Fiduciary Considerations in Determining Actuarial Assumptions

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Overview

• Review of Fiduciary Duties and Actuarial Assumptions

• Focus on Rate of Return Assumption

• Process for Developing the Rate of Return Assumption

• Current Issues and Recommendations
Actuarial Assumptions

• What are actuarial assumptions?

• Why do actuarial assumptions matter?

• How does your actuary develop recommendations for your assumptions?

• What is the rate of return assumption?
Fiduciary Duties and Actuarial Assumptions

• What is the role of trustees with respect to actuarial assumptions?

• What are your applicable duties?
  
  • Duty of Loyalty
  
  • Duty of Prudence
The Focus on Rate of Return Assumption

• Rate of return assumptions are changing:
  • Public Fund survey found that 75% of public pension plans have lowered investment rate of return assumption since 2010 with average assumption going from 7.91% to 7.36% with median at 7.5%.
  • *NASRA Issue Brief: Public Pension Plan Investment Return Assumptions Updated February 2018*

• Why the changes?

• What “external” factors might be pressuring the change?
Process and Rate of Return Assumption

• Setting rate of return assumption should be process-driven

• Key Building Blocks in the Process:
  • Investment Objectives
  • Asset Allocation
  • Capital Market Assumptions
Current issues

• External pressures and your fiduciary duties

• Time frame of capital market assumptions

• Chicken and the Egg Dilemma
Recommendations

• Understand your key actuarial assumptions and review regularly

• Understand your asset allocation process and review your allocation regularly

• Be disciplined and have a long-term perspective as to investments

• Prioritize and adhere to your process