type="checkbox"/> Identify future capacity needs <input type="checkbox"/> Assess external and internal security vulnerability 	<ul style="list-style-type: none"> <input type="checkbox"/> Know what questions you want answered <input type="checkbox"/> Determine which review will get those answers <input type="checkbox"/> Listen to the results and take measured actions. <input type="checkbox"/> Monitor results <input type="checkbox"/> Start again---it’s a marathon not a sprint! <p style="text-align: right;">Slide 18</p>

Two Final Slides

- A Summary of Pension Mechanics
- A Final Summary of How It Alls Fits Together

Generic Funding Mechanics



No free lunch!

$$C + I = B + E$$

Contributions + Investment Income
equals

Benefit Payments + Expenses

- Assumptions and funding methods affect only the timing of costs
- “Nobody ever made a benefit payment from assumed interest!”