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Bad Math and a Coming Public Pension Crisis.

When Jim Palermo was serving as a trustee of the village of La Grange, Ill., he noticed something peculiar about the local police officers and firefighters. They were not going to live as long as might be expected, at least according to pension tables.

After Mr. Palermo dug into the numbers, he found that the actuary — the person who advises pension plan trustees about how much money to set aside — was using a mortality table from 1971 that showed La Grange's roughly 100 police officers and firefighters were expected to die, on average, before reaching 75, compared with 79 under a more recent table.

The four years are significant beyond any interest in macabre statistics. When actuaries calculate the numbers for a pension plan, mortality rates are a powerful hidden factor. If an actuary predicts the workers will live to an old age, it means they will be drawing their pensions for more years. That, in turn, means the employer should set aside more money up front, to keep from running out later.

Assuming shorter life spans reduces annual contributions and frees up money for other things, like bigger current paychecks. And if the plan bases pensions on pay, as those in most American cities do, shortening the workers' life spans on paper could lead to both fatter paychecks now and bigger pensions in the future. In La Grange's case, those four years meant tens or hundreds of thousands of dollars to each retiree.

But if more workers are retiring and not dying on schedule, it can be a recipe for financial disaster.

The recommendations made by pension actuaries, like which mortality table to use, are largely hidden from public view, but each decision ripples across decades and can have an outsize effect. More and more actuaries are now worried that their profession will be blamed for its role in steering states and cities into what is looking like a trillion-dollar quagmire.

On Thursday, a panel of senior actuaries will consider whether to update, or elaborate on, the existing actuarial standards for public pensions. The dueling mortality tables will be among the evidence, and Mr. Palermo is among the parties who have submitted written testimony.

It is only the second time in recent memory that the Actuarial Standards Board has held a public hearing, an indication of the gravity of the nation's pension woes. State and local governments have promised several trillion dollars' worth of benefits to retirees — the exact amount is in dispute. Now, with large numbers of public workers retiring, the money set aside is turning out to be at least a trillion dollars short.

Retirees are counting on the money promised to them. Taxpayers are in no mood to bail out troubled pension funds. Some are looking for scapegoats.

"Actuaries make a juicy target," said Mary Pat Campbell, an actuary who responded to the board's call for comments.

She expressed concern that elected officials were using actuaries to lend respectability to “questionable behavior” like funding pensions with borrowed money, picking risky investments and “enacting benefit improvements based on lowballed costs.”

Other commentators have focused on the opacity of actuaries’ calculations and reports to the boards of trustees that govern public pension plans.

Trustees need clear and honest projections and do not receive them, a former pension trustee from Kentucky, Christopher Tobe, wrote.

He recalled seeing an assumption for future investment returns jump to 7.75 percent from 4.5 percent, with no explanation. The change lowered the state’s pension obligations by more than a billion dollars, which in turn meant smaller contributions.

Another commentator, Mark Glennon, told the board that actuaries were churning out reports that no one but other actuaries could understand, providing cover for elected officials who were letting problems spin out of control.

“Chicago represents the most glaring example,” wrote Mr. Glennon, the founder of an online news service, WirePoints, which covers the fiscal morass in Illinois. “An actuary could have looked only briefly at some of its pension reports from years ago and seen the calamity to come. Reporters, political leadership and most pension trustees could not. Those who could understand were able to remain silent.”

In La Grange, Mr. Palermo, who was elected in 2007, thought the pension funds were being shortchanged. More and more police officers and firefighters were retiring, and they were not dying according to the mortality table used by the actuary. Between them, the two pension funds had less than half the money they should. If this continued, he said, the money would eventually run short, and people would get hurt.

And not just in La Grange. The actuary, Timothy W. Sharpe, had the biggest market share of police and fire pension business in Illinois.

“I think it’s a moral hazard,” Mr. Palermo said.

Mr. Palermo, who works in financial services, determined Mr. Sharpe was using a table from 1971, which tracked a group of people born from 1914 to 1918, who retired from 1964 to 1968. It is seldom used these days. A table from 2000 is considered more accurate, and in 2014 the Society of Actuaries issued an even newer one.

Mr. Palermo researched mortality rates in the American work force and found no evidence that police and firefighters die younger than other public workers. Finally, he sent a confidential complaint to the Actuarial Board for Counseling and Discipline, which deals with actuaries who stray from the profession’s standards of practice.

A few months later, his complaint was written up in a village manager’s report and distributed at a public meeting. Mr. Palermo had accused Mr. Sharpe of making statements that were “frequently erroneous and incomplete,” it said. He had accused Mr. Sharpe of misleading the village board and persuading it to incorporate the wrong mortality assumptions into the local tax levy.

The news media pounced.

The village manager’s report strongly suggested that Mr. Palermo was a troublemaker with few allies in the local government. It said he had acted on his own and that most of the village board was on Mr. Sharpe's side.

It also said that Mr. Sharpe had refused to supply any numbers until the complaint was resolved, so the village had no numbers on which to base the coming year's tax levy. It was about to miss a state deadline.

Mr. Sharpe sent a letter to The Doings, La Grange's newspaper, saying that he had the unanimous support of the police and fire trustees. "I will not be intimidated," he wrote.

In a phone interview, Mr. Sharpe said that he had been instructed to use the 1971 mortality table by the Illinois Insurance Department. Even though it was old, he said, he considered it more realistic because it projected death rates out to age 110. The table from 2000 uses a different population sample and projects death rates out to age 120.

If La Grange projected life spans the way Mr. Palermo wanted, he added, it would "be collecting taxes to pay for pensions to people assumed to live to age 120," a needless expense.

Mr. Sharpe said those additional 10 years were particularly troubling.

"In Illinois, our pensions start very early, at age 50 for police and fire," he said. "There's a 3 percent compounded cost-of-living increase that goes on for life. So the pensions at the later ages of life — I'm talking about after 100, for instance — get very, very large. The person who gets a $50,000 pension at age 50 would get a $250,000 pension by age 100."

He provided data on public workers' death rates from the Illinois Insurance Department, which showed that no one in the state ever lived that long. That is why he said the more recent mortality table could lead to needless tax increases.

In a separate interview, Mr. Palermo said he could not discuss his complaint, which has been resolved, but said that by focusing on the oldest years of the mortality tables, Mr. Sharpe was diverting attention from the much more relevant middle years, where the probability of death was much greater in the 1971 table. For 50-year-olds, for example, the risk of death was seen as more than double in 1971 than what is expected in the later table.

Neither man disclosed how the complaint was resolved. But their battle appears to have no clear-cut victor. Mr. Sharpe, who now uses the newer mortality table, no longer consults for La Grange's police and fire pension trustees. Mr. Palermo did not seek re-election and stepped down in May.

As for the pension system, Mr. Sharpe's successor changed the mortality projections, and La Grange's required minimum pension contribution increased by 20 percent. More increases are coming, but the city has tax caps and cannot catch up quickly without cutting other services.

Mr. Palermo fears it's too late. "It's probably beyond repair," he said. "We're at the point where we're just managing the decline.

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By MARY WILLIAMS WALSH

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