SOCIETY OF ACTUARIES

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Chairperson's Corner

By Douglas Fiddler

During one of the Social Insurance and Public Finance (SIPF) Section Council meetings last year, we spent a great deal of time discussing the nature of the SIPF Section—that we are comprised of actuaries who have an interest in either social insurance programs or benefit plans for government employees. Section members do not all practice in the same discipline, and, indeed, the section council composition reflects the diversity of interest with actuaries who practice in public pensions or OPEB plans, health insurance or social insurance plans such as Social Security and Medicare.

I joined the Society of Actuaries' (SOA) SIPF Section because I am particularly interested in retirement systems for government employees and the impact those systems have on public finance. That has been my sole area of practice for roughly half of my 30-plus-year career. As an actuary, a taxpayer and—hopefully someday—a recipient of Social Security and Medicare, I am keenly interested in the sustainability of those programs.

Annual reports from the Social Security Administration have detailed the sustainability issues of social insurance programs under current law. Likewise, without much effort, you can find daily articles decrying the "lack of sustainability" in public employee benefit plans. But often lost in that discussion is the wide range of funding conditions among public plans as well as the nuances between accounting and funding calculations.

Even beyond funding conditions, the funding approaches and benefit structure vary tremendously from one state to another. Some of my colleagues on the SIPF Section Council work in states with constitutional guarantees of benefits where plans adapt to changing economic and demographic conditions through contribution changes or new benefit tiers for future hires. At the other end of the spectrum are states that have transitioned to primarily defined contribution plans, with the plan member bearing all or most of the investment and longevity risk.

There are also a growing number of public pension plans that share risk between employers (or, arguably, taxpayers) and plan members. The risk-sharing mechanisms are typically unique but generally seek to capture the risk-pooling efficiencies of defined benefit plans within a structure that limits the risk of future contribution burdens on the employers and taxpayers. I think you will see more risk-sharing plans or features in the future. But these plans are not one-size-fits-all solutions that can be applied anywhere. A risk-sharing plan that works in Wisconsin or South Dakota would likely not even be considered in many locations.

There are different ways to sustainably fund and manage social insurance and public benefit plans, and one is not necessarily better than another. During my career, I've learned it is extremely beneficial to articulate your goals for the program,

establish the components that are fixed, define acceptable limits for components that will change, and design steps to take to adapt when unexpected conditions arise and the acceptable limits are crossed.

Unexpected conditions will arise, and social insurance programs and benefit plans for public employees must be able to adapt to new conditions. Change is inevitable. Part of our role as actuaries is to assess plans and proposed changes to those plans in a variety of circumstances. Most importantly, we must always be willing to learn from others and consider ideas that may challenge our understanding and the status quo.

Many public pension and OPEB plans will face significant challenges in the next few years. There are also some intriguing proposals for changes to Social Security and Medicare that will undoubtedly be the topic of much debate during this election year. Actuaries can and must add valuable insight to those discussions.

This year, the SIPF Section Council will develop several webcasts, meeting sessions and articles that address the evaluation and management of public employee benefit plans and social insurance programs or proposals to change those programs. We anticipate they will share ideas that are working well for some and can be adapted to others.

To augment these communication channels, we recently began a series of podcasts interviewing actuaries and others working in social insurance or public plans. One of the key questions we are asking is "What do you wish your actuary understood about your perspective?" I think this will provide a great insight into ways we can improve our communication with stakeholders.

As always, if you have ideas you would like to share or areas you would like to see addressed, please reach out to me, other council members or the SOA staff. Your input and suggestions are welcome. ■

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