


1995

Discussion of Brian Jones' "Actuarial Conservatism: Not in Public Sector Defined Benefit Pension Plans"

Richard Daskais

Daskais and Walls, Inc.

Follow this and additional works at: <http://digitalcommons.unl.edu/joap>

 Part of the [Accounting Commons](#), [Business Administration, Management, and Operations Commons](#), [Corporate Finance Commons](#), [Finance and Financial Management Commons](#), [Insurance Commons](#), and the [Management Sciences and Quantitative Methods Commons](#)

Daskais, Richard, "Discussion of Brian Jones' "Actuarial Conservatism: Not in Public Sector Defined Benefit Pension Plans"" (1995).
Journal of Actuarial Practice 1993-2006. 138.
<http://digitalcommons.unl.edu/joap/138>

This Article is brought to you for free and open access by the Finance Department at DigitalCommons@University of Nebraska - Lincoln. It has been accepted for inclusion in Journal of Actuarial Practice 1993-2006 by an authorized administrator of DigitalCommons@University of Nebraska - Lincoln.

Discussion of Brian Jones' "Actuarial Conservatism: Not in Public Sector Defined Benefit Pension Plans"

Richard Daskais*

I agree entirely with Mr. Brian Jones' support for the use of unbiased rather than conservative assumptions. The actuarial profession will be more respected if actuaries avoid assumptions that obviously are designed to misstate costs.

There are two aspects of the paper on which I wish to comment: (i) conservatism in private plans, and (ii) intergenerational equity.

Conservatism in Private Plans: I wish that I could agree with Mr. Jones' view that actuaries choose conservative actuarial assumptions for private pension plans because of their concern for security of participants' benefits. I believe that actuaries choose conservative best estimate assumptions when they have been encouraged or directed to do so by the plan sponsor or when they anticipate the plan sponsor's desires.

Most conservative assumptions typically are used for plans where the plan sponsor has an economic interest in maximizing contributions. Two common types of plans for which the actuary chooses conservative assumptions are:

- Tax-shelter pension plans of professional corporations and other small employers where the owner or the employer is the principal beneficiary of the plan; and
- Large companies whose pension contributions are largely or wholly reimbursed by a third party, such as the federal government for defense contractors or ratepayers for regulated public utilities.

*Richard Daskais, F.S.A., F.C.A., has been a consulting actuary specializing in pensions since 1957, except for a period from 1985 to 1989 when he was a vice president of Goldman, Sachs & Co. He was a member of the firm Daskais and Walls, Inc. in Chicago from 1966 to 1984.

Mr. Daskais' address is: 1174 Shellburn Lane, Ventura CA 93001-4055, USA.

Intergenerational Equity: Intergenerational equity often is considered in designing funding policy for public plans. In an efficient (and perhaps oversimplified) world, pension plans need not be funded with intergenerational equity considerations explicitly in mind. Intergenerational equity, however, will be reflected in the local taxes (such as sales taxes and property taxes) imposed to deal with the benefits or problems associated with pension overfunding or underfunding.

For example, property in a political subdivision where tax rates are high because of past pension underfunding (or where tax rates can be expected to rise) will sell for less than similar property in another political subdivision with lower tax rates due to smaller pension costs. The property owners who benefited from low taxes because of low pension costs will pay some of the deferred pension costs indirectly when they sell their property. Of course, if they hold on to their property they eventually will pay high taxes to cover the higher pension costs. Conversely, property values will be higher in communities with low taxes due to low pension costs.

There is no free lunch.

Authors' Reply to Discussion

Brian A. Jones

I thank Mr. Daskais for his discussion, though I suspect his agreement in the first sentence actually buys a little more than I was selling: my opposition to conservative assumptions does not extend beyond the public sector.

It is true that conservatism often flows from an "economic interest in maximizing contributions" and deductions. I think, however, abuse in small plans is due less to actuarial choice than to the requirement that the plan document spell out assumptions for options, particularly lump-sums, which opens the way for the drafter to distort the calculations. (I still treasure an old Private Letter Ruling in which the IRS National Office agreed with me that it was absurd for the Brooklyn District Office to demand that the assumptions appear in the document. Revenue Ruling 79-90 eventually went the other way and the absurdity ended up in the Internal Revenue Code, the home of pension absurdity.)

I agree that there are ripples from my recommended approach to intergenerational equity and that they go far beyond the pension contribution. I do not think, however, this is an argument against my basic thrust towards a level percentage of pay as the way to achieve equity. I am not even sure that the factors Mr. Daskais cites would tend to smooth out fluctuations if pension contributions are set in some other way, such as a front-loaded pattern with rapid amortization; they may well amplify what I would see as distortions.

