Article from:

The Actuary

May 1993– Volume 27, No. 5

Issues facing actuaries in retirement systems

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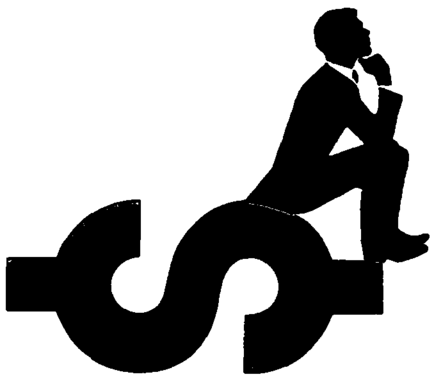

As the Society of Actuaries moves into its first year under the revised committee structure, the Retirement Systems Practice Area is actively initiating new projects while maintaining projects already in progress.

Projects include:

- Group annuity mortality table construction
- FAS 106 research and seminars with the Health Systems Practice Area
- Symposium of papers on appropriate/adequate funding of retirement benefits
- Specialty Guides and references for pension actuaries
- A study on employee turnover and retirement patterns
- Data collection to profile pension practitioners and their meeting and seminar attendance to better meet their needs

The revised SOA structure allows practice areas to enlarge their focus through practice advancement committees. (See "Revised committee structure" on page 5). The Retirement Systems Practice Advancement Committee is considering which issues to address. Following are some significant issues being considered.

Possible decline of the defined benefit plan

The number of defined benefit plan terminations has increased. Some have been replaced by or absorbed into other plans. Frequently, the new coverage is a defined contribution plan. Many reasons have been cited for terminations of defined benefit plans:

- Increasingly complex regulations, as well as more favorable regulations for defined contribution plans.
- Changing employment patterns. Defined benefit plans are designed to reward the employee who spends most of his or her career with a single employer. With employees now more likely to change jobs, employers are ambivalent about long-term relationships. Defined contribution plans are more portable and are more generous when benefits are taken for severance rather than retirement.
- Economic environment. Under the current economic environment, the focus of plan sponsors may have shifted away from benefit adequacy to the cost of the plan. Again, defined contribution plans have more visible termination benefits and portability. In addition, required contributions and the cost reflected on a company's financials are more predictable. Also, employee attention has shifted from long-range planning to job security and more immediate benefits such as health care, family leave, and flex time. This change in focus also may be influencing unions that had been strong supporters of the defined benefit approach.
- Employee preference. Many employees prefer the defined contribution approach with a personal account balance they can watch grow. The defined benefit plan is more difficult to understand.

The terminated defined benefit plans generally have been sponsored by smaller employers. Excise taxes on recaptured plan surplus in the United States and complex rules on surplus distribution in Canada may have inhibited large plan terminations. However, as lower interest rates eat into plan surpluses and tax and expense considerations grow, larger plans also may be affected.

Some believe that as the baby boomers get closer to retirement and focus on their pension benefits, a shift back to defined benefit plans may occur.

Canadian regulators are concerned about the decline of the defined benefit plan. In the United States, increased regulation may reduce the administrative advantages of defined contribution plans.

Although the future of the defined benefit plan is not clear, it is clear we should not plan for a future that looks like the past.

Increased regulatory complexity and compliance

Increased complexity in government regulation has made it harder to stay up-to-date on regulation details. Plan sponsors also may be less willing to use resources to review and amend their plans to comply with laws and regulations that are so complex they could defy compliance.

Increased competition and reduced employment opportunities

Economic conditions have led plan sponsors to cut back on consulting services and have increased pressure on actuaries to cut fees. Many actuarial firms have downsized, and fewer employment opportunities exist in the retirement systems area.

Advances in technology are likely to have an additional adverse impact on actuarial jobs, with computerized pension valuation systems available to non-actuaries.

Plan underfunding and the PBGC

Recently, the Pension Benefit Guaranty Corporation (PBGC) has been in the spotlight, with newspaper stories comparing the PBGC situation with the S&L crisis. Underfunded defined benefit plans sponsored by corporations facing difficult times make the PBGC problem worse.

The PBGC controversy has identified some inconsistencies in U.S. pension funding. For example, U.S. minimum funding standards allow for benefit improvements to be funded over an extended period. A plan that improves benefits for retired participants could easily extend the funding of the improvements beyond the retirees' lifetimes.

Recent drops in interest rates illustrate another anomaly. Plan funding valuations performed on a long-term basis could reasonably use an interest rate higher than that available in the annuity market and higher than the interest rate used by the PBGC to determine the liability for a terminating plan.

Options and alternatives

As the Society's Retirement Systems committees look at the issues, we realize we have more questions than answers. By addressing them now, however, we can shift our focus to the future. The following are some areas that could be addressed:

- What research would help assess the future position of actuaries in retirement systems practice?
- Should actuaries be more active in individual financial planning and work for the benefit recipient?
- Should pension actuaries reposition themselves as "employee benefits actuaries," with a thorough understanding of health and other group benefits? (The SOA is supporting pension and health actuaries practicing in post retirement benefits by offering seminars, research, and basic education.)
- Are some growth areas particularly suited for pension actuaries, such as international benefit consulting, designing executive compensation, evaluating personal injury and divorce cases, and giving expert testimony?
- Does the Society need to provide more continuing education on assets/investments for pension actuaries?
- Should the profession go beyond compliance with pension law and renew its focus on basic actuarial principles?
- What can the Society do to help retirement systems actuaries in practice for themselves or at small firms?

Some of these questions suggest actions the Society of Actuaries could take; some fall under the purview of the Canadian Institute of Actuaries and the American Academy of Actuaries. Some rest in the hands of the individual practitioner. Any comments and suggestions for the SOA Retirement Systems committees are welcome.

Revised committee structure

The Society of Actuaries has revised its structure to be able to respond better to members' needs in their practice areas. The reorganization changes the committee structure from a solely functional one into one that integrates four practice areas with needed functions. The SOA is organized into seven segments: three are operational and four relate to specific practice areas. The three operational areas are:

- Administration
- General Initiatives
- Examination and Basic Education

The four practice areas are:

- Life Insurance
- Retirement Systems
- Health Benefit Systems
- Financial and Investment Management

The General Initiatives area includes Knowledge Extension Research, Research Coordination, Program, Member Communications, External Relations, and similar committees.

Under each practice area, committees will focus on:

- Research — studies and analyses of use to members specializing in that area
- Professional Development — programs that add more practice-specific knowledge and skills past those acquired for designations
- Specialty Guides — up-to-date guides to sources to help stay current in a specialty
- Practice Education — material to educate candidates and members in existing practice fields
- Practice Advancement — providing scope of new professional requirements within existing fields and ways to meet them

This revision permits committees to better focus on their specific charges. The *1993 Society of Actuaries Yearbook* details the revised committee structure beginning on page 30.

Thanks to exam volunteers

by Bernard Bartels
SOA Registrar

Much time, energy, and effort is spent by more than 1,000 SOA members supervising actuarial examinations. The mere marshalling of these forces is no small accomplishment. Those who administer the tests appreciate all the work the volunteers do so this vital link in the development of the next generation of actuaries can be completed. Although space does not allow a list of the names of all those who are involved in this effort, we are grateful to the volunteers who help bring a successful exam administration to fruition.

Efforts continue to keep the complexities of the system within control. Members' suggestions on how to improve exam administration, keep costs under control, accelerate shipping procedures, and recruit supervisory personnel are most welcome. Call or write me at the society office with your comments.

5 schools receive grants

The Society of Actuaries recently awarded $2,500 grants to five colleges and universities in recognition of full-time faculty members attaining Associateship status.

The schools and faculty members are:

- Columbia College, Columbia, Missouri — Dr. Jiann-Shiun Huang, assistant professor
- Université de Montréal, Montreal, Quebec — Martin Bilodeau, Department of Mathematics and Statistics
- Central Missouri State University, Warrensburg, Missouri —Jinhua Tao, Department of Mathematics and Computer Science
- University of Nevada, Reno, Nevada — Manalur S. Sandilya, Managerial Sciences Department
- University of Minnesota, Morris, Minnesota — Jinghua Kuang, assistant professor, Division of Science and Mathematics

The grants will be used to aid students and faculty doing research and attending actuarial research conferences, paying exams fees, producing promotional material for the departments, and purchasing books, journals, and computer hardware and software.