SOCIETY OF ACTUARIES

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Pension Section News

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Pension Section Welcomes New SOA Staff Actuary

We'd like to introduce Emily Kessler, who is the new Staff Fellow, Retirement Systems at the Society of Actuaries. Emily, an FSA, recently joined the SOA to take on this role previously occupied by Judy Anderson, who is now working with Basic Education.

Emily has spent her entire career as a retirement plan actuary. She worked for 14 years with Towers Perrin in both the United States and Europe. While in the United States, she consulted with private retirement plans and private post-retirement medical and life insurance plans. In Europe her role was in staff training and development and process management. Prior to joining the SOA, she worked for KPMG in their benefits and compensation practice.

Although she has lived in both Frankfurt and Brussels, Emily does not claim to speak any language other than English (and her British friends would debate whether her English is that good). She does, however, speak excellent "survival" French and German covering the important items; such as food and beverages. Additional knowledge picked up along the way include the fine points of calculating the Section 6a "Teilwert" liability for German pension plans, a basic understanding of the Belgian political system and the best place to go for chocolates in Brussels (Mary's, on rue Royale).

Emily can be reached at the SOA at 847.706.3530, or at *ekessler@soa.org*. She will be at the Spring Meeting in Vancouver (including the Financial Economics Symposium) and looks forward to meeting many of you there and at other SOA events.◆

Retirement Needs and Risks

by Emily Kessler, Staff Fellow, Retirement Systems

To consider the wider range of needs and risks now facing Americans during retirement, members of the Society of Actuaries Committee on Post-Retirement Needs & Risks have produced the Post-Retirement Risks: Changing Needs and Resources Chart (PRRC).

The PRRC summarizes the risks to meeting needs in retirement under the following headings:

Longevity (outliving your resources)

Changing family situation

- Death of a spouse
- Change marital status
- Unforeseen needs of family members

Economic unknowns

- Inflation
- Interest rates
- Stock market returns

Business conditions

- Availability of part-time or consulting work
- Health of insurance companies and traditional pension plans

Public policy

- Tax rates and formulas
- Benefits provided by Social Security and Medicare

Loss of ability to live independently

- Lack of available facilities or caregivers

Unexpected health care needs

Consumer information and assistance

For each risk, the chart provides background on the risk, explains how predictable that risk might be and lists programs or the cost of that covering the risk.

Shown on the next page is a sample of one line on the chart covering the risk of outliving retirement resources. We hope the chart is helpful to you and the plan sponsors that you serve. You can obtain copies at the SOA Web site at *http://www.soa.org/sections/retirement/PRRC_chart.pdf*. Consider using it the next time you're writing a report to your client about retirement risk; giving it to a plan sponsor over lunch to help them explain risk to plan participants; or using it to build your speech for the next professional meeting you attend.

More information on retirement needs and risks can be found at the Post Retirement Needs and Risks Web page on the SOA Web site at *http://www.soa.org/sections/retirement/framework.html.* There you can find papers and research, statistics, population survey data, and links to journals and other organizations.

Let us know what you think of the PRRC and other information on the Post Retirement Needs and Risks Web page. Comments can be addressed to Emily Kessler of the SOA at *ekessler@soa.org* or call her at 847.706.3530. ◆

Post-Retirement Risks: Changing Needs and Resources

Risk	Background	Predictability	Covering Risk or Cost	Comments
1. Longevity: Outlliving Your Retirement Resources	Life expectancy at retirement is an average, with about half of retirees living longer, and a few living past 100. Thus, planning to live a specified age is risky, and planning to live only to your life expectancy will be inadequate for about half of retirees. Besides longevity, the other risks listed below can cause a retiree to run out of money. Someone who lives many years has more exposure to these other risks.	Long lifespan is difficult to predict for individuals. It's easier to predict the percentage of population with a long lifespan for an individual. Wives outlive husbands in most cases.	Social security Pension or immediate annuity, guaranteeing a stream of income for life. This can include income after death to the spouse or some other named survivor. (However, without inflation protection, this is partial protection only.) All retirees should review their expected income needs and sources at least every few years and adjust spending if necessary.	Managing one's own retirement funds over a lifetime has many pitfalls even with expert help. Nobody knows how long the money must last. In theory, retirees want to make sure their money will last a lifetime without cutting back unnecessarily on their lifestyle. In practice, unexpected events may make this very difficult. Annuity may seem costly if bought at retirement or soon after, so retirees may want to wait until they're older. Can do multiple annuity purchases over time to average interest rates and purchase prices. Experts disagree about whether annuitization is a good strategy. The trade offs include lifetime guarantee vs. loss of control of asset's, cost, ability to leave money to one's heirs. Few people will want to annuitize all of their assets, but they may want to consider annuities in the overall retirement planning scheme.

2003 Symposium Questionnaire

Agree or disagree?

From the perspective of corporate finance, a defined-benefit pension plan is a form of debt collateralized by the pension fund assets. In order to minimize the cost to the sponsor … there is a strong incentive to hedge the accumulated benefit obligation (ABO) by investing in fixed income securities with a matching duration— that is, to immunize it. …*While useful for estimating a firm's future cash flow, the projected benefit method is misleading in the conduct of pension fund investment policy. The PBO is not an appropriate measure of the benefits that the employer has guaranteed and therefore not a target to be hedged by pension fund investment policy*." (Abstract: The ABO, the PBO and Pension Investment Strategy, by Zvi Bodie, emphasis added)

Agree or disagree?

"*Allocation methods that recognize expense in advance of an employee's exit-entitlement to a benefit invite misbehavior by the employer.*… Cash balance conversions, opportunistic terminations of employment … and rescissions of post-employment benefit "promises" are examples of irresistible temptation. Society often acts to repair and/or prevent recurrence of such behavior by statue and regulation … [and] such efforts commonly produce further fragile designs and opportunistic bad behavior." (Abstract: Periodic Cost of Employee Benefits, by Larry Bader and Jeremy Gold, emphasis added).

Agree or disagree?

"Determination of [an] annual pension contribution has traditionally been accomplished via the computation of the "liabilities" of the plan. Computation of [the liability] poses no difficulties when the financial environment in which the plan operates allows selection of a reasonable discount rate. However, in environments in which returns on plan assets are highly variable, selection of a discount rate is difficult [and] continuing to use discounted present values … may be an inappropriate use of the tool. *It is possible to compute annual pension costs without computing liabilities first, or at all, even implicitly [and] such an approach can be shown to have powerful advantages in stochastic financial environments.*" (Abstract: Pension Funding Without Liabilities: Outline, by Robert T. McCrory, emphasis added)

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