

### ➤ Wrong Solution

While professional publications should present views that represent the spectrum of opinion regarding a particular issue, it's imperative that there be a modicum of accuracy in those presentations. Mr. Davis's Commentary entitled "The Funding Crisis in Municipal Pensions," which appeared in the May/June 2006 issue of *Contingencies*, contains sufficient inaccuracies and misinformation to render it inappropriate for publication. Further, even though it appears with the heading Commentary, there is no disclaimer at the beginning or end of the article to



alert the reader that it's solely the opinion of the author, and doesn't necessarily reflect the position of the Academy or its membership.

In examining options to avert the crisis described by Mr. Davis, he offers three solutions. One is to increase the rate of investment return on plan assets. He asserts that the investment of municipal pension plans is "notoriously conservative."

Mr. Davis's second solution is to have employees contribute more to the plan. In support of this option, he comments that "it is a funding option common in corporations." This is simply not true. Private defined benefit plans that require employee contributions are few and far between.

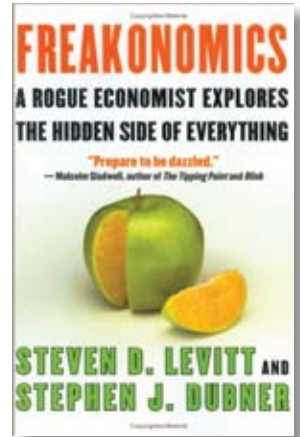
The third option is to increase the employer's contribution to the plan. This is usually the first option that comes to mind, not the last.

A fourth possible option, to decrease the level of future benefits, Mr. Davis doesn't mention at all. His ultimate conclusion, however, is to eliminate defined benefit pension plans altogether and replace them with defined contribution plans. For long-service employees, eliminating a current defined benefit plan and replacing it with a defined contribution plan usually means a reduction in future benefits and a considerable shift in investment risk from the employer to the employee. If the goal in providing retirement benefits is to reward long tenure as an employee, shifting from a defined benefit plan to a defined contribution plan typically does the reverse.

Finally, Mr. Davis touches on the issue but never identifies the problem of who manages public retirement plans. Often the boards that oversee public pension plans are made up primarily of people who participate in those plans—current public employees and retirees. In a number of instances, the boards are elected from their respective constituency—current employees and retirees. What makes a member of the board of a retirement plan popular? Usually, promising better service and higher benefit levels. Oddly, the group that has the most to lose in decisions about benefit levels and funding of governmental plans, the taxpayers, has the least representation on such boards. In a competent analysis of the situation, Mr. Davis should have addressed this governance issue rather than just assume that dissatisfied taxpayers will vote out of office an elected municipal official who may have little or no control over the plan in question.

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**Editor's note:** Admittedly it's in small type, but on Page 4 of every issue of *Contingencies*, since May/June 1989, is the following language: "Opinions expressed in signed articles are those of the authors and do not necessarily reflect official policy of the American Academy of Actuaries."



### ➤ Freaking Out

Gerry Smedinghoff's dismantling of *Freakonomics* reaffirms a few of Busch's Maxims:

- **Maxim #1:** If everybody believes it, it's probably wrong. *Freakonomics* and other books like it are how the public at large becomes ill-informed and how wrong-headed ideas are perpetuated en masse.
- **Maxim #2:** If somebody gives you a number, ask for a percent. Corollary: If somebody gives you a percent, ask for a number. Both of these are the basis for much distortion and, in the case of Ralph Nader, downright deception. Failing to adjust for exposure (as in maxim #2) or credibility (as in the corollary) is inevitably going to lead to wrong explanations and conclusions.

Maybe Gerry could take on some of Michael Moore's reasoning next.

**Fritz Busch  
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I read *Freakonomics* and had some queasy feelings about its arguments too. But Gerry Smedinghoff errs if he thinks he can refute a bad argument by "interviewing experts in the field for inside information." This is only a necessary step—never sufficient. Interested parties are always biased and will present themselves in the best light. Particularly egregious is the assertion by the former real estate agent that "... agents are motivated by a lot more than the... commission." Um, no.

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