



SOCIETY OF ACTUARIES

Article from:

The Actuary

February 2000 – volume 34 - Issue 2

Pension actuaries should take bigger role

by Anna M. Rappaport

Retirement security is an important issue to everyone who lives to be able to retire. Since we do not know specifically who among us that will be, all of us should take an interest. Retirement security comes from a combination of government programs, employer-sponsored plans, personal savings, and paid employment during the period in which we're using our retirement assets.

Actuaries have a special role to play in the structuring and management of retirement systems. They are the architects, and they provide the financial analysis and certifications that indicate a program's financial status. The actuary's role is similar to that of the appointed actuary in many financial security systems. In the United States, ERISA makes the actuary responsible for representing the interests of plan participants.

In addition to our ERISA-mandated responsibilities, we play many different roles, and we represent different stakeholders, particularly when we are not acting as plan actuary. For this article, I'm looking beyond my view as a pension consultant to serve as an observer of the U.S. retirement system. From that perspective, I want to focus on several areas where the system has failures, ask what we as actuaries might do about these failures, and raise the question of whether, in fact, there is some responsibility our profession might fulfill.

For this purpose, I will define the retirement system broadly. Also, I will view success as a situation where most of the population has adequate resources in retirement, and failure where they do not. I believe the following realities are unsatisfactory:

1. The vast majority of very small businesses have no pension plan of any type.
2. Americans do not save very much.

Savings rates are low and, if anything, are declining. While we talk about shifting retirement responsibility to the individual, many are not doing a good job of saving.

3. While poverty rates among the elderly have dropped a great deal in the last 30 years, the decline has been distributed very unevenly. About 6% of elderly married couples live in poverty, compared to about 20% of single women living alone.
4. While 25% of the elderly are affluent, 50% get virtually all of their income from Social Security.
5. More and more retirement assets are paid as lump sums, and there is no assurance they will last for the lifetimes of the people who need them.

None of these problems can be addressed by appointed actuaries doing a better job. They are well outside the realm of the appointed actuary. I propose that actuaries need to think through how we might help address these situations and thereby improve Americans' retirement security.

Some small steps may be possible. The Actuarial Foundation is partnering with WISER (a group dedicated to educating women about retirement) to produce a booklet on the use of retirement assets. This booklet will address the issue of annuitization and whether retirement benefits should be distributed as regular income or a lump sum. The profession, through this project, is seeking to help the public make better decisions.

We need to recognize that for the 50% of U.S. retirees who get virtually all of their old age income from Social Security, that program is critical. Actuaries need to help preserve and strengthen Social Security. We need to remind those who seek radical change about the needs of those who depend



on the system.

Encouraging individuals to save goes beyond the work we normally do for clients and beyond the role of the appointed actuary. We should participate in public and private efforts in this regard, however, so as to enhance retirement security. I was one of a number of actuaries who participated in the federal SAVER Summit in 1998 with public officials and a broad cross section of leaders. We need to carry forward the work of encouraging people to save.

Small businesses do not offer pensions for many reasons. Some are too new and unstable. In such cases, the best we can do is encourage employees to save. Others feel pensions are too complex and/or expensive. Legislation has produced some new, easier options. We can work in two ways — support legislation making it easier for small businesses to provide pensions and help educate small businesses and the public about existing options.

We take it for granted that as professionals, we need to do our jobs well and follow our profession's requirements. I submit that we should go beyond that and find ways to help create a more secure retirement for citizens.

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