



SOCIETY OF ACTUARIES

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Study Note Corner

With the year 2000 redesign of the Society of Actuaries education and examination syllabus and preparations for the first administration of Course 8 - Retirement Benefits, a variety of new study notes have been produced. New titles include:

- Innovations in Canadian Pension Plan Design
- Design and Funding of other Post-Employment Benefits
- Pension Plan Financial Statements: CICA 4100 and FAS 35
- FAS 106 and FAS 112
- Pension Accounting: International, U.S. and Canadian Standards
- Multiemployer Plans
- Introduction and Overview of Retirement Plan Investments
- Pension Issues for Insurance Companies - GICs and Asset/Liability Matching
- Statement of Investment Policy for Defined Benefit and Defined Contribution Pension Plans

In this study note corner, we will feature two of these study notes. Future corners will give a more in-depth treatment of the remaining notes and other new study notes as they are published.

Study notes can be purchased individually from the Society of Actuaries Study Note Coordinator, Aleshia Zionce, at (847) 706-3525, or email at azonce@soa.org. All study notes will be listed in the Fall 2000 Basic Education Catalog.

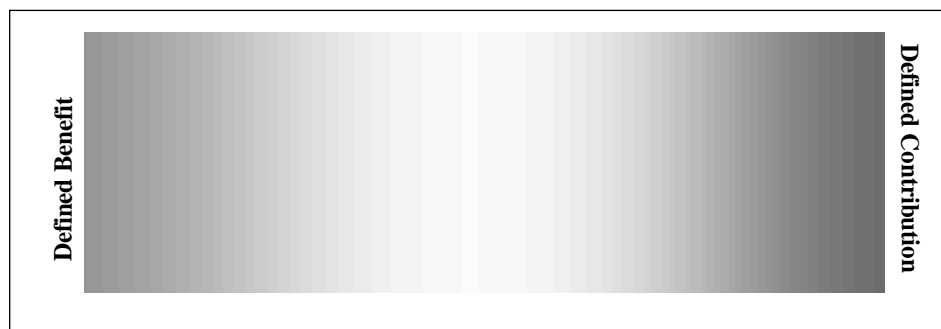
Innovations in Canadian Pension Plan Design

by *Laura Samaroo & Perry Teperson*

Only a few years ago, the traditional textbook on pension plan design would have focused primarily on two types of plan: defined benefit and defined contribution. Both types have their advantages and disadvantages and may be appropriate for different situations. However, today, the

spectrum of pension plan designs is far more diverse, including plans with innovative combinations of defined benefit and defined contribution features.

Over the last decade, the trend has been to move along the plan design spectrum from defined benefit toward defined contribution. However, this trend is not as cut and dry as it may seem. It is important to note that:



- In many cases, new defined contribution plans have been added by defined benefit plan sponsors as a supplement to or additional feature of the total retirement benefits package;
- Of the defined benefit plans that have been shut down, many of them have been where only very small groups of employees were covered under that arrangement.

Membership in defined benefit plans has remained very stable and the proportion of assets represented by defined benefit plans in Canada has remained fairly high. However, many plan sponsors are introducing new plan designs with both defined benefit and defined contribution features, recognizing that a blend of the two approaches is a better fit for their particular needs.

(The study note goes on to review the background of the Canadian tax system, flexible pension plans, cash value plans, offset plans and combination plans.)

Design and Funding of other Post-employment Benefits

by *Dale Yamamoto*

Retiree life and medical benefits were introduced to employee benefit programs

about 30 years ago. The medical plans were first designed to supplement the Medicare program and were viewed as a “no cost” benefit. At the time, the benefits were very low cost because medical costs were relatively low and there were few retirees. Life insurance benefits for retirees were often added as a natural expansion of retiree benefits.

In recent years, some employers have expanded their post-employment offerings

to include long-term care insurance and continuing-care retirement communities. These benefits are usually offered to employees at their own cost (i.e., employee-pay-all). Other benefits offered to employees after employment include severance, dental, vision and hearing benefits.

In many respects, these benefits are similar to pension benefits. They are provided to employees after they have contributed their services to their employer. Many times, the benefits are continued for the retirees' lifetime. Like pension plans, some plan designs even vary the benefits based on service.

This note provides an overview of plan design, accounting, and funding of these post-employment benefits. Although many references in this note focus on the U.S. medical system (i.e., no national health plan until age 65), the principles are applicable to other countries.