

December 2010, Issue No. 73



Share

Print-Friendly
ArticleSearch
Back issues

POLL



IN THIS ISSUE

[Chairperson's Corner](#)[Notes from the Editor](#)[A View From The
Pension Staff Fellow](#)[Perspectives from Anna:
Disability Benefits in a
Defined Contribution
Work](#)[The New Era of Defined
Benefit Plan Risk](#)

Excerpts From the
Responses of the Public
Plans Subcommittee and
The Pension Finance
Task Force to the
Preliminary Views of the
Governmental Accounting
Standards Board on
Pension Accounting and
Financial Reporting by
Employers

[Part 1](#)[Part 2](#)[Part 3](#)[The Post-Retirement](#)

A VIEW FROM THE PENSION STAFF FELLOW

By Andrew Peterson

In the last edition of the *PSN*, we inaugurated this new column as a way to pass along information about key initiatives at the SOA and other items of interest that may affect actuaries working in the retirement area. In that first column, I focused on three key initiatives that are keeping me busy this year including: *Retirement 20/20* and the recent call for models contest; the work of an SOA task force on the application of Enterprise Risk Management (ERM) to the pension area, and a new SOA-board approved project on developing a "rapid" retirement research capability. In this issue, I'd like to drill down a bit into the *Retirement 20/20* project.

Call for Models Contest and Washington, DC Symposium

If you've read Marcus Robertson's Chairperson's Column in this *PSN* edition, you will have read that we completed the Call for Models contest and held a symposium in Washington, DC earlier this year. As a reminder, the contest was about seeking ideas for new retirement system designs that better meet the needs of the 21st century. The authors were asked to go beyond what is possible within the U.S. and Canadian regulatory structures to define a better "tier II" system that meets the needs of stakeholders: individuals, society (taxpayers) and employers, and that also does a better job of using markets effectively (<http://retirement2020.soa.org/call-models.aspx>).

We received 18 papers that were judged on the basis of the principles we have developed during the five-year long *Retirement 20/20* initiative using the *Measurement Framework* template and other key criteria. We congratulate the four prize-winning papers:

- "The SERIOUS System: A New Model for Retirement Income Success," by Ken Beckman, ASA, MAAA, CFA
- "The Tracker Plan: A Controlled Risk Defined-Contribution

[Needs and Risks
Committee in the United
States and the Pension
Advisory Task Force in
Canada](#)

LINKS



[SOA Pension
Section Web Page](#)



[20 / 20 Web site](#)



[Contact the Editor](#)



[Calendar of Events](#)

Retirement Program," by Rowland Davis, FSA

- "Affordable Retirement Income through Savings and Annuities," by Don Fuerst, FSA
- "The Total Career Benchmark Model," by Tom Walker, FSA, FCIA, CFP

Each of the prize-winning papers, as well as four other papers, formed the basis for our most recent conference, *Retirement 20/20: New Designs for a New Century*, held June 2-3 in Washington, DC. A second conference will be held, in cooperation with the C.D. Howe Institute and the Canadian Institute of Actuaries, in Toronto later this fall. (Editor's note: A one day invitation-only symposium, titled, *Getting Pension Reform Done: Issues, Options and Next Steps*, was held on Dec. 8, 2010 in Toronto.) The Washington conference featured presentations on the four prize-winning papers and additionally included presentations and panel discussions involving other select paper authors, retirement policy experts, academics, industry professionals and government experts.

After the winning proposals were presented we moved into panel discussions to explore the primary themes that emerged from the papers, including:

- Using "smarter" investment strategies that tend to be less risky (particularly as individuals approach retirement). These strategies tend to mandate either a default or required investment option, at least for a portion of an individual's retirement savings (remember, most individuals aren't actuaries, and studies show that many—if not most—individuals don't typically make smart investment choices). They also suggest more use of fixed-income vehicles like TIPS (Treasury Inflation Protected Securities).
- Showing retirement accumulations as streams of income, rather than a single sum. This uses the lessons of behavioral finance to help people understand that the goal of retirement saving isn't merely to amass as much wealth as possible, but to prepare for a potentially long period of not working by accumulating sufficient guaranteed income.
- Ensuring retirement savings are taken as annuity income in retirement, potentially protected from inflation increases. While this is very controversial in today's political climate, most conference participants agreed that lifetime income of some form is an important goal, and that it's important for the

profession to help policy makers understand that Social Security (in the United States) is not enough income for most individuals.

- Giving employers the option of access to a plan that they don't have to sponsor. If employers are relieved of many of the administrative burdens of plans sponsorship, more employers and by extension, individuals may be able to participate in plans.
- Providing a greater degree of standardization. If we change our thinking so the primary focus of retirement plans is ensuring that individuals have a secure retirement income rather than ensuring that employers have endless options to provide benefits, then the priorities of the system will naturally shift. One consequence of the shift that some authors explored was having more standardization in the system—which tends to lower costs and improves the ability of individuals (and employers) to plan ahead.

Many of these ideas are new and are not without controversy. There was significant discussion, debate and some healthy disagreement both among panelists and the audience about ideas like mandating plans, guaranteeing benefits, and balancing the needs of different stakeholders. That's OK. Actuaries understand risk, and we need to take risks to explore what's possible, even if it may not always be politically feasible in the near term. We were reminded of the challenge of the current Washington political climate in the post-health care reform environment. But we also were excited by comments from several Washington insiders who suggested that there are specific ideas that we can take forward to help create better outcomes within the system today.

We encourage you to access working drafts of the [papers online](#), including those from our four prize-winning authors and several other authors who appeared as panelists at the conference. In addition, the [conference presentations](#) from the event are also posted online.

Conclusion

So what do you think about these ideas? If you had to name your highest priority area to focus on in improving our retirement system, what would it be? Feel free to send me an e-mail with your thoughts to my address below or start a discussion (or continue an existing 20/20 discussion) on our newly-opened SOA Pension Section subgroup on LinkedIn. The new LinkedIn subgroup is located at the following address:

<http://www.linkedin.com/groups?mostPopular=&gid=3320437>

If you are not a member of the Pension Section or if you have any trouble linking to this address, please notify Sue Martz (smartz@soa.org) to

discuss access.

Andrew Peterson, FSA, is Staff Fellow Retirement Systems at the Society of Actuaries in Schaumburg, Ill. He can be reached at apeterson@soa.org.

Actuaries
Risk is Opportunity.™