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ESTABLISHING PENSION ACTUARIAL ASSUMPTIONS

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A discussion on pension actuarial assumptions:

- o Large plan actuarial assumptions
- o Small plan actuarial assumptions
- o Conflict between explicit assumptions and plan sponsor's objectives
- o Immunization effect on the interest assumption

MR. LESLIE S. SHAPIRO: I am an attorney, employed by the Treasury Department serving principally as Director of Practice responsible for administering and enforcing regulations governing practice before the Internal Revenue Service by attorneys, certified public accountants, and enrolled agents. With the advent of ERISA and the requirement that individuals who wish to perform actuarial services under ERISA must be enrolled by the Joint Board for the Enrollment of Actuaries, I found myself immersed in the actuarial profession. Any views that I express during the course of our meeting will be mine rather than the Department of the Treasury, the Internal Revenue Service, or the Joint Board for the Enrollment of Actuaries. I will address recent government involvement in participant data relative to the values placed by actuaries on multiemployer pension plans and the reaction of the actuarial profession to this involvement. ERISA is the first comprehensive federal legislation regulating the private pension system along with MPPAA, the Multiemployer Pension Plan Amendments Act of 1980. The main purposes of MPPAA were to protect participants' and beneficiaries' interests in pension plans by strengthening the financial position of multiemployer plans, and to encourage their growth and maintenance. The application of the major financial provisions of MPPAA depend on actuarial valuations which are included in pension plan annual reports required by ERISA. Such actuarial information must be certified by individuals enrolled to perform actuarial services under ERISA. The Joint Board for the Enrollment of Actuaries, established under ERISA, is responsible for the enrollment program.

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My duties at the Treasury Department include serving as the Executive Director of the Joint Board.

The provisions of MPPA include a mandate that the General Accounting Office (GAO) study and report to Congress on the effects of MPPAA. GAO separated its study into segments by major functions and areas of concern which MPPAA was believed to affect. One segment focused on the development and reporting of actuarial information. Using random selection techniques, GAO selected for its study 149 multiemployer pension plans with one hundred or more participants from the total plans being administered in fourteen states and the District of Columbia. The selected plans had about 3.5 million participants from a universe of 1,924 plans with 8.3 million participants. In actuality, it studied 143 of those plans for three things: 1) the extent to which individual plans included complete participant data; 2) the potential and actual effect of incomplete data on actuarial calculations; and 3) the progress of plans in obtaining complete data on plan participants.

GAO discussed the ramifications of incomplete data with representatives of actuarial firms providing service to multiemployer plans, with the American Academy of Actuaries, officials of the IRS, the Labor Department, Pension Benefit Guaranty Corporation (PBGC), and me. GAO found that 76 of the 143 plans in its study, or 53 percent, lacked complete data on active participants. For the 76 plans, there were over 330,000 active participants for whom at least one of the three information elements investigated (age, years of service, and gender) was missing. This was 13 percent of the total participants in the 143 plans, but it ranged from 1 percent to 75 percent on individual plans. The larger pension plans were found to have the greatest percentage of participants for whom some data were missing.

GAO concluded that the availability and use of sufficiently complete and accurate participant data are essential to reliable actuarial valuations. Without such data, the actuary must make assumptions about unknown participant characteristics. Many multiemployer pension plans were missing large quantities of participant data. Actuarial valuations show that, when there are improvements in the completeness and accuracy of such data, there can be large dollar changes in the previously recorded actuarial results based on assumptions about missing data. The reliability of previous actuarial results may be questionable. Yet, plan officials are using actuarial information to manage and operate multiemployer pension plans. This information is also being reported to government agencies for administering and enforcing ERISA and MPPAA. While the actuarial reports generally disclose the extent of the missing data, few contain statements that the missing data may affect the reliability of the actuarial results. Further, none showed or indicated the probable effect that the missing data had on the accuracy of the actuarial information in the calculations. Missing participant data could materially affect the calculation of the actuarial valuation, which could give a false and misleading picture. GAO believes that the actuary's report, in the certification should disclose sufficient information on the effect of missing data on the actuarial valuation.

The American Academy of Actuaries and the Society of Actuaries recommended that the effect of missing participant data should be disclosed but did not provide guidance on when and how this should be done. The Joint Board requires that enrolled actuaries clearly identify any "material inadequacies of data and the implications thereof" but does not define or provide criteria for "material inadequacy in data." GAO concluded that such a definition and criteria are needed. In the absence of such standards, there is no generally accepted understanding as to what constitutes appropriate disclosure of the effect of missing participant data. For example, GAO believes that the actuarial profession should consider the degree of disclosure needed. The question should be addressed whether a general disclosure is adequate, such as stating in the certification that "if we (the actuaries) had complete data, the results of this actuarial valuation could have been materially affected, causing the pension costs to be higher or lower;" or whether a more descriptive disclosure is possible, such as disclosing the range in the cost estimate that could occur because of missing participant data.

GAO recognizes that, in developing standards, absolute certainty is no more attainable by the actuary than for any other professional endeavor. Just a reasonable degree of assurance based on professional judgement is sought. Materiality is a state of relative importance, and defining and establishing a standard for material inadequacy will require collective professional judgment. Both quantitative and qualitative elements warrant consideration in the determination of materiality. Overemphasis on disclosure can detract from the usefulness of an actuarial valuation by obscuring important elements with a mass of details. Using collective experience and judgment will allow the actuarial profession to develop adequate standards.

GAO concluded that the office of the Secretary of Labor should issue regulations under its ERISA authority to provide guidance for maintaining participant data; the Secretary of Labor and the Commissioner of Internal Revenue should direct their respective enforcement groups for reviewing multiemployer plans to expand the scope of their audits to include a review of actuarial valuation reports for sufficient participant data; and the Secretaries of Labor and Treasury should direct the Joint Board to work with the actuarial profession to develop appropriate criteria and standards for the disclosure of the potential effect of material amounts of missing data on the reliability of actuarial valuations.

I contacted the presidents and presidents-elect of the four actuarial organizations discussed with GAO: the Society of Actuaries, the American Academy of Actuaries, the American Society of Pension Actuaries, and the Conference of Actuaries in Public Practice. We developed a working task force for which I act as the government liaison. This is a private sector task force, as opposed to one organized and administered by the government because the work product will be that of the profession.

The issues involved in recommending standards in the valuation of multiemployer pension plans are complex and challenging. In addition to studying any standards or positions now in place, which include Academy standards on materiality and accountants' studies on the same subject, the task force has been identifying areas within the GAO report which must be addressed and threshold subject matter which must be developed before the actual work can be done. The efforts of the task force have been to identify the problems raised in the GAO report; to determine whether there are problems based on their assessments; to ascertain if there are issues not raised in the GAO report which may be relevant; to gather any written material that already exists; and to set forth an action plan.

The months ahead should be productive and the recommendations made should be instructive. An equally important and significant accomplishment will be that four U.S. actuarial organizations and the government worked in a cooperative effort to enrich the profession and to help assure the soundness of the funding of multiemployer pension plans, perhaps leading to other studies that may help enrich the profession.

MR. ROBERT M. CHANDLER: Some public employee retirement systems are among the largest in the country. The complexity of actuarial assumptions often depends on the number of participants in a plan and the complexity of the benefit structure. Some of these large plans qualify under both bases as a good area to make actuarial experience studies. Experience studies for large systems can occasionally involve large amounts of data and much data processing. This can seem overwhelming, and it is necessary to work closely with your data processing people to make sure that your systems are available to handle this large quantity of data. On occasion, we have had to split our studies into sections or to make data groupings, just to make the study possible. Doing experience studies and setting assumptions for the large public plans often offers a unique opportunity to the pension actuary to do this kind of detailed analysis, including the analysis of actual experience to expected experience. Often with large public plans you even have enough significant data to make studies of mortality, disability rates, and disabled life mortality. Economic and noneconomic assumptions are useful tools in discussions with our clients and in conceptualizing. Economic assumptions are largely beyond the control of the client - forces from the economy as a whole and include inflationary forces and investment return, salary increases, and cost-of-living adjustments. The noneconomic assumptions apply more to the individual client - rates of termination, retirement, noninflationary salary increases, and the value added by their investment managers over and above what would have occurred due to inflation. In setting any economic assumption where inflation is a driving force, all of your assumptions that involve economic considerations involving inflation have to have a reasonable relationship to one another.

Assumptions that might be studied are mortality for actives, service retirees, disabled participants, and maybe even beneficiaries; and withdrawal rates and rates of retirement.

You can make disability studies that are meaningful for these large groups, since some of the plans base their disability benefits differently. Other areas of consideration are salary increases, investment return, cost-of-living adjustments, probability that a terminating participant will leave his account in the system and thereby vest rather than pull it out, and even rates of growth in membership, since the public plans often fund their unfunded actuarial liability over the future salary base of the system, rather than funding over a period of years as is done for most corporate plans.

The complexity of the assumptions depends on the valuation system at hand, the size of the client, the complexity of the client's benefits, and the groups covered by the plan. A plan may cover fire and police employees, teachers and general service employees all under a similar plan. Assumptions which may be applicable to one group would be totally inappropriate for another group. Select and ultimate assumptions often make sense for large clients. Economic assumptions allow you to deal with the pressure you often get from a client to base investment return and salary increase assumptions, and cost-of-living adjustments (if they are not capped) on very recent experience. Long term to an actuary is infinity to most other people.

Select and ultimate assumptions in economics can also take the pressure from the actuary, satisfy the client, recognize the dynamic economy, and still yield a reasonable set of assumptions. Noneconomic select and ultimate assumptions, particularly retirement rates, withdrawal rates, and salary increase rates are used differently. It is sometimes very difficult to force your study to conform with an age basis in mind when the forces have nothing to do with age but with the number of years of service. Select and ultimate assumptions and rates of retirement can solve some of these problems. In setting rates of retirement, you need to study the group of people who are eligible to retire. Particularly with fire and police employees, there is a rush out the door on the first day they are eligible to retire. Without recognizing this fact, you are faced with trying to set assumptions which accurately reflect what is happening on an age basis when really the eligibility basis is the reason for a lot of the retirements.

Setting actuarial assumptions depends on the computer system which you have available to make your studies and the availability and accuracy of client records. It often requires not only studying the rates, but looking at actual versus expected experience. If you have a system that can do this it can show your client why changes are needed and assist you in setting a new set of assumptions, recognizing past experience doesn't necessarily predict future experience. In setting assumptions for these large plans, you can make comparisons with standard mortality tables, rather than choosing one everyone else is using; even making adjustments, set forwards, or set backs. We have used an individual annuity mortality table for teachers with a set forward or set back because teachers have low mortality.

When you are setting assumptions, you should have reasonable relationships between interrelated areas, particularly with inflation. We have taken over work from other actuaries where inflation was fully

recognized on the investment return and forgotten when they set the salary scale. The study period must be long enough to allow for confidence in the results. A series of layoffs, a freeze in hiring, a change in investment advisor, or a change in the plan eligibility requirements all have to be considered.

Changing assumptions can be broken down depending on your relationship with a client. You do not see new plans very often in the public plan area, but if you do and the information is not available on the group, you can go to your files and try to find a similar group. When working with a continuing client, we would study every other valuation which means a four to six year study period since most large clients are not on an annual cycle. Where we suspect we may have difficulty maintaining data, we collect it every time we do a valuation and only ask them for termination data between the latest two valuation dates.

When acquiring a client from another actuary, it is important to make your assumption changes immediately. If you make them the first year, you and your client would agree that the original assumptions were not adequate. If you wait a valuation or two to make the changes, the changes will be yours and not because of the work the other actuary did. They will have forgotten about the other actuary by now.

You may find that it is not so easy in a complicated public plan to take another actuary's set of assumptions and make them fit your system. They may have studied age last birthday and used dependent q's; we use age nearest birthday and central rates of decrement. You might as well start over considering the time it takes just trying to make the original assumptions fit.

MR. MAURICE O. SIMMONS: In light of Mr. Chandler's presentation, here are six questions that might be useful to consider:

1. How do you set actuarial assumptions for a brand new plan?
2. What do you do when you assume actuarial responsibility for a plan from another firm of actuaries? Do you (a) continue the existing assumptions, (b) change them with the first actuarial valuation, or (c) do something else?
3. In what situations are using dedicated portfolios appropriate?
4. How often should you change actuarial assumptions?
5. How do you resolve conflict between explicit assumptions and objectives of the plan sponsor?
6. How complex should actuarial assumptions be?

MR. RIAN M. YAFFE: Would you expand on the fifth question?

MR. SIMMONS: You may have strong feelings on what the assumptions for a particular plan should be, and those assumptions may produce

results which are not necessarily what the client wants. If you have a conflict there, how do you handle it?

MR. CHANDLER: The client could want to put more money in the plan, or the client could want to put less money in the plan. The former is a lot more comfortable situation than the latter. The former goes under the heading of strengthening actuarial assumptions to a certain degree. The latter is an uncomfortable situation because we are finding more clients now that actually want to go back to the unit credit actuarial cost method to put less money in the plan. For twenty years, this has been considered a bad method and now our client public is building pressure to use this method.

MR. SIMMONS: The pressure is definitely to reduce contributions particularly in the last two or three years. The publicity on reversions from corporate pension plans has made quite a lot of companies aware of not overfunding plans and the economic effects that overfunding has on the actual running of the company.

MR. CHARLES WALLS: The problem with the unit credit method is not one of funding. The unit credit method is probably not particularly good for analyzing changes which you might wish to make to the plan. However, my own view of how a plan is funded is one of accounting. The client is more or less free to account for the actual funding of the plan in a number of ways. The various methods have some problems that are outside of the actual funding of plans and the unit credit method is particularly poor for analyzing changes in plans. However it is not a bad method in general.

MR. SHAPIRO: Is there anyone in the room who believes that the client's wishes and what you believe to be sound professional judgment in complying with the law would dictate your relationship with your client? What kind of problems would that present?

MR. CHANDLER: We have had a couple of clients that wanted to go to the unit credit cost basis, so we did. We emphasized the weakness we saw with unit credit which is the possibility that it is not telling you what future costs may be. They were very concerned that the large overfunded position in their pension plan might give rise to a takeover attempt. We also know that there are clients who are being very careful with the amount of cash that is going into their pension plan. One turned around and got their big eight accountant to cost the plan on a favorable accounting basis, so that they not only conserved cash, but it showed up on the bottom line.

MR. YAFFE: One of the questions that we have started to try to answer for clients is how much money ought to be in the pension plan and why. You see a wide range of relationships between assets and present value of accrued benefits. For clients, who might have high ratios of assets to liabilities or if they had low ratios, would not be building them as high as they are, it is valid to look for ways to bring those ratios to levels that are still sound and within a range of acceptable actuarial practice, but lower than current levels. We have a responsibility to help clients do that if it fits their business strategy.

As long as what we are doing is acceptable actuarial practice, pursuant to ERISA. ERISA does not operate like a straightjacket. There is a wide range of acceptable practice, and we are responsible to exercise our judgment.

MR. CHARLES L. TROWBRIDGE: The problem of setting actuarial assumptions is the problem of dealing with uncertainty. Anybody who has tried to set actuarial assumptions for pension plans knows that he has no idea what the experience is going to be. Setting an assumption is just a matter of picking the wrong answer, when you know it is going to be wrong. It is kind of an intelligent guess. We have to set assumptions and, when we do not have the data, we have to set the assumptions as to what the data would be if we had it. It is no more serious a problem than setting an assumption for a mortality or turnover rate or some of the others. It is just the one that GAO happens to have focused on for multiemployer clients. We have got to get actuarial assumptions consistent with each other, for example, by putting inflation into the interest rate and into the salary increase similarly. If you do not do that, you are just looking at each assumption independently in a vacuum. A special example of inconsistency in assumptions is valuing the assets of a plan at market interest rates and then valuing the liabilities of the plan at an interest rate which is a good deal less than market and building tremendous conservatism. Inconsistent assumptions on the asset and liability side of a balance sheet, especially with the interest rate, are impossible to deal with. There are some techniques which can avoid the inconsistency. You can value the sum of the liabilities at the rate of the assets or the assets at the rate of the liabilities, but this is not common practice.

Whatever assumptions you use, you know that you are going to be wrong. The key is doing a good job of adjusting for actuarial gains and losses.

MR. SHAPIRO: You equate assumptions to uncertainties. However, from the GAO report, when you are dealing with participant data such as age, length of service and so on, those matters are more factual in nature than most actuarial assumptions. There is the potential for determining them with some degree of accuracy. Do you agree with that and how do you think that that would affect the adjustment?

MR. TROWBRIDGE: It is easier to remove participant data uncertainty than it is the uncertainty of the future. Most multiemployer plans do not have any idea who is in their plans. Those things should be improved and there is no question that the GAO is right.

MR. JAMES A. KENNEY: I do not see how developing a range of results if different assumptions were used as a substitute for the missing data would work in a practical world. On the one hand, you can assume that all the missing people are age sixty-five and female, and on the other hand, you can assume they are all twenty-five and male. The results you get would vary so widely that they would have little value. You are going to get a distribution of people without any realistic way of finding the distribution of missing data except by looking at the data that you have actually got.

MR. SHAPIRO: GAO recommended that as an option, not as a directive, and the task force will be addressing the issue. The task force is already finding that many of the observations, factual determinations, and conclusions reached in the GAO report may not be as important as GAO may believe them to be. GAO may recognize that as well. They wanted the standards to be such that they could address the issues that they raised. If it is found that a range of the potential effect of missing participant data is not reasonable or prudent for a diligent actuary to disclose, I am sure that the task force will include that in addressing the GAO report. If you have anything specific that you might share with the task force, please make your views known.

MR. THOMAS M. DANT: If you obtained a guaranteed interest rate of 11-12-13 percent with respect to a block of business from an insurance company, how would that be handled actuarially or governmentally in terms of the Schedule B, if you were able to eliminate a certain block of liabilities and assets, so that one assumption is not speculation but guaranteed?

MR. SIMMONS: But the interest rate is only guaranteed for a relatively short period of time.

MR. DANT: In some of the contracts, the interest rate is guaranteed over a long period. A block of the lives are given to the company and they actually use your own mortality, but they guarantee that interest rate all through, certainly through the retired life group.

MR. SIMMONS: Most of the situations where dedicated portfolios are used tend to segregate part of a fund for retired lives, not necessarily pooling it with an insurance company on a guaranteed basis, but trying to establish an assumption as to what kind of yield and how much of the assets should be set apart for a current block of retired lives. I am not convinced that necessarily works.

MR. CHANDLER: There are methods available to value assets so that the valuation basis of assets and liabilities are consistent. If you believe that the investment return is going to be higher on your existing assets than you are willing to assume on future assets of the plan, you can use select and ultimate assumptions. I am not familiar with the details of all of the dedication schemes, but I do not see them as being a contract or irreversible, and there is a great chance of the actuary being left hanging out to dry when the investment advisor goes the other way. There are certain cases where it might be helpful in dealing with multiemployer plan withdrawal liabilities. Those may be special cases and maybe the way to deal with it is to use one or several insurance companies and lay off the whole liability when you have the ability to reduce your liabilities accordingly.

MR. KENNEY: I talked with the IRS about dedicated portfolios, and they had a concern about what interest rate would be used on the Schedule B when computing interest adjustments on the charges and credit items. Has anyone dealt with this issue on a practical basis?

MR. CHANDLER: We used a different assumption for retired lives than for active lives for one client - the only place we used that assumption. Everything else was done with the presumed-to-be-future investment-return assumption, which applied to actives. That is how we handled that situation, but we did not have a dedication involved, it was just a belief that current assets would do better than future assets.

MR. WALLS: We use a select and ultimate rate and value current assets at a higher rate than the ultimate. The Schedule B entries are all done on the ultimate rate, and the interest rate there is ultimate. The dedicated contracts are an investment and part of the investment market. If the investment advisor wants to use them, that is fine, and the actuary's task is to look at what is available and set particular assumptions on that basis. Varying interest rates are liable to be higher than ultimate ones; the dedicated portfolio is just an investment device that makes that so.

MR. PAUL E. ANGELO: In earlier years, because we were precluded from recognizing the eventual increases in fixed dollar per year of service benefits, we would typically use a more conservative rate. Since you have no inflation on the benefit side, you want to leave some of the inflation on the interest side. You would build a surplus from excess investment earnings to use when increasing the benefits, and you maintained your balance that way. With the audit guidelines for determining reasonable actuarial assumptions, if you take this approach, you are going to be stuck with a series of investment gains when you eventually increase benefits. That is not going to show up as a loss, but as a new thirty-year layer due to a benefit change. Is there any way of salvaging this old theory under the new procedures promulgated under the audit guidelines?

MR. CHANDLER: I never understood how this method could work because once you build up so-called surplus, do you not have to change your investment return assumption in order to have it work for you? Suppose you have a 5 percent investment return assumption, and now you want to change the plan. In theory, you build up a reserve because you have used a very conservative interest rate. How are you going to reduce the cost of the new plan or the plan change so that the surplus now gets recognized? The only way would be to change the investment return assumption to 5.5 percent, a few years later to 6 percent, and then 6.5 percent. You will run out of room to keep increasing this. Just run everything on explicit, and when the plan changes, it costs more. If the plan changes so that the benefits are better, it costs more. How does the implicit assumption work practically? It might work for a ten or twenty-year period, but at some point, it falls apart unless you have rising interest rates forever.

MR. WALLS: As a long time Examination Committee member, we always tried to put the perspective on implicit assumptions as not being something that any actuary should ever learn.

MR. ANGELO: Without defending the procedure, are we left with the situation that, if we have two plans, one of which is a final pay plan

and uses 9 percent interest and an 8 percent salary scale, the other is a flat benefit plan, we would use the 9 percent interest assumption and let the benefit increases be recognized as they actually become negotiated?

MR. CHANDLER: I think so. Let us consider the case where it is the same company, and one of those plans is for salaried people, the other for hourly people. Barring reversal of the final pay, the company's commitment to cover inflation must be recognized. For their hourly people, they have not made any commitment and, therefore, the hourly people are bearing the brunt of the inflation. How you do go to the negotiators and tell them that changing the plan costs more, but the money is already in there and we want credit for the increase in the cost? They are going to say that if the money is already in there, that means they have already paid for it. In dealing with hourly plans, it is important that cost increases are recognized when they occur, because they have to be reflected in the labor contract, particularly in a multiemployer plan. I do believe in having a small element of conservatism, because of all the other problems with the data and so on that can come up.

MR. VICTOR A. GALLO: A significant advantage of dedicated bond portfolios is that they eliminate the need to make an interest rate assumption with regard to the matched cash flow. They do require the actuary to consider the probability of default, but beyond this, the only remaining assumption is that of mortality on the pensioners. Compared to the interest rate assumption, these assumptions have relatively minor effects on gain and loss. To the extent that cash flows do not match exactly, the actuary will want to introduce an interest rate assumption for discounting the mismatch. This assumption would be the same rate used for nondedicated retirees. I will take for granted that the actuary would consider the composition of nondedicated assets in setting this assumption. An additional advantage to dedicated portfolios is that the market value of the portfolio is of no consequence after dedication, since its purpose of providing benefits to retirees will be fulfilled regardless.

Some actuaries express concern that one would not be acting as a good fiduciary when advocating dedicated bond portfolios since there are opportunity costs involved. To the extent that the portfolio is of high quality, it provides reasonable benefit security.

While it is true that a plan sponsor may have been able to earn a higher yield on other assets, such as equities, the level of additional yield is a matter of conjecture and therefore subordinate to my primary responsibility. All the portfolios I have seen are earning very respectable rates of return - about 12 percent. My client is the one making the investment decisions. Where they are not to the obvious detriment of the participants, I would not take on the role of investment manager.

MR. YAFFE: When using select and ultimate turnover tables, the select period is normally based on the elapsed time from the date of employment. When you use a select and ultimate interest rate, where does the select period begin and end?

MR. CHANDLER: It is not just the interest assumption you are dealing with but the salary increase assumption as well. You deal with increased cash flows from your assumed higher-than-ultimate investment return, so you deal with it on a calendar year basis.

MR. YAFFE: So the number of years from the valuation date is the duration of the select period. If you were to use one assumption for the next five years and another assumption continuously each successive year, does that constitute a change of actuarial assumptions each year?

MR. CHANDLER: It probably does. Remember, I was talking about public plans, so you do not have to worry about a Schedule B and all that. Actually, we would not use the same rates for five years and then step down; we would use a gradual decrease. On the other side, you presumably have got to match that with inflation. This is a strange period now, where the investment return stays high on the fixed-income securities, but inflation is rather low on the salary side and ordinarily you tend to see the same on both sides.

It is hard to build this into a system, but it does go a long way towards dealing with a retirement committee that thinks they know more about economics than their actuary.

MR. KENNEY: The last few years of change in our economic environment have really led me to question this old relationship between the inflation component in the interest rate, the inflation component in the salary scale, and the relationship between the old 2 percent, or whatever percent, spread. The reason our economy is in its present situation has a great deal to do with governmental actions. These actions are not changing, so are we stuck with a permanent spread between investment return and salary increases that is considerably greater than anything we have seen in the past?

MR. CHANDLER: One question to ask is: What do I look for over the next few years? The second question is: How about over the long-term of thirty, fifty, or seventy years? It is not so much whether the relationship holds but whether it gives a reasonable result if I assume it holds. I like to like an actuarial assumption. I do not like to say that I am always wrong. With pension plans, if they never terminate, you never really get where you are going. It is very difficult to decide what is going to happen over the next few years. That is a good reason to think about select and ultimate assumptions, for a big client,