# The Actuarial Ethicist: New Case Study

# A Change in Plan

by Frank Grossman

*This article is the second in a series describing a hypothetical workplace dilemma, and inviting SOA members to submit their comments and suggested solutions which will be summarized and published in the following issue of* The Stepping Stone*. All member submissions will be received in confidence, and any identifying details removed prior to their inclusion in the discussion of the case.*

Kate the FSA works part-time as the in-house benefits actuary for a manufacturing firm, reporting directly to Susan the VP of HR. Kate also has an indirect reporting relationship with Henry the CFO. The firm has roughly 1,000 employees and Kate is the sole actuary on staff.

The firm sponsors a contributory defined benefit pension plan with a career average earnings benefit formula. The pension plan's investment strategy is fairly conservative, and the fund is invested in fixed income instruments and stocks. The plan trustees have become increasingly apprehensive about the plan's funded ratio, particularly given the financial market turmoil over the past couple of years. Kate saw an opportunity to estimate the pension plan's shortfall risk (i.e. the chance that the plan's funded ratio would deteriorate, requiring additional future contributions) using stochastic techniques. Henry agreed with Kate's view, and asked her to undertake the necessary work and write a report for the senior management team, copying the plan trustees.

Kate completed her work, which confirmed that there was appreciable shortfall risk. The plan trustees welcomed her analysis, and after some debate they concluded that the plan's investment strategy was still appropriate from a long-term perspective, but recommended a modest increase in future contributions. Senior management agreed, and proposed that the contribution increase be shared by both the plan sponsor and plan members. Kate participated in several employee town hall meetings with Henry and Susan, during which the case for increased contribution rates was outlined and Kate presented a summary of her findings (with copies distributed to attendees). During these meetings, Henry stated that the higher contributions would "more fully fund" the plan benefits—even though Kate wasn't keen on this jargon and had previously mentioned this to Henry.

At length, however, senior management rescinded their decision to increase the plan's contribution rates, citing a return to more tranquil market conditions. Preparations for a second

round of employee meetings are now under way, and Henry has requested that Kate help explain why the proposed contribution increases are no longer required.

What should Kate do?

*Send your suggestions before April 19, 2010, to Craigmore54@aol.com. The discussion of Kate's dilemma will be published in the July 2010 issue of* The Stepping Stone.

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