

“But Jeremy, Doesn’t that Make DB Plans too Expensive?”

In my dream, I am engaged in conversation with an actuary who seems to begin every remark with “but Jeremy.”

We have been discussing how financial economics values benefit promises by reference to market-valued portfolios that match the promises, usually high quality bonds.

“But Jeremy, doesn’t that make DB plans too expensive?”

Actually, that is exactly how expensive they are. The usual actuarial process assumes that holding “equities for the long run” lowers the benefit cost. But benefits are not merely expensive, they are valuable.

“But Jeremy, nobody thinks they are valuable. Employees prefer DC accounts to DB benefits. And, therefore, employers don’t think they’re so valuable either.”

I ask, “Don’t you think DB plans are very valuable?”

“Of course I do. But Jeremy, I am an actuary. We all know how much better DB’s are.”

What have we, as a profession, done to get that message across? Not much and surely not enough. In fact, we have fought to keep the apparent cost of DB’s down even as we redesign them to imitate DC’s. We complain about unlevel playing fields and government and FASB imposed burdens. And yet we have failed to tell the world how valuable DB’s are.

And we have failed to develop value-added designs – exactly because we misvalue so much – despite our inherent creativity and cleverness.

“But Jeremy, every time we do add value, regulators destroy it.”

We haven’t found the right tools. We haven’t told the “value-added story.” Our leading consulting firms, and our representative institution – the American Academy of Actuaries – argue narrowly for plan sponsor interests, like weakened funding standards. This is advocacy, not actuarial science. When we assert that we merely provide information in the public interest, we are kidding only ourselves. Hill staffers and agency officials have told me that they view the AAA as lobbyists for pension plan sponsors.

Because we do believe in DB plans, we need to tell a different story. We must accept transparency and use the lessons of financial economics to find and promote the value in those costly DB plans. Right now we should be asking, “How can we promote the value in DB plans?” If the AAA were bigger and financially stronger, we could promote DB’s to employees on TV and to senior corporate executives in magazines and elsewhere.

“But Jeremy, we aren’t that strong.”

Right. Which is why we need to redirect the AAA towards allying with organizations who share our interest in promoting the value of DB plans without concealing the cost.

“But Jeremy, who are those potential allies and what are the promotable pluses of DB plans?”

In the Actuary, October 2003, I identified some of the pluses and suggested that the principle of Pareto enhancement be used by actuaries to identify and design others.

I would look first for allies among think tanks and insurance industry organizations. An example of an organization with interest in revitalizing DB plans arrived in my e-mail last week. It was sent to me by Eric Sondergeld, an actuary at LIMRA International, who had co-authored “A Resurgence on the Horizon? A Case for a Defined Benefit Plan Rebound.” It was published in LIMRA’s MarketFacts Quarterly in the Spring 2003.

There are other allies out there. Let’s find them.