Response to *The Wall Street Journal* Editorial on "The Union Pension Bomb"

As actuaries, we were quite troubled by the May 15, 2012 Review and Outlook column entitled, "The Union Pension Bomb." The motto of the Society of Actuaries is, "The work of science is to substitute facts for appearances and demonstrations for impressions."

First of all, multiemployer pension plans largely cover union members, but they are not union run. These plans have joint labor-management governance, with both sides having equal votes. In many cases, the management trustees come from some of the most profitable, best run and most respected companies in the country. In other cases, they come from local successful small businesses that employ the union members.

For the most part, these plans have long been well-run and well-funded, rather than poorly run and poorly funded. Of course there have been a few well publicized problems, but these have been isolated exceptions. Historically, multiemployer actuaries have been more conservative than single employer actuaries. However, the so-called Pension Protection Act forced single employer actuaries to use a different standard to calculate plan liabilities. They are now forced, by law, to use current bond interest rates to calculate liabilities, irrespective of how the funds are actually invested. On the other hand, multiemployer plans are still bound by the prior standard, namely, the actuary is required to calculate liabilities based on his or her view of the long-term (30 or more years) returns based on the plan's asset allocation. We continue to find this approach to be appropriate.

We strongly disagree that the Credit Suisse approach is more realistic because it is based on the current, historically low bond yields. In our opinion, and in the opinion of the investment professionals who advise us and our clients, over the next 30 or 40 years, a well-diversified portfolio of stocks, bonds, real estate, private equity, and other investments, will most likely outperform an all-bond portfolio by 200 to 300 basis points, or more. For many funds, a 7.5% assumption represents, as the law requires, the actuary's best estimate of the long term expectation.

If interest rates rise 100 basis points, Credit Suisse would say that these plans are now much better funded simply because of the increase. We would say that the impact of a short term rise in interest rates would likely have a very modest, if any, impact on the funding over the long term.

The author apparently blames multiemployer funds for mismanagement because the stock market crashed, and the funding levels of the plans declined. At the same time, many of these plans were hamstrung in their ability to increase contributions because of the recession. Nonetheless, most of these plans have cut benefits and/or raised contributions, and often the contribution increases have come at the expense of wages. Granted, a few of the plans may not survive due to the declines in their particular industry, but most will, barring another market collapse. They will survive because the trustees, the participating companies, along with the nurses, electricians, laborers, engineers, drivers, plumbers, roofers, clerks, meat cutters, carpenters, entertainers, athletes, writers, and others they employ have tightened their belts and have acted responsibly.

Respectfully submitted,

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