



Article from

Retirement Section News

May 2018

Issue 95

Chairperson's Corner

By Randall Dziubek

During my career as a retirement actuary a lot has changed in the U.S. with respect to retirement plans. The biggest changes have taken place in the private sector arena where traditional defined benefit (DB) plans are in extreme decline in favor of defined contribution plans (DC). In the public sector, a few sponsors have transitioned to DC plans, but the majority continue to provide DB plans. While many of these public plans have implemented some type of cut back in benefit levels, they have retained the traditional DB structure.

While stark differences currently exist between private and public sector retirement plans, it is understandable why things have evolved this way. The reasons have seemingly little to do with the desires or needs of the plan members. Although it could be argued that a traditional DB plan is a better fit for a government worker who perhaps is more likely to work a full career in

their job. While a DC plan may be superior for employees that change jobs periodically which is perhaps more prevalent in the private sector.

The decline of DB plans in the private sector is more likely the result of stricter funding rules, PBGC premiums, and a relatively easier path to freezing or terminating DB plans than in the public sector where, among other things, legal restrictions and member pressures make it more difficult.

So how well are public sector DB plans serving their members, plan sponsors, tax payers and society? These questions are endlessly debated in the media and at kitchen tables around the country.

I certainly have personal opinions on these questions as I'm sure you do as well. As an actuary practicing in the public sector and currently serving the California Public Employees Retirement System, I believe CalPERS actuaries and public sector actuaries around the country have made significant strides in improving the financial soundness of these public plans. Furthermore, I believe we will continue to find new and innovative ways to extend those improvements in the future.

That said, there are many challenges facing these plans today that lead some to question whether they can survive in their



current form or whether they will cause severe financial hardships for the employers and tax payers who support them.

While there are differing opinions as to the severity of the situation, even within our own profession, I think everyone would agree that continuing to search for ways to improve the delivery of retirement benefits in the public sector—and elsewhere—is a worthwhile endeavor.

The Society of Actuaries Retirement Section Council issued a Call for Models last year asking for submissions that provide real world solutions, in full recognition of the public plan environment, to enhance the security of promised benefits and result in more sustainable benefit plans.

The four prize winning papers all provide outstanding ideas that I'm sure will generate much discussion and interest within the actuarial community. Some of the topics found within these papers include:

- Whether public sector DB plans should use a risk-free discount rate to determine funding requirements;
- Ways to improve the viability of a DB plan with a fixed employer contribution rate;
- A DC arrangement that could effectively replace existing DB plans in the public sector;
- A tool for measuring the effectiveness of a retirement plan design; and
- How to use benefit adjustments and variable member contributions to reduce contribution volatility within a DB plan.

Two of the prize-winning papers discussed features recently implemented in existing state systems. Many of us will be watching with interest to see if they continue to perform as well as the plan sponsors and actuaries expect them to.

In addition to the prize-winning papers, other papers submitted will be published by the SOA. I strongly encourage you to read

these papers. I know many of you practice solely in the private sector space, however I believe many of the ideas presented in these papers can be applied there as well. I think you will find that each of these also contain innovative ideas that are worth consideration.

The SOA and the Retirement Section Council have invested considerable effort in exploring ways to improve retirement from both the member and plan sponsor perspectives. Two recent projects that are great examples of this are:

- Value of Longevity Pooling
- Retirement Adequacy in the United States: Should we be concerned?

You can find information on these projects on the Retirement Section webpage.

Finally, given the prevalence of DC type plans in today's world, the Retirement Section Council recently created a project oversight group (POG) to discuss and evaluate education and research opportunities with respect to such plans. Possible outcomes of this POG are future webcasts, podcasts, and/or research papers. However, another strong possibility is the creation of a subsection within the retirement section that focusses specifically on DC issues. Such a subsection could be used to host regular dialogues among willing section members with interests in this area. This would not only bring together thought leaders in this area but also provide younger section members an opportunity to grow their knowledge and skills as well as add their talents to the mix.

If you have feedback regarding any of the projects mentioned above or have suggestions for future projects, I would love to hear from you. ■



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