Article from
Retirement Section News
February 2020

Actuarial Practice in the Retirement Benefits Arena: Yesterday, Today and Tomorrow

By Patrick Ring

In keeping with the theme of this 100th issue of *Retirement Section News*, the SOA Retirement Section Council asked well-experienced actuaries, including some past chairs of the Retirement Section Council, to respond to several questions related to how actuarial practice in the retirement benefit arena has changed over the years and how it might evolve in the future. The interviews that follow are a compilation of responses from three actuaries.

Byron Beebe, FSA, EA, is the global market leader of Aon's Retirement & Investment business. In this role, Byron has overall responsibility for growth and client solutions for Aon's actuarial, investment, and pension administration businesses. He specializes in helping clients design total reward strategies to meet the needs of a changing workforce, and in pension de-risking strategies.

Patrick Ring (PR): How has your practice changed over the years?

Byron Beebe (BB): I have worked in the pension/retirement industry for 28 years. When I started, pensions were an employee benefit that was an important part of the total rewards program for most employers. Interest rates were high, many plans were well funded, and we spent a lot of time talking to employers about how to improve pension plan designs.

Over the course of my career, lower interest rates and a couple of years of poor equity returns have led many pension programs to be underfunded. Increasing pension costs coupled with rising health care costs have squeezed the amount of money allocated to retirement programs. Many employers have moved away from traditional defined benefit plans and company-subsidized retiree medical programs.

Today, most employers—even those that still sponsor defined benefit plans that are open to new hires—think of their plans as a debt that needs to be managed. The actuarial community has taken the lead in helping employers develop new risk management strategies. We have become trusted advisers to finance and investment committees and find ourselves working side by side with investment consultants to implement and execute strategies on behalf of our clients.

Our work with HR departments has changed significantly as well. When I started my career, actuaries were typically assisting HR staff with manual benefit calculations on a regular basis. Many of our client contacts who were experts on pension plan provisions have retired, and rather than train additional staff, plan sponsors have outsourced the responsibility for pension administration. Actuaries play a critical role when benefit calculations are outsourced, as we are often the most knowledgeable source for historical information about transfers, rehires, and M&A transactions.

As our clients have changed, we have evolved our practice to be much more focused on balance sheets and income statements to make sure we can measure the impact of important initiatives. Rather than just playing the role of an adviser, we are working more as an extension of our clients' staff. The work we are doing today, and the experience that we are giving to our young students, is more interesting and more impactful than the work we were doing 25 years ago.

PR: What has been the impact on your practice of the increased attention being given to the postretirement needs and risks facing today's workforce?

BB: As employers have reduced company-provided retiree medical subsidies and moved from defined benefit to defined contribution retirement programs, the responsibility for

accumulating sufficient retirement assets has shifted from employers to employees. Many employees are not prepared to assume this responsibility and the industry has increased its focus on financial well-being programs in response to these trends.

With regard to the topic of financial well-being, the actuarial community can be most helpful as educators. First, we need to educate employers about the long-term effects of having employees who are not prepared to retire. There is no longer the orderly, predictable pattern of retirement that we used to see when employees hit important milestones that made them eligible for retiree medical and/or pension subsidies. Employees are hungry for their employer to help them understand their retirement programs and explain how they can accumulate retirement assets that will allow them to sustain their standard of living after employment.

We also need to engage workers early in their careers by giving them short-term goals. For example, projecting the amount of assets needed at retirement can be overwhelming for a 25-year-old worker. If we can give those same workers an estimated asset accumulation target at age 30, it might be easier for them to understand. Helping workers pay off student loans and buy their first home while continuing to save for retirement will give them confidence in their ability to control their financial future. Actuaries can help employers pull all of this together to create a financial well-being strategy that will result in better outcomes for employers and their workers.

PR: Do you have any predictions for the future or messages you would like to share? For example, how can actuaries help build a better future in this area?

BB: We have already started to redefine the profession. We used to call ourselves pension actuaries and now we refer to ourselves as retirement actuaries. That change may be subtle, but I think we are sending the message that our profession has the skill set necessary to help workers across the country retire more comfortably. We can—and should—be helping employers and our government design more efficient retirement programs that will improve outcomes for workers. For example, pooling assets to more efficiently share risk among plans can certainly reduce fees and allow employees to access the best and most innovative solutions for our nation's retirement programs, and actuaries are best positioned to design those programs.

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Craig P. Rosenthal, FSA, EA, FCA, MAAA, is a partner in Mercer's wealth business who has spent most of his 30-year career providing strategic consulting services to large/complex and multinational organizations, including a number of government contractors. In this capacity, Craig provides consulting advice related to retirement income/postretirement benefit programs helping plan sponsors achieve their funding, accounting and risk management objectives, as well as ensuring that the retirement programs appropriately balance sponsor objectives and participant needs. In addition to his consulting responsibilities, Craig provides technical guidance to Mercer's consultants and is a thought leader on retirement security issues.

PR: How has your practice changed over the years?

Craig Rosenthal (CR): The corporate retirement landscape has shifted dramatically in the past 30 years. When I started my career in 1989, most large companies offered both a DB pension plan and a 401(k) match, with many also offering some type of subsidized postretirement medical option. Back then, DB formulas of 1.5 percent of final average pay for each year of service coupled with a 50 percent match on the first 6 percent of pay an employee contributed to a 401(k) plan were fairly common, and the retirement program was prominently featured in companies' recruiting efforts. While companies still compete for talent using a combination of pay and benefits, there is now more emphasis on near-term offerings such as incentive pay and other perquisites.

Over these past 30 years, the movement toward a mark-to-market basis for measuring pension liabilities and annual contributions/pension expense, coupled with the continued downward trajectory of interest rates, caused pension liabilities to balloon and made contributions and pension expense much more volatile. When SFAS No. 87 (now ASC 715) took effect in

the late 1980s, discount rates in the 7 to 8 percent range were fairly common, and pension plans were funded actuarially based on the expected return of the portfolio. Today, discount rates are below 4 percent for many plans, pension plans are funded (and key decisions are made) based on near-term cash and expense implications, and most pension plans have been closed to new entrants and/or frozen.

PR: What has been the impact on your practice of the increased attention being given to the postretirement needs and risks facing today's workforce?

CR: From an employee perspective, the move to a DC-only program has empowered individuals to take control, while simultaneously putting them in charge of their retirement destiny. At many larger companies, 401(k) matching percentages are both higher and cover more pay elements than they did in the past, and many companies also provide nonelective contributions. There has also been tremendous innovation in what DC plans offer, from target date investment options to guided "do it for me" investment options. In addition, many now have access to much more comprehensive retirement modeling systems that can provide stochastic analysis and also reflect the spending needs during the retirement life cycle (e.g., more travel and leisure in the early retirement years, followed by a simple living period having "been there and done that already," and then higher out-of-pocket medical expenses in the later years).

Employees have been the beneficiary of more robust retirement education and tools, which has led to a higher percentage of employees contributing to their 401(k)/403(b) plans, and at higher percentages of pay than in the past. Those that have saved and invested for the longer term have also benefited from the longest bull market in history. Despite these great strides, we need to continue to motivate employees to save through education and encouragement, and we also need sensible regulation that enables every worker (including self-employed and "gig" workers) to have access to a well-run retirement program. Open MEPs would provide a great vehicle for those workers who don't currently have access to a plan, and hopefully Congress has enacted/will soon enact legislation that would allow unrelated employers to join these programs.

Despite these advances, we still need to solve the spend-down issues. Recent studies show that many retirees are underspending, which is the opposite of what we've been historically told to expect. While as an actuary I prefer underspending to overspending, retirement is a time that most people have looked forward to after 40-plus years of work, and those golden years shouldn't be overshadowed by a fear of running out of money.

PR: Do you have any predictions for the future or messages you would like to share? For example, how can actuaries help build a better future in this area?

CR: The value retirement actuaries can bring to society is greater now than ever before. Just as every worker needs access to a comprehensive retirement savings vehicle, every retiree needs a way to turn their retirement assets into an efficient form of lifetime income. People are already working longer careers than their predecessors, and that trend is expected to continue. While that should translate into more assets accumulated for retirement, life expectancies continue to improve, so retirees will also have to plan for longer lifespans.

These dynamics have created a tremendous opportunity to develop innovative products and services that would appeal to retirees and provide an alternative to traditional annuities. These offerings could combine new investment options with risk pooling/insurance products to provide lifetime income for people whose primary/only retirement vehicle has been a defined contribution plan. While many of the building blocks for these solutions already exist (inflation hedges, longevity swaps, structured notes, etc.), most aren't currently accessible or practical for an individual retiree. By combining our actuarial knowledge with an increased understanding of the investment side, we owe it to society to play a critical role in shaping what retirement will look like in the future.

We should all be inspired to be the optimist from the famous Winston Churchill quote: "*A pessimist sees difficulty in every opportunity, an optimist sees opportunity in every difficulty.*"

Leon F. "Rocky" Joyner Jr., FCA, ASA, MAAA, EA, is a senior vice president and actuary in the Atlanta office of Segal Consulting. He is Segal's public sector retirement practice leader and a member of the firm's Public Sector Leadership Group. He has more than 40 years of actuarial consulting experience with all types of pension plans. Rocky currently is a consulting actuary for many government clients, including City of Birmingham; Memphis Light, Gas & Water Division; San Antonio Fire and Police Retirement System; DeKalb County, Georgia, Georgia Municipal Employees' Benefit System; and Government Employees' and Retirement System of the United States Virgin Islands.

PR: How has your practice changed over the years?

Rocky Joyner (RJ): (Rod Serling voiceover from *The Twilight Zone*) Imagine a world with no PCs, no cell phones, no fax, no FedEx. A spreadsheet was literally a piece of paper with gridlines for writing in the numbers. We had an adding machine with a paper tape so you could check your input. We went from "it's in the mail and will be there in a few days" to "it will be FedExed overnight" to "it will be faxed shortly" to "email coming now."

I remember the first time we used a fax machine. It seemed right out of science fiction.

We have gone from secretaries who supported one to three actuaries to administrative assistants that may support ten or more individuals.

And that is just the physical nature of the work.

The work itself has also changed. In my early years, the focus was the valuation report. Assumptions were more uniform (partly because of calculating limitations) and detailed projections were a rarity. ERISA was new and we were all scrambling to develop protocols and make sure our clients were in compliance. Then the Multiemployer Pension Protection Act of 1980 made sweeping changes to union plans adding a new focus on something called "withdrawal liability." Government pension plans were not in the news. Many were 100 percent fixed income and not making headlines.

Many corporations had DB plans and 401(k) was a small supplemental side of retirement on which few were focused.

All of this changed with the high interest rates of the early 1980s and the booming stock market from the 1980s to the late 1990s. Suddenly, pension plans were big news and it was discovered that a lot of money could be made on the investment side. Then with FASB 87 and some changes in single employer funding rules, the corporate DB world seemingly overnight was transformed into a DC environment dominated by 401(k) plans. Except, of course, for key executives who kept a form of DB plan for themselves.

In the multiemployer world, changing demographics and legislation put added pressure on the ability of collectively bargained plans to provide retirement benefits to their workforce.

After the tech bubble of the early 2000s and the 2008 economic downturn, public sector DB plans found themselves in the crosshairs of those that sought to transform the DB models to something similar to the DC models of corporate America.

More recently, the growing realization that today's DC plans are not providing the retirement security working people need has led to a new appreciation of the desire for secure permanent income in retirement.

Needless to say, my almost 42 years in the business has always been interesting. I tell prospective employees that the work is never dull.

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PR: What has been the impact on your practice of the increased attention being given to the postretirement needs and risks facing today's workforce?

RJ: The focus has required that we develop better tools to measure retirement readiness, funding needs, and the purpose of the

plans and how they support the business enterprise: whether in the corporate, multiemployer, or public sector.

Holistic benefit statements that combine all aspects of retirement savings (DB, DC, Social Security and retiree medical) help an individual understand how well they are situated for retirement.

Expanded modeling tools including deterministic and stochastic projections have been developed and expanded to measure emerging trends and potential risks for retirement programs.

Additionally, everything the actuary does now is open to the public and subject to critique. Expanded disclosures and materials are being used to readily explain to the public what the actuary is attempting to study and why decisions are made.

PR: Do you have any predictions for the future or messages you would like to share? For example, how can actuaries help build a better future in the public plan arena?

RJ: The DC retirement model will evolve with more attention to the "pay-down" period. Better tools are needed to help participants understand the ramifications of their decisions. Creative annuitization options will need to be developed and actuaries must be able to measure their efficiency.

I believe that, at some point, the pendulum will swing toward DB plans as an alternative to the difficulties DC plans have in supplying adequate retirement income. The form of these plans is yet to be determined. Actuaries must continue to be inventive and forward thinking in developing solutions for our clients and the participants in the plans.

On the health side, continued consolidations in the health industry (hospitals, doctor groups, etc.) may lead to a de facto national health care system, run by the private sector and not the government. This would bring new challenges to our clients and to actuaries as we help our clients ensure their employees have adequate health benefits.

Actuaries need to be at the forefront in bringing new ideas, developing solutions, and educating policy makers. The next 40 years will likely bring as many changes as I have seen in my 40-plus years. Who knows? One day we may have those flying cars like the Jetsons had (that would create some new insurance models for casualty actuaries). ■

Patrick Ring, ASA, EA, MAAA, MSPA, volunteers as a member of the SOA Retirement Section Council's communications team. In addition, he assists the SOA in fine-tuning and optimizing the Retirement Section's webpage on *SOA.org*. He can be reached at *pringactuary@gmail.com*.