



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 e-mail at azionce@soa.org. All study notes will be listed in the *Fall 2000 Basic Education Catalog*.

Pension Plan Financial Statements - CICA 4100 and FAS 35

by Daniel Morrison

Section 4100 of the Canadian Institute of Chartered Accountants' Handbook (CICA 4100) and Statement of Financial Accounting Standards No. 35 (FAS 35) establish standards for measurement and disclosure for pension plan financial statements for Canada and the United

States respectively. Similar standards may apply in other countries.

In both cases, the purpose of the accounting standards is to establish generally accepted accounting principles (GAAP) for pension plan financial statements. Such statements provide general purpose financial information for the pension plan participants and other interested parties, and are separate and distinct from the financial statements of the plan sponsor. Different accounting standards apply to the measurement and disclosure of pension plan information for reporting in an employer's financial statements (in Canada, CICA 3461; in the U.S., FAS 87 and FAS 88). None of the accounting standards address the contents of benefit statements for individual plan participants.

The purpose of this study note is to provide a summary of the two accounting standards, noting the differences, to illustrate two approaches to the presentation of pension plan financial statements.

Introduction and Overview of Retirement Plan Investments

by Robert G. Sanford Jr. and Richard C. Fulljames

A key component to the overall operation of most retirement plans is the accumulation and holding of plan assets in order to meet the financial commitments of the plan. There are some plans, particularly executive benefit plans, under which no assets accumulate. Such plans are the exception rather than the rule, however, and a thorough understanding of various funding instruments, as well as the nature of the underlying financial assets is essential. With such knowledge, it then becomes possible to choose assets and asset allocations appropriate to plan liabilities, select and apply appropriate asset valuation methods and match plan assets and liabilities, etc. In short, a working knowledge of assets and funding instruments is required in order to utilize



the actuarial techniques needed to manage any retirement program.

This study note discusses:

- Responsibility for oversight of retirement plan investments
- Types of vehicles available
- Objectives of pension plan investing
- Classes of investments
 - Fixed income securities
 - Treasury securities
 - Municipal bonds
 - Corporate bond
 - Mortgage pass-through security
 - Collateralized mortgage obligations
 - Asset backed securities
 - Convertible bonds
 - Fixed income risks
 - Duration
 - Convexity
 - Equity investments
 - Stocks
 - Warrants
 - Derivatives
 - Swaps
 - Real estate
 - Market neutral fund