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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/frame-work.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 inade-quate 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 pro-tection, 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 multi-ple 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 de-fined-benefit pension plan is a form of debt col-lateralized 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 se-curities with a matching duration— that is, to immunize it. …*While useful for estimating a firm's future cash flow, the projected benefit method is mis-leading in the conduct of pension fund investment pol-icy. The PBO is not an appropriate measure of the benefits that the employer has guaranteed and there-fore not a target to be hedged by pension fund invest-ment policy*." (Abstract: The ABO, the PBO and Pension Investment Strategy, by Zvi Bodie, em-phasis added)

Agree or disagree?

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

Agree or disagree?

"Determination of [an] annual pension contribu-tion 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 dis-count rate is difficult [and] continuing to use dis-counted present values … may be an inappropriate use of the tool. *It is possible to compute annual pen-sion 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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Do you think the previous statements are crazy?

Do you think these statements are brilliant?

Are you unsure?

Come join the debate! These and other papers will be discussed at the "The Great Controversy: Current Pension Actuarial Practice in Light of Financial Economics Symposium" being held on June 24-25 2003 as part of the Spring Meeting (Health, Long Term Care & Pension) in Vancouver, BC. You can register today for the symposium only at the SOA Web site at *http://www.soa.org/conted/bro123.html* (scroll to the bottom for the registration card) or you are automatically registered for the symposium when you register for the Spring Meeting at *http://www.soa.org/conted/vancouver/vancouver.html*.

The symposium is recommended to satisfy 720 minutes of non-core credit to meet enrolled actuary continuing education requirements.

The symposium will present 23 papers on the following topics:

- The Employer Perspective
- Solvency Measures and Related Issues
- Investment
- Benefit Adequacy and DB/DC Issues
- Valuation (with special emphases on Employer Choices and Assumptions/Methods)

Don't miss your chance to be part of the discussion!

To read more about the papers being presented, go to *www.soa.org/sections/pension_financial_econ.html*.

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by John Riley, Managing Director of Continuing Education

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- Enrolled Actuary questionnaire processing. Questionnaires will be sent electronically with visuals. (2002 visuals are on the SOA Web site.)