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Information on Unusual Provisions in Cash Balance Plans Needed

by William Torrie and Thomas P. Edwalds

The SOA Committee on Retirement Systems Research is sponsoring a study of the actuarial aspects of cash balance plans. The purpose is to provide pension actuaries with comments and analysis on the design and valuation of cash balance retirement plans. This is in response to the fact that a wide variety of cash balance benefit designs have been introduced over the past 13 years. Many qualified defined benefits plans have been amended to convert their benefit formulas to a cash balance format, resulting in new plans that include innovative benefits and features not originally contemplated.

Particular attention will be paid to "embedded options," i.e., plan features that allow participants to make choices regarding their cash balance accounts. Depending on market conditions, these options could have a significant value that might not be recognized when the plan is valued using methods for traditional defined benefit plans.

How pension actuaries can help

The Committee has contracted with the firm of Bolton Offutt Donovan, Inc., to serve as researchers, and provided them a list of prominent sponsors of cash balance plans. The researchers will review the plans and compile a list of features as a basis for the rest of the study. However, it is unlikely that the review will result in the identification of all noteworthy cash balance features.

Therefore, the Committee is asking actuaries to submit examples of any unusual provisions in cash balance plans of which they are aware, whether they already exist in a cash balance plan or are being considered for inclusion. Of course, any information regarding individual plan sponsors will remain strictly confidential.

Some innovative benefits and features added to satisfy the design goals specified by plan sponsors for

new cash balance plans have included: (a) benefit credits that vary by age, service, employment category or other factors; (b) interest credit rates tied to equity indices; (c) minimum interest guarantees; (d) subsidized benefit options; and (e) the acceptance of rollover amounts that are converted to annuities on a subsidized basis.

Scope of study

The study's objective is to provide a fresh and unbiased review of the actuarial aspects of cash balance plans. These include:

1. Compiling a list of plan features



currently found in cash balance plans.

2. Identifying actuarial risks associated with each plan feature.
3. Identifying a set of appropriate actuarial valuation methods to be considered when valuing cash balance plan features.
4. Identifying appropriate funding targets for funded plans.
5. Identifying actuarial aspects of terminating cash balance plans.

The research is expected to culminate in the production of a paper that will introduce general cash balance concepts and address the research objectives outlined above.

Where to send examples

Examples of unusual provisions should be submitted to Tom Edwalds, SOA Research Actuary for Health and Pensions (Phone: 847/706-3578; Fax: 847/706-3599; e-mail: tedwalds@soa.org). All submissions will be forwarded to the researchers for potential inclusion in the study. Again, any information regarding individual

plan sponsors will remain strictly confidential.

Thomas P. Edwalds, FSA, is a research actuary at the Society of Actuaries in Schaumburg, IL. William Torrie, FSA, EA, is a casualty actuary at Pricewaterhouse Coopers LLP and runs the Cash Balance Prospect Oversight Group in Fort Lee, NJ.