



SOCIETY OF ACTUARIES

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Chairperson's Corner

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this year to commence with the development of a basic pension course for entry-level actuaries to be produced on CD-ROM. One of the continuing concerns of the Council members has been the amount of time and effort needed to train entry-level actuaries on basic pension terms, valuation methods, and governmental requirements. New actuaries are not learning these things in college or now, with the new exam syllabus, through the actuarial examination process. Every employer is faced with this issue and how best to quickly and efficiently bring these actuaries "up to speed."

Our intention is for the development of this basic pension course on CD-ROM to shorten this learning curve. Through the use of the CD-ROM course, entry-level actuaries can learn pension basics as they come on staff and at their own speed. Employers will not have to devote as much senior actuaries' time in training on pension basics and can focus on teaching the actuary how the employer does business. We feel this will directly benefit our Section members and provide needed training to entry-level actuaries that is not now readily available to any sized firm.

Our second issue is the need to coordinate more closely with the Enrolled Actuaries, the Conference of Consulting Actuaries, American Society of Pension Actuaries, the American Academy of Actuaries, and other organizations that offer seminars and training to pension actuaries. Given that some of these organizations are much more effective at delivering continuing education to pension actuaries, the Council has declined to organize sessions at the annual SOA meeting due to the conflict with the Conference annual meeting. The Council continues to desire consolidated meetings with the other organizations but has been informed that this is an SOA Board of Governors' issue and not within the Council's control. However, where possible, we will be pursuing co-sponsorship of seminars or, at least,

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Retirement Needs Framework

by Anna Rappaport

Pension actuaries are faced daily with the need to consider the implications of an aging society. Social Security and pensions are growing in importance as the percentage of elderly in the U.S. grows with the aging of the Baby Boom. Actuaries are needed to participate and help shape solutions to the emergence of critical issues in our society. The Society of Actuaries' Retirement Systems Practice Area took up the challenge to respond to these issues with the Retirement Needs Framework project.

This project began with a call for papers followed by a conference that was held last December. The organizing group, chaired by Marilyn Oliver, continues to discuss additional research.

The project is focused on understanding post-retirement events and risks, understanding modeling approaches for working with these risks, and searching out data. The organizing group began with identification of post-retirement events and then sought out the best way to move ahead to help actuaries address the financial effect of these events. Post-retirement risks include inflation, death of a spouse, changes in health status, changes in housing needs and changes in interests and avocations.

A call for papers was issued and 15 papers were submitted. The modeling approaches applied included:

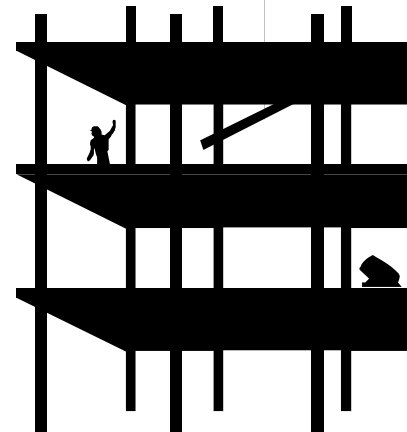
- Markov chain models to estimate transitions between different states of health and time spent in each state. Papers written by Bruce Jones and Eric Stallard used these models.
- Stochastic modeling of alternative investment and withdrawal strategies in order to analyze the

effects on the chance of ruin.

- Comparisons of annuity payouts with different distribution strategies and ancillary benefits.

The papers were presented and discussed at a conference. The papers were grouped into the following six panel topics. Author presentations were followed by prepared comments and open discussion from the floor.

- Identifying Retirement Needs
- Modeling Post-Retirement Needs
- Modeling Post-Retirement Investments



- Examining Preconceived Notions
- Special Issues for Women
- Managing the Risk

Participants at the conference were multi-disciplinary, including actuaries, attorneys, economists and demographers. The conference was extremely important to this wide audience because so much of the research around retirement focuses on the period before retirement rather than on events and risks that occur after retirement and ways to manage them.

Several discussions at the conference covered definitions of retirement and how patterns of retirement are changing. Retirement

was described as a gradual process rather than a one-time event. Bridge jobs, held between career and retirement, were discussed. Statistics on retirement patterns in the United States and Canada were presented, along with

“Outliving one’s assets is a serious issue that is clearly a problem for many elderly.”

some comparative data from other nations. There has been some evidence that the trend to early retirement has reversed. Different theories of what drives the decision to retire were presented and questions for further research were raised. Theories on the basis for the decision to retire differ in their focus on economic needs versus society’s mores and expectations.

Retirement patterns will be a policy issue in the U.S. as Social Security and Medicare changes are debated, and it is present in many other countries as well.

There was quite a lot of focus on the issue of annuitization versus investing a lump sum privately. Two papers provided models to show the implications of different combinations of withdrawal and asset mixes. The analyses showed that the probability of ruin was not greater with more aggressive investments even though the upside potential was larger. John Piggott from the University of New South Wales presented a fascinating discussion of the risks involved in annuities from a variety of perspectives.

There was much discussion around the question of whether annuitization should be mandatory and under what circumstances it should be mandatory. Discussants called for new models that would incorporate traditional invest-

ments, annuity income, and insurance coverage. Outliving one’s assets is a serious issue that is clearly a problem for many elderly.

Care for the frail elderly is a major problem with no solution in place for many families. Elderly women living alone are most likely to need such care on a paid service basis.

Data from the National Long-Term Care survey was presented. Only 7% of long-term care is paid for by private insurance. Individuals and Medicaid are the largest payers. This data provides a great deal of information on the continuum of health status and the status of the population. The data divides the frail population into those who could qualify for benefits under a long-term care insurance policy and those who could not. Only about half of the disabled would qualify.

The Society of Actuaries’ Long TermCare Committee will

be offering a diskette with much of this data on it. The diskette should be available within the next three months.

One of the conference speakers described the direction that assisted living is taking and its increasing importance. Questions were raised around coverage under typical long-term care insurance for stays in an assisted living facility in the future. We did not arrive at good answers for these questions.

Issues were also raised around the role of family members. It was pointed out that overall, men and women still play very different roles in the family,

and that retirement security is influenced by various combinations of care giving and labor force participation. Women are much more likely to be the caregivers. At the same time, women live longer and are much more likely to be alone and poor, or near poor. An analysis of the situation of baby boom women indicated that relatively few of them will have the assets for a secure retirement. This is a surprise to some observers who believed that as more women entered the workforce they would no longer have concerns about retirement security.

Karen Holden’s paper focused on widowhood and the significant decline in the economic status of women observed at time of widowhood. A single person is typically assumed to need about 75% of the income needed by a married couple. However, there are situations where this percentage might be much larger. If moderate

“...Retirement security is influenced by various combinations of care giving and labor force participation.”

levels of care are needed a couple can help each other out, but a single person will probably need to pay for help.

A monograph is being prepared on this project and should be available later in 1999. The future work of the organizing group and continuing research will be reported on in future editions of the *Pension Section News*.

Anna Rappaport, FSA, is past President of the Society of Actuaries (1997-1998) and Principal at William M. Mercer Inc. in Chicago.