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PENSION SECTION NEWS

May 2010, Issue No. 72

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CHAIRPERSON'S CORNER

By Marcus Robertson

A look back at the year 2009, a look forward to 2010 (and 20/20!), a welcome to new council members and a grateful au revoir (but, hopefully, not adieu) to outgoing members. Full article >>

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By Josh Bank

Last year's Pension Section Survey wasn't only about multiple choice questions. There were also several open-ended questions that evoked a fascinating range of responses. In the spirit of full disclosure, our editorial staff selected an "actuary's dozen" of these responses that we hope will provide you with a few moments of contemplation or just plain entertainment. Full article >>

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By Andrew Peterson

What does the SOA's Pension Staff Fellow do? Or rather, what does he not do? Join us in trying (unsuccessfully) to answer the second question. Full article >>

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AMERICANS' REACTIONS TO LONGEVITY RISK

By Wendy Weiss

How do Americans think about and act in the face of increased longevity risk? Financial planner / financial literacy advocate Wendy Weiss reflects on her own (predominantly middle class and affluent) clients' retirement savings practices against the backdrop of major industry surveys and studies. Full article >>

THE WORLD FUTURE SOCIETY 2009 CONFERENCE: ISSUES FACING OLDER WOMEN

By Anna Rappaport and Maria Malayter

Anna and Maria report on the "Older Women in the Future: Adapting to Longer Lives" session that they jointly presented with Terry Kozlowski at last year's World Future Society Conference, and provide brief summaries of selected other sessions they found interesting and/or surprising. Full article >>

2009 PENSION SECTION SURVEY: UPDATE AND ACTION PLAN

By Josh Bank

Josh summarizes key findings distilled from last year's Pension Section Survey, and reports on a fifteen-item action plan that was ratified by the Pension Section Council in February for near-term and mid-term implementation. Full article >>

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CHAIRPERSON'S CORNER

By Marcus Robertson

As Cindy Levering wrote in the "Chairman's Corner" one year ago, 2008 was a year of "historical and unprecedented" events.

So, what happened in 2009? More of the same! Governments around the world launched stimulus packages–some successful and some questionable–and mass layoffs and significant restructurings continued. It now appears that we may be limping out of the global recession, although it remains to be seen whether the recovery is solid or fragile.

In the United States, health care was a very hot topic as politicians and pundits debated President Obama's health care plan, taking Americans eyes off pension issues for a while.

In Canada, pension reform became a topic of discussion following the release of four large-scale studies that proposed significant pension reform to address perceived weaknesses in current regulation and to increase pension coverage, which is quite low for private sector employees. It remains to be seen how far governments will go with changes to current regulation.

As we move further into 2010 and (some of) the health care debate dies down in the United States, pensions may be expected to move to the forefront again. Although the markets recovered some of the losses suffered in 2008, many employees in defined contribution arrangements are still smarting, and companies are still freezing and wrapping up defined benefit pension plans, so our pension troubles are not over yet!

For 2010, the Pension Section Council has several initiatives, not the least of which will be completing its *Retirement 20/20* Call for Models competition which began in August 2009. In this competition, individuals and organizations were challenged to develop ideas for new Tier II

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Retirement Systems (employer or industry sponsored retirement arrangements) that align with the principles outlined in the *Retirement 20/20* initiative and fit within the context of the social insurance system, culture, work patterns and social values in Canada and the United States. To encourage participation in the competition, cash prizes will be awarded to the top submissions.

At this point, the competition is closed and we have completed the review of the 18 submissions. An expert panel has chosen the top submissions and we plan to sponsor two symposia (one in Washington, DC in June and one in Ottawa or Toronto in the fall) to present the top submissions to regulators, the media and the public. These symposia will be jointly sponsored with the American Academy of Actuaries and the Canadian Institute of Actuaries.

We hope and expect to contribute a great deal to "restructuring" the retirement systems in the United States and Canada. The top models emerging from the *Retirement 20/20* Call for Models competition should give stakeholders (regulators, employers, employees, etc.) in both countries food for thought as we move into the future.

In addition to continuing with our *Retirement 20/20* initiative, we are reviewing the results of last spring's survey and deciding which issues we can pursue in 2010 and beyond. Our three committees (Research, Continuing Education and Communications) have been meeting and will present priorities at a council meeting in February. Details of initiatives being undertaken will be announced in future issues of *Pension Section News*.

Finally, I would be remiss if I didn't mention the successful SOA Annual Meeting held last October in Boston. In a survey of attendees, eight of eleven sessions coordinated by the Pension Section received overall ratings that were above average and nine of eleven sessions had higher-than-average audience interaction. The Continuing Education Committee is reviewing all sessions to see which topics can be delivered in webcast form in 2010. Stay tuned.

Changes to the Council

As this is my first *Chairperson's Corner* since the council elections in 2009, I would like to welcome Bob Boeckner, Penny Bailey and Scott Hittner to the council. Eric Keener was also elected to the council, after completing a one-year term in 2009. In 2010, Penny will serve as the secretary and Scott as the treasurer.

I'd also like to welcome Bill Sohn, *vice-chairperson*, Josh Bank, *communications team chairperson*, Kevin Binder, *research team* *chairperson*, Ellen Kleinstuber, *continuing education team chairperson*, and our *board partner*, Tonya Manning.

Last but not least, I would like to thank outgoing members for their contributions to the work of the council. Thank you to Cynthia Levering, *chairperson*, Michael Archer and Sheldon Gamzon, *council members*, Ian Genno, *research committee chairperson*, and Don Segal, *board partner,* for all your hard work.

Marcus Robertson, FSA, FCIA, is chair of the Pension Section Council for 2010. He is a partner with Robertson, Eadie & Associates in Oakville, Ontario. He can be reached at *mrobertson@re-a.com*.

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NOTES FROM THE EDITOR

By Josh Bank

Last year's Pension Section Survey wasn't only about multiple choice questions. There were also several open-ended questions that evoked an intriguing, though not unexpected, range of responses. Our volunteer editorial staff selected an "actuary's dozen" (contrary to some old jokes, that means exactly twelve) of these responses that we hope will provide you with a general sense of what you and your fellow section members–and other actuaries who are not members of the Pension Section but who listed retirement as their primary practice–would like the SOA and the Pension Section to think about in planning our activities for the near and midterm.

The following comments were received in response to the most open-ended question posed in the survey, *"Thank you for your participation in this survey. Please provide any additional comments below."* In most cases we provide clarifying editorial responses or comments.

"Actuary's Dozen" responses to open-ended survey question:

- I am not an SOA member. I am not sure why I got this survey. *We decided to send the survey not only to members of the SOA Pension Section, but also to other individuals who are not members of the section but who listed "Retirement" as their "Primary Area of Practice" in the jointly-maintained Actuarial Directory.*

- Thank you for including non–SOA members in this survey. I'm an EA, FCA, AAA, that benefits from the work and research you perform, but don't automatically receive all your information.

- I think that the future of defined benefit plans is bleak and that actuaries are not essential for defined contribution plans. Perhaps

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the Pension Section should focus on preparing proposals that will halt the decline of DB plans.
The SOA's Pension Section is indeed focusing on proposals and ideas that are designed to increase individuals' economic security and quality of life in retirement, whether through traditional Defined Benefit (DB) plans, hybrid plans that incorporate pooling of longevity, financial and other risks, or vehicles closer to the "pure Defined Contribution (DC)" end of the spectrum. Please visit the [*Retirement 20/20*] *website to learn more about this key initiative.*

- Personal emails will catch our attention more than just having something up on your webpage. For example, you should remind us about what is up there. Let us know when you put new info up on the Statistics for Pension Actuaries website. Otherwise, we may not even know it is being updated.
  One of the Pension Section's current projects involves increasing the frequency, timeliness, relevance, dynamism and user-friendliness of electronic communications with our members. As one example, we plan on roughly doubling the frequency of our regularly-scheduled electronic publications by plugging the gaps between issues of Pension Section News *with "lite" versions of* PSN*, modeled conceptually after* [SOA News Today]*.*

- Please reduce the number of email blasts from the SOA–I try to keep up with them but it seems there are just too many that come in each month resulting in me reading fewer and fewer.
  Some day there will be a way to customize "e-mail blasts" to each of our ~4,000 members' (plus nonmember subscribers') individual needs and electronic overload thresholds. Until that day, we all need to sharpen our skills at "sensing" the relevance of incoming e-mail. Our job is to put it out there and to help you gauge its relevance as efficiently as possible ... your job is to hone your filters.

- Nice job. Thanks for connecting with us!
  Good day at the office, eh?

- I get so much e-mail from the SOA it is tempting to consider it SPAM. I get so many invitations to do surveys; I ignore almost all of them. Maybe if you found a way to interview actuaries at actuarial meetings, you could get more thoughtful information.
  Your idea is good, and something that could help us get a sense of our membership's needs and expectations, face-to-face through both "luminary" and grassroots members! However, limiting ourselves to interviewing a one percent or smaller sample of our constituency at meetings cannot be a substitute for getting a

statistically significant pulse of the 7,000-strong retirement actuarial community. Thank you for this excellent suggestion!

- I only found out about this survey from an email from a work colleague. Should I have gotten an email about it or is there a link somewhere.
  We e-mailed well over 7,000 retirement actuarial practitioners with a link to the survey, and sent the usual follow-up messages as the deadline for response approached. Please contact the SOA if you have questions about why you may not have received appropriate notifications.

- I do not attend the meetings or web casts because of current company policy concerning costs/travel.

- In the current economic environment firms are restricting travel, etc. Thus offering more meetings right now probably doesn't make sense. Web casts will meet the need.
  The SOA and the Pension Section (as well as other actuarial organizations) try to maintain and coordinate an appropriate balance between meetings, webcasts and other forms of continuing education, research and other communications. As the economic environment fluctuates it is always a challenge to find the optimal combination.

- The SOA should stick to education and research, and not underwrite partisan advocacy (see the current purpose statement of the Joint Pension Finance Task Force.)
  As a joint task force between the Society of Actuaries and the American Academy of Actuaries, the PFTF attempts to balance the SOA's primary focus on education and research and the American Academy of Actuaries' focus on serving the public on behalf of the actuarial profession in the areas of public policy and professionalism.

- I didn't realize I had access to this (*Pension Section News*) newsletter online. Somehow I missed it when the printed copy was no longer mailed.
  We communicated the transition to an electronic format over an 18-month period in 2006-2008. Please contact the SOA if you think you should be receiving the electronic version and are not getting the release e-mails.

Closing comments

With 4,000-odd Pension Section members and hundreds of non-member retirement practitioners who were asked to complete the survey, it's not surprising that there'd be some diametrically opposite comments made. However, with very few exceptions (we made a judgment call on a few comments that were considered mostly as blowing off steam or that clearly did not relate to either the SOA's or the Pension Section's stated missions), we've taken all of the input provided by our members and other pension practitioners to heart, and many of these open-ended responses have formed the basis for our Survey Response Action Plan. See the closing article in this issue of *PSN* for a high-level summary of our Action Plan.

Again, thanks for your valuable participation and ongoing engagement!

Josh Bank, ASA, EA, is chairperson of the Pension Section Council's Communications Team (which designed and administered the 2009 Pension Section Survey) and editor of *Pension Section News*. Josh can be reached at *jobank@gmail.com*.

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A VIEW FROM THE PENSION STAFF FELLOW

By Andrew Peterson

I've been in my job as the Retirement Staff Fellow at the SOA for about two years. When I'm out and about at continuing education events or attending various committee meetings, I'm often asked about the role of the staff fellow and what I do exactly. That's an interesting question as the staff fellow role is quite unique, I think, versus many of the other jobs filled by actuaries. One of my key roles is to support the work of the Pension Section and so as we brainstormed on ideas for this edition of *Pension Section News*, we thought it would be interesting to add a new periodic column that provides an update on the initiatives that are crossing my desk.

Retirement 20/20

One of the key initiatives of the Pension Section Council is the *Retirement 20/20* project. *Retirement 20/20* seeks to find new retirement solutions that will meet the economic and demographic needs for the 21st century in North America. (For more information about this initiative, see the dedicated website or an article from the April/May 2009 issue of *The Actuary* summarizing the work of the *Retirement 20/20* initiative.)

We are at an exciting stage of the project, currently being in the middle of our Call for Models contest. This contest is a call for papers proposing new retirement systems that could provide new ideas to replace or improve the models currently in place in the United States or Canada. While we recognize that radical changes to our existing retirement frameworks are unlikely or at a minimum will take considerable time to effect (the health care debate in the United States providing a good example), we hope that the ideas raised will provide new viewpoints and principles for policy-makers and other stakeholders to consider.

We received 18 papers that have been judged on the basis of the principles we have developed in the *Retirement 20/20* process (using a

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Measurement Framework template). A decision has been made to award cash prizes to the top four papers. In addition, these papers and a selection of the others will be presented at a special *Retirement 20/20* symposium that will be held in early June 2010 in Washington, DC. We will also be hosting an event in Canada in the fall to highlight ideas that are applicable in that context. Stay tuned for more information on *Retirement 20/20*.

Pension ERM Task Force

Another new project on my desk for 2010 is working with a newly formed task force that is tackling the topic of what enterprise risk management (ERM) means for the pension/retirement area. ERM is a concept that originated in the insurance world and while the science and practice seems to be well-developed there, we in the pension world are still figuring out how to apply ERM principles to our discipline. There are distinct differences between insurance companies that manage risk on an integrated basis and corporations or other entities (like public-sector employers) where the pension plan is just a piece (albeit a very big one in some cases) of the overall picture.

We have assembled a group of about 15 individuals who have expertise in either the pension or ERM area, or both, to work together on developing a robust set of ideas and resources linking ERM concepts more specifically to pensions and retirement planning. This task force is a temporary group reporting to the SOA Board of Directors Leadership Team with liaisons from both the Pension and Joint Risk Management Sections. We will deliver a report at the end of the year detailing the work and likely making recommendations that will help us better implement ERM practices in the pension area.

Retirement Research Initiative

Another initiative hot off the presses is a new "rapid research" function in the retirement area that the SOA Board of Directors approved for a pilot study at its February 2010 meeting. Over the last year, there has been a growing consensus within the actuarial profession's leadership that the profession needs to strengthen its capabilities to provide research and analysis that is responsive to important issues of immediate public, social or media interest. The actuarial profession has a unique and valuable perspective to provide on such issues, but it sometimes lacks hard data and research necessary for timely modeling and analysis of issues.

In response to this, the board approved a pilot project that seeks to strengthen the SOA's ability to provide timely, focused, and relevant research to the public. Using the retirement practice area as a starting point, the rapid research pilot project will focus on developing relevant research on retirement plans by giving the SOA the in-house capability to model plans and provide analytical research results more quickly than is currently possible with traditional, predominantly volunteer-staffed research projects. More detail can be found here.

In conjunction with this pilot, the SOA Board recently approved a newly created staff actuary position at the SOA. The Retirement Research Actuary will be responsible for developing and completing retirement research. Please read more about this position here.

Conclusion

So, these are some key initiatives that I am focusing on, that hopefully will have positive implications for actuaries practicing in the retirement area. It is important to note that these activities only happen through the work of dedicated volunteers. While working on these projects is part of my everyday job, I'm thankful for the members of the Pension Section Council and other volunteer teams that go above and beyond to provide time and intellectual capital to get these projects completed.

Andrew Peterson, FSA, is staff fellow, retirement systems at the Society of Actuaries headquarters in Schaumburg, Ill. He can be reached at *apeterson@soa.org*.

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PERSPECTIVE FROM ANNA: WOMEN AND RETIREMENT SECURITY

By Anna Rappaport

Why are so many women poor or near-poor in retirement? We know that pension plans can't legally discriminate based on gender, but women tend to live longer and have less pension coverage, with shorter covered work histories and lower wages. Retirement planning issues for the lower-income population are entirely different from those confronting higher-income populations, and they are generally not about investments.

Two major retirement planning issues affecting women are when to retire and claim Social Security benefits, and how to manage their housing wealth and housing options. Decisions made by married couples on these topics have lasting effects on the survivor after one spouse dies. We'll save a discussion of those subjects for another day.

The Women's Institute for a Secure Retirement (WISER) has been working for a number of years to help lower and middle income women improve their retirement security. In December 2009 WISER held a symposium about how government, employers, financial service firms and individuals can strengthen women's retirement security. Seminar materials can be found here.

Here are some highlights and wake-up calls for me from the symposium, along with a few of my own comments.

Support employer plans and make adjustments to recognize the difference in men's and women's employment experience. People are much more likely to save at the workplace than on their own, and employers should be encouraged to continue offering plans. This is not new, but what is new is the number of proposals being made that do not recognize the value of the employer in encouraging retirement savings. It is alarming that reform advocates would consider

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reducing or eliminating the employer's role from the retirement savings equation.

Insights on death benefits. Research from MetLife presented at the symposium indicated that two thirds of the survivors of those who died before retirement found the life insurance they had was inadequate and that they faced major, long-lasting financial shortfalls. Furthermore, they were not well informed about the coverage or its adequacy, and many of them expected larger death benefits. This research ties into findings from the Society of Actuaries Post-Retirement Risk survey showing that most retirees do not expect to experience a decline in living standards after the death of their spouse. Clearly, employees often lack awareness of income needed by the survivor, so they fail to buy enough insurance, and the survivors pay the price. Note that tax-free employer-paid group life insurance coverage is limited, unlike group health insurance. The $50,000 limit on tax-free group term life may have seemed ample when it took effect in 1964, but inflation has diluted it by over 85 percent while mortality rates have fallen, further eroding the lifetime income that this amount can generate. Thus, even a modest increase today could encourage broad upgrading at little cost to employers or the IRS.

Learning more about R-Bonds–Retirement bonds as a new option in the retirement marketplace. Lower income persons often do not work at jobs offering access to retirement savings vehicles and often are not at the same job for a long time. If they wish to participate in IRAs, there may not be good options for them in the traditional retirement marketplace. U.S. Savings Bonds specially focused on retirement would help this group and thus would help many women. R-Bonds paired with auto-IRA proposals and tax credits would offer a way to help more lower-income people get started with IRAs. R-Bonds are currently in use on a limited basis and it has been proposed that they be used more widely.

Reinforcement of the idea that we must move beyond literacy and focus on getting people to act. Improving literacy is a great idea, but it will not be effective unless people also act. Action requires discipline and making choices.

Insights about action and different groups that can serve to promote action. The WISER symposium focused on the employer as a vital center of influence, but also recognized that many people do not have employers who can serve as a center of influence. For them, potential centers of influence include family and community groups. For ethnic groups such as Hispanics and African Americans, the influential groups may well be those who recognize the particular needs of those communities. At the symposium, it was pointed out that Hispanics are often low income and many of them are unbanked. This is partly the result of lack of trust in Financial Institutions.

Protect, preserve, and strengthen Social Security. Remember that for four out of ten older women living alone, Social Security is virtually their only source of income in retirement. It is therefore vital not to lose focus on the importance of Social Security.

Support tax incentives that encourage low and moderate income workers to build wealth. The Obama administration supports auto-IRA and similar/related programs, as do many other groups. Many people have not capitalized on opportunities to save in IRAs, but if they are combined with refundable tax credits, as provided for in some of the proposals, they can be more effective. As mentioned above, one of the ideas discussed at the symposium is that of R-Bonds, special savings bonds vehicles that cost-effectively handle low balance retirement programs. Those of us who've spent our careers working with larger employers need to get beyond traditional thinking as we focus on these issues.

Enable later retirement and support better work options. For an increasing number of people, work is expected to be part of retirement. Life spans are increasing and volatile financial markets appear to be the order of the day, at least for now. Working longer will be a financial necessity for many people to avoid the adverse effects on living standards of significant fluctuations in the economy and continued improvements in longevity. In addition, there is general agreement that remaining active and engaged enhances quality of life in old age. Retirement ages are increasing but it is often challenging for people who want to work to find and maintain suitable employment. Properly structured "phased retirement" options could be a major win-win for employers, employees and society at large.

Encourage annuitization. WISER emphasizes the importance of annuitization and other methods of helping to make your money last a lifetime. If money is spent too quickly, it is more often than not the widow who ends up with problems. As an actuary, I am very focused on lifetime income solutions and the need to focus on longevity risk. Many people focus on the short-term rather than the long-term, and we need a lot more focus on the long-term.

Conclusion and Policy Future

WISER has constructed a blueprint outlining a broad agenda for women's economic security. It raises many issues for future change, including a number of issues on the Federal policy agenda specifically relating to retirement security. Short-term issues on the policy agenda include patches to defined benefit funding requirements, auto-IRAs, disclosure of fees for defined contribution plans, and approved approaches for investment advice. Longer term there are questions about what is the best retirement system structure for the United States, the future of Defined Benefit (DB) plans, how money should be paid out from Defined Contribution (DC) plans, and what the different mandates and permitted defaults should be. One of the topics studied by the 2009 ERISA Advisory Council was the long-term future of the U.S. retirement system. The background / approach / scope statement for this study can be found on the U.S. Department of Labor website. Watch for the report, which will be posted once the study is completed. As we think about the future of the retirement system, we need to not forget the needs of women and the differences in life history that contribute to different outcomes in retirement.

Anna Rappaport, FSA, is an internationally recognized expert on the impact of change on retirement systems and workforce issues. She is a former consulting actuary at Mercer and former president of the Society of Actuaries. Currently, Anna is president of Anna Rappaport Consulting in Chicago, Ill. She can be reached at *anna@annarappaport.com*.

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AMERICANS' REACTIONS TO INCREASED LONGEVITY RISK

By Wendy Weiss

Americans have heard the statistics. So they know they will live longer than previous generations. But many of them do not understand the implications of their increased life span. Behavioral economists and the Society of Actuaries 2007 Risks and Process of Retirement Survey Report provide statistics to document the gaps in understanding. I will develop this argument from my professional experience, by describing Americans' decision-making and behavior with respect to employer sponsored Defined Contribution (DC) Plans and IRAs. Their thought patterns and actions raise a set of issues that actuaries may want to consider as they assume their professional responsibilities of giving advice to pension and retirement plan sponsors.

I will offer the perspectives from the other side of retirement plans–the employee. I will describe the way that the employee thinks about the level of his/her contributions to retirement accounts; acts when his/her retirement account statements arrive in the mail; and considers the adequacy or inadequacy of these account balances for the income s/he will need in the future

My comments are based on eight years of work as a financial advisor, listening to individuals as they react to proposals to invest a larger percentage of their earnings for the future and develop a plan for their retirement years.[1]

The material is presented in question and answer format, followed by additional detail for the interested reader and concludes with a short analysis of the findings, framed to meet the needs of the Society of Actuaries' audience.

When Americans make decisions about the level of their contributions from their salaries, what influences their

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action?

My conversations with middle class and relatively affluent individuals tell me that it is a rare employee who contributes the maximum allowable by law to his/her DC plan, and/or IRA.

The rationale for contributing a relatively small portion of income to a DC plans varies. Many individuals say that they cannot afford to set aside much money from their income. Some do not contribute at all, especially those with incomes at or below the median American income. Individuals who have incomes well above the median make surprising decisions. They do not seem to understand the tax benefits, including the reduction in their Adjusted Gross Income, with the potential for shifting them into a lower tax bracket. What most do is restrict their contributions to three percent of their annual income, or whatever their employer offers as a match.

Another observation: The individuals I talked with rarely increased the percentage of their income that is automatically deducted from their paycheck and deposited into their DC plan account. The percentage was usually set when they were first employed, and the decision is rarely revisited.

IRAs. The people I met did not automatically contribute to an IRA for themselves or a spouse. The issue is *not* necessarily insufficient discretionary income. When asked to contribute they often decide based on the availability of an immediate tax deduction. Even if their income for the tax year is too high to receive that deduction, they will generally decide not to invest an additional $5,000 (in 2009) in their IRAs.[2]

How do Americans think about the amount of funds held in their retirement portfolios?

People I talked with did not spend very much time thinking about their retirement accounts. Most held IRA and 401(k) accounts with multiple institutions and/or employers. Their spouse/partner may have multiple accounts as well and often they did not sum the total of their retirement holdings.

Many did not even open the envelope when their account statements arrived. Many choose not to look at the value of their accounts or their portfolios of IRAs and 401(k)s (which may be held at varying employers) on a regular basis. Outright "fear of opening the envelope" and seeing the drop in the balance often drives behavior when markets drop and newspapers run front page stories on market volatility.

Balances held in DC plans are often not very high. In 2009, the average 401(k) balance was $50,200, a decline of 27 percent from the balances of

$69,200 in 2007.[3] In 2010, 54 percent report that they hold less than $25,000 in total savings and investments. There is variation of course as 56 percent of the individuals aged 24-34 have account balances with less than $10,000. By contrast, 46 percent of those aged 55 and older hold account balances that were greater than $100,000.[4] Nevertheless, individuals nearing retirement–who are accustomed to enjoying a life style supported by income of $100,000 or more–might not want to look at, nor think about, whether they have sufficient assets to provide a comfortable income for 15-30 years of retirement.

In a similar vein, few individuals sit down each year and tally their assets, calculate their Net Worth and develop a careful plan to increase asset levels or decrease the amount of debt held. Many of the Baby Boomers I advised held large mortgages and increased their debt through home equity lines of credit, etc. during the housing bubble. Published data indicates that these clients were typical. After the economic crisis, with the accompanying decline in housing prices and increasing job loss, many individuals have begun to review and reduce the amount of debt they hold.

If they don't make careful decisions about their contribution rates, and don't like to look at their balances, how can Americans be realistic about their longevity risk and take the appropriate action?

In my eight years of financial advising, talking to hundreds of clients who invested with me, a surprising few had run careful calculations to see if their assets would be adequate to fund a lengthy retirement. The EBRI 2010 Retirement Confidence Survey also finds that less than half, or 46 percent, of the workers aged 45 and older have not conducted retirement needs calculations. Some, aged 35 or older, may have at least attempted calculations.[5]

It is important to make detailed calculations–totaling the assets held and then running scenarios that test whether individuals and/or couples would outlive their assets. As actuaries probably know, it takes simple calculations to make projections about longevity and likely rates of investment return on all assets.

As advisors, we are faced with the need to help people understand reality but be diplomatic so that they do not end the conversation before we start planning. In the context of retirement account balances that average $50,200 (and are likely to be lower than a client might need), we begin *tactfully* and carefully with simple income replacement ratios using the client's statements about their present set of expenditures. Then we compound inflation on income needs and consider the impact of taxation cutting into the yield from assets. Finally, we consider the impact of estimated Social Security income the individual or couple will enjoy.

The resulting report shows the positive and *negative income* flows from the projected date of retirement to the date of projected end of life. It states clearly the number of years, after retirement age, that the individual is likely to enjoy his/her desired income and the point at which they would outlive these assets.

In these calculations, the shift from positive to negative income often occurred seven or more years after the date of retirement. When the individual read that, s/he generally responded with stunned silence.

There were some variations. One individual clearly did not understand the value of compounding interest over a 20-40 year period, i.e., a long lifetime of work. This person wanted to contribute $75,000 each year for the next seven years. She thought that would be sufficient to enjoy the income to which she was accustomed, about $125,000 annually, beginning at the end of those seven years stretching 30-40 years. When I presented the calculated projections, she got very angry. I was unable to continue the conversation or work with her further.

Another individual had the presence of mind to jokingly break the silence after he reviewed the projections. Seeing that his income would only last to age 72 he looked up and quipped. "Oh. I guess that's the age I have to commit suicide."

Retiring early. Actuaries, who understand longevity risk more readily than the average American, may be surprised to hear that before 2008 (as they had done before the year 2000) many individuals expressed great interest in retiring at age 60, or 55 or even at age 50. These individuals are somewhat distinct from the "typical worker." They often hold retirement savings of a few hundred thousand dollars, no credit card debt or very little and have equity in their homes so they hold a relatively reasonable mortgage. They have not run the calculations to confirm their decision, and turned to me to do so. When they see the numbers for 20-30 post retirement years, they are often shocked to see that they would not have sufficient income.[6]

Delaying retirement. Individuals with small retirement accounts or none at all, simply assert that they would keep working past age 65. The decision to delay retirement has also become more prevalent since the market dropped in 2009.[7] While this is prudent, given the small average holdings, this plan may not work. Their jobs might be out-sourced, their company could merge and decide their contributions were redundant, or they could face unemployment as the result of a recession in their industry or the economy as a whole. In fact, many Americans are involuntarily retiring earlier than they had planned because of the changes in the job picture. The recession of 2008-2009 should provide a lot of new statistics, as well as personal stories.

Analysis

My experiences with DC plan participants' decision making, rationales, and actions taken and *not taken* by intelligent Americans raises issues that actuaries might want to consider. Americans recognize that they face longevity risk. Yet they generally have not thought long and hard about the fact that they will have to fund their very lengthy period of retirement. And they do not take adequate steps to manage or reduce that risk.

Actuaries have had a positive impact. Many individuals do contribute to DC plans and so begin to build the assets that they will need to fund their retirement. But during the 20-40 year span that they earn incomes, they choose to invest a small percentage of their earnings for their future, rather than max out. And they fail to regularly increase their contribution rates.[8] They rationalize this by pointing to the absence of aid from larger entities–employers who do not provide 401(k) match benefits and the U.S. government that does not provide a big enough tax break in the year of contribution to an IRA.

I infer that they emphasize the short-term benefits of a match, and a deduction. At the same time they seem to prefer to enjoy the increase in their discretionary income that a low contribution rate offers. I see a mismatch between their short-term perspective and their need to fund their longer life span. They generally lack a long-term perspective to meet the demands that longevity poses.

Do they lack an understanding of the fact that their future retirement income will have to come from the proceeds of their DC plans, other investments (liquid and illiquid, such as real estate) and/or Social Security?

The low level of contributions to retirement accounts as well as the continuing low balances would suggest that. They do not think hard enough about the adequacy of these balances to fund their future retirement, often avoiding "the envelope." Furthermore, they tend not to increase their level of contributions over time, even as their income rises.

When meeting with an investment advisor, they do press for a higher investment return. They often want a double digit positive return that may be "too good to be true." The figures preferred–15, 20 or even 30 percent–are returns that in fact are historically too good to be true. They are not part of an overall investment strategy to project whether their assets will be adequate. A recommendation that they should increase their contribution levels today, to augment the positive impact of compounding interest over decades and their income tomorrow, often meets with silence or a look at a spouse.

While repeated high double-digit returns would have a positive impact on their retirement nest egg, the level of realism is a bit troubling. For instance, many said they want to retire early. While such a preference is understandable, what is problematic is their lack of appreciation of the long-term feasibility of this option. In my experience as an advisor, I have found that it is a rare individual who has determined whether his/her assets–in retirement accounts, investment accounts, and less liquid assets such as real estate–can generate the type of income s/he will need over a very long-term.

So, when Americans think about their increased longevity, and the financial requirement that they fund their old age, they seem to be challenged. Their perspective focuses less on the long-term demands of longevity. They think and act in ways that emphasize short-term issues. It is this mismatch between their short-term perspective and their need to fund a longer life span that I find most troubling. They need a long-term perspective to meet the demands that longevity poses.[9]

Actuaries who understand the perspectives of the individuals who depend on their advice may be able to develop the tools to help these individuals ready themselves for longevity's demanding challenges.

Footnotes

[1] Most of my clients held retirement accounts with balances that ranged from $80,000 to $450,000, but little in accounts outside retirement savings.

[2] Often they are unaware that the laws have changed and that they can contribute to a 401(k) as well as an IRA, and also make a contribution for a non-working spouse. When told that they have the option to enjoy deferred taxation on gains by investing in an IRA, very few agree to contribute. It is more likely if they have a sufficient sum in another investment account that does not enjoy the tax status of a retirement account, they simply shift a sum from their investment account to the IRAs.

[3] Employee Benefits Research Institute (ERBI). February 2009. "The Impact of the Recent Financial Crisis on 401(k) Account Balances." *EBRI Issue Brief,* No.326.

[4] Employee Benefits Research Institute (EBRI). *2010 Retirement Confidence Survey*. Fact Sheets #3 and #4.

[5] Employee Benefits Research Institute (EBRI). *2010 Retirement Confidence Survey.* Fact Sheets #3 and #4.

[6] The most recent EBRI retirement confidence survey (Fact Sheet #2) reported that this preference for early retirement was high in 2000, and suggested it was very high recently, before the recent crisis. But, there has been a shift away from this preference. In 2010, 24 percent reported they would postpone retirement, up from 18 percent in 2008.)

[7] The EBRI fact sheet #2 report that figures rose from 14 percent in 2008 to 24 percent in 2009.

[8] The new proposals for mandatory 401(k) contributions with "opt out" possibilities go a long way to resolve this problem. So do the proposals for automatically increasing contributions rates over time.

[9] Here I concur with behavioral economists as well as the SOA's publications on *Understanding and Managing the Risks of Retirement*.

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SOCIETY OF ACTUARIES

PENSION SECTION NEWS

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IN THIS ISSUE

THE WORLD FUTURE SOCIETY 2009 CONFERENCE: ISSUES FACING OLDER WOMEN

By Anna Rappaport and Maria Malayter

Each year, the World Future Society holds a large annual conference–many sessions, many topics, and a great chance to hear and meet people with a wide range of interests. The topic for 2009 was "Innovation and Creativity in a Complex World." Actuaries focus on helping people understand, model and manage contingent events. The World Future Society focuses on studying the future, building models, health care, human issues, financial matters, how organizations respond to the future–many topics of interest to actuaries (and everyone). Some of the presentations–including all of the sessions presented by actuaries–have been posted at http://www.wfs.org/2009sessions.htm, and a list of speakers is at http://www.wfs.org/2009speakers.htm.

The authors of this article joined together with Terry Kozlowski[1] to do a program "Older Women in the Future: Adapting to Longer Lives." This article discusses that session and provides some insight from the authors on other sessions they found particularly interesting.

Older Women in the Future: Adapting to Longer Lives

In our session, we provided context and pointed out that a high percentage of the very old will be women–often living alone. Maria presented a model she has developed to help us focus on many aspects of retirement planning. The model can be found in Maria's book *Boomers: Visions of the New Retirement* and in practice at http://www.nl.edu/positiveaging/. The model is a combination of life planning and wellness choices for retirement. Actuaries have heavily focused on planning for retirement, usually thinking about money, risk, work and health. Maria's model reminds us that there is more to the story, and that relationships, geography and community are also very important. Terry presented us with considerations as we think about retirement, and reviewed the challenges of living longer. She helped us focus on

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managing transitions, helping us think about how to get to where we need to be. For each of us, it was a chance to share ideas with people thinking about the same issues, but from a somewhat different perspective. For readers interested in learning more about transitions, the *Transition Network* is a great resource.

We built on the Society of Actuaries research that has focused on the phases of retirement. A case study presented a couple moving from active work to phased retirement, to full retirement in good health, to widowhood, to a period of moderate limitations, and then a period of total limitations. The case study included a geographically scattered family and showed the move from independent living to assisted living and a nursing home. The audience was asked to tell us how they thought the story would have changed in 2025 and 2045. Here are some of the key things we heard from them:

By 2025, the discussion groups predicted:

- Longer and healthier lives
- Full retirement age between 70 and 75; however, new patterns of work would emerge with good opportunities for work 50 percent to 75 percent of the time from satellite locations or home
- More communities with an integrated universal design, with an increase in the number of residents affiliated with religious groups
- More small groups of women living together, creating an alternative to formal retirement communities
- More community based approaches supplementing/replacing large institutions
- Increased telecommuting and flexible work options
- Changes in family structure which would include non blood related people in the family
- Greater use of technology for communication and more use of this technology among older women; the techniques used primarily by young adults today would spread to all age groups
- Less isolation as a result of the greater communication opportunities
- Substantial care-giving and support provided through time exchange programs (the Transition Network offers such a program

in New York today)

- Universal health care
- Easier and better options for human enhancement; e.g., knee and hip replacements, but many others as well
- A higher percentage of unmarried women
- Fewer and smaller inheritances
- A smaller wage gap between men and women

And by 2045,

- Even longer working lives and greater use of technology
- Technology would enable much more independent lives for older persons
- People in their 60s would be looking at their next career
- Women who had married later in life would be having children in their 60s
- Widespread gene therapy
- Greater mindset of independence; people will be rewarded/punished for good and bad behaviors in systems such as health benefits
- It will be feasible to travel to the moon and many people will do it.

The session concluded with the panelists sharing some of their ideas for the future.

Some favorite ideas/learnings from other sessions

Anna particularly liked a session "Public Sector Foresight: Challenges and Opportunities." That session focused on how study of the future is used by governmental entities and how they participate in these activities. For Anna, the most interesting presentation was from Catherine Cosgrove, a policy advisor in the Premier's Cabinet Office of the Government of Québec. Catherine provided a discussion of anticipatory democracy, examples of how governments have worked to practice anticipatory democracy, and it defines conditions for success. The conditions for success that she specified included the following:

- Understanding of foresight
- Sense of urgency
- Political landscape consistent with the mission
- Trust between constituencies
- Stakeholders' identification and appropriate roles
- Clarity on objectives
- Support of objectives
- System to carry through recommendations

These conditions for success apply not only to governmental bodies, but to other types of institutions as well.

Some of the interesting ideas from her discussion included the following:

- A definition of anticipatory government with foresight–for example: current issues driven government is transformed into emerging-trends oriented governance. Short-term decision making moves into long-term and strategic planning. Piecemeal and agency plans become holistic approaches and statewide plans.
- Anticipatory democracy is discussed as a process that includes citizen participation. Some experts indicate that anticipatory democracy that works can not be handed down from the top; it must include participation at all levels.
- Future focus can be found in groups connected to legislative groups, the executive branch of government, audit functions, the judicial branch, and citizen groups. Legislative groups include State Futures Commissions, Standing Committees for the Future, and Policy Research Centres.
- Two resources mentioned as good references for this topic are the Council of State Governments' State Governance Transformation Initiative and the European Commission's Foresight Knowledge Sharing Platform.

Also in the session, two other presenters provided information about GAO activities linked to the future and integration of forward thought into U.S. government activities.

Maria found a most interesting session that discussed the shifts in utilization of technology between generations. There are often many gaps in communication and utilization of technology in an organization, with one generation's preference being for social networks and texting, while general email predominates in another.

Maria also focused on the discussion about medical ethics. "I believe the ethical issues of some of the futurist thinking toward medical decisions and longevity have great implications for how one plans for [his/her] lifetime."

Anna attended a session where the focus was on identifying discontinuous and unexpected events. By the end of this session, her realization about the size of these challenges was only reinforced. For actuaries, this is particularly difficult because all of our models focus on moving ahead without major discontinuity.

Were there surprises?

For Maria, a discussion of the impact of the economy on the values held in American families today offered surprises. People are pondering questions like: What can we do with much less? How much more important is time with family compared to excessive working? How does the entire psychological contract between employers and employees continue to change? What new ideas need to become widespread to attract and retain employees?

For Anna, the discussion on technology gaps included surprises. The biggest one was that e-mail was cited as something belonging to yesterday's generation. There was another big surprise in a discussion of building sustainability. The speaker focused on electric cars as the wave of the future and did not believe that hybrids would be a significant factor in sustainability.

Sessions where actuaries spoke

There were three sessions with actuaries on the program: the session first described in this article, a session presented by Tim Harris and Sam Gutterman on "Living to 100 and Beyond,"and a session titled "Future Patterns of Work and Retirement: The Evolving Third Age," presented by Anna Rappaport and Terry Kozlowski. Tim and Sam are leaders in the Society of Actuaries Living to 100 project.

Anna and Terry focused on how the relationship between work and retirement is changing as people enter mid-life and move into older ages. Terry provided advice on how to deal with some of the challenges of mid-life work. Anna provided a paper that supports the theme of this session and it can be found in a collection of papers from the World Future

Society.

Why would you want to attend?

Maria tells us that the conference is forward thinking and can keep a person ahead of the big discussions for what's next in business, education, and society. The changing dynamics of life today may be an experience of intuition and this conference confirms beliefs and forethought on important topics.

For Anna, this conference is an opportunity to hear about topics that are important to us but rarely discussed in most of the venues where we work. Because the range of topics and perspectives is so broad, there is value added for almost any professional.

This year's conference will be in Boston on July 8-10. Program and registration information can be found at http://www.wfs.org/2010regform.htm. We really enjoyed last year's conference and hope you can benefit too.

Footnote

[1]Terry Kozlowski is an author, consultant and speaker and the founder of the Achievementor Group companies, advisors for career success and creator of the Rich and Rowdy Reinvention System.™

Anna Rappaport, FSA, is an actuary, consultant, author, and speaker and an internationally recognized expert on the impact of change on retirement systems and workforce issues. She is passionate about creating a better future for older Americans improving the retirement system in America, and is particularly concerned about the many women who do not fare well at older ages. She can be reached at *anna@annarappaport.com*.

Maria K. Malayter, PhD, is Assistant Professor in Applied Behavioral Sciences and the Director of the Center for Positive Aging at National-Louis University in Chicago. Dr. Malayter is the author of *Boomers: Visions of the New Retirement*, an innovative study on preretirement preparation for a positive retirement experience, revealing the *top 3 secrets for retirement.* She has contributed to advancing the public's knowledge on aging and retirement through media interviews, publications, and professional appearances. Dr. Malayter can be reached at *mmalayter@nl.edu*.

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IN THIS ISSUE

2009 PENSION SECTION SURVEY: UPDATE AND ACTION PLAN

By Josh Bank

This article will summarize key findings distilled from last year's Pension Section Survey. We will report fifteen action items that the Pension Section Council believes are likely to further align section resources, council activities and members' expectations relatively quickly and cost-effectively.

These fifteen action items were selected by consensus from an original list of 30 items submitted to the council by the Continuing Education, Research and Communications Teams for consideration and ranking (based on importance, level of resources needed, and expected time to complete) prior to and during the council's February 22-23 face-to-face planning meetings in Memphis.

Research

In his article ("Pension Section Survey–The Results Are In!") in last December's issue of *Pension Section News*, Council Chairperson Marcus Robertson provided a quick look at what survey respondents as a group considered the most important uses for the Pension Section's research budget. In order of preference, these were:

- Research that is *primarily theoretical* and enhances our technical sophistication
- *Reactive research* (e.g., how has the Great Recession affected retirement plans?)
- *Strategic research,* such as *Retirement 20/20*
- Other research, such as *experience studies*

The council selected the following five research action items for near-term

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(calendar year 2010) or mid-term (calendar year 2011) implementation targets* (See Table 1).

Continuing Education

In reviewing responses to the continuing education (CE) section of the survey, three general themes seemed to recur:

- *Improve the timeliness and relevance* of CE material to members' workplace activities
- *Increase members'* awareness of CE opportunities and resources
- Make a more compelling case for members to *increase their attendance* at SOA-sponsored CE events (meetings, webcasts, symposia)

The council selected the following five continuing education action items to better align our activities with members' expressed needs (See Table 2).

Communications

Selected survey items in the communications section elicited particularly strong responses. Areas that stood out tended to fall into the following four categories:

- Improve our communications methods & media so as to *increase readership* of our principal vehicles *(Pension Section News* and *The Pension Forum*)
- *Better alignment of frequency and media* of council's communications with members' expectations with regard to major events and new or existing intellectual capital of general interest to the membership
- More cohesive, relevant and substantive *content* in periodic communications vehicles
- *Use of Internet technology* (e.g., the SOA Group on LinkedIn or our Web page) to foster a more dynamic and interactive communications community for Pension Section members to share knowledge and debate issues of current interest

The council selected the following communications action items to address the most compelling survey responses from our membership: (See Table 3).

Implementation and Communication of Survey Action Steps

We will report on each of the above fifteen action steps as they approach and then reach completion. We estimate that the first set of items will begin coming online during summer/fall 2010, and that substantially all items will be implemented within the next 12 to 18 months.

Our next Pension Section Survey, tentatively planned for spring 2012, will help us to assess whether these action steps have been effective, and will provide further guidance on what our section needs to do to keep up with members' evolving needs.

The council and its Research, Continuing Education and Communications Teams thank you again for your valuable input, and we all look forward to continuing to make your section membership more valuable to you.

* These are target completion timing estimates that will need to be confirmed and refined after further consultation with SOA staff. Detailed work plans are currently being put together by the sub-teams assigned to each item, and we will provide updates, as appropriate, as we develop and begin implementing the work plans.

Josh Bank, ASA, EA is chairperson of the Pension Section Council's Communications Team and editor of *Pension Section News*. Josh can be reached at *jobank@gmail.com*.