



SOCIETY OF ACTUARIES

Article from:

# The Actuary

September 1999 – volume 33 - Issue 7

# The Actuary

The Newsletter of the  
Society of Actuaries

Vol. 33, No. 7 • September 1999



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*The Actuary* is published monthly

(except July and August).

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Nonmember subscriptions: students, \$10; others,

\$25. Send subscriptions to: Society of Actuaries,

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Printed on recycled paper in the U.S.A.

## EDITORIAL

# The SOA, the profession and cash balance plans

by Anna M. Rappaport

The press has been giving a great deal of attention to the rise of cash balance pension plans in American business. I see these plans as good for the public overall and important in the U.S. pension system's future. The profession and the SOA have vital roles to play as these plans grow in usage and the business environment continues to evolve.

Actuaries outside the pension practice area may wonder what cash balance plans are all about. Essentially, they contain elements of both defined benefit and defined contribution (DC) plans. From the participant's view, these plans include an account which is like a DC plan but with the method of setting investment return specified in the plan document.

Cash balance plans are a response to trends. American business has been undergoing a major transformation. This transformation is wonderful, say some. U.S. business is leading the world, the stock market is soaring, corporate profits are high, unemployment is low, and people have better jobs. New pension plans emphasize portability and good value regardless of how often people switch jobs. But others say it's terrible. Traditional jobs, especially for middle managers, have been restructured or eliminated; individuals who haven't kept up their skills are unemployed or under-employed; and expectations of "cradle-to-grave" employment haven't worked out. And to top it off, pension plans don't work the way they used to.

For many U.S. companies, labor cost reductions have been vital to competing in the changing business environment. Since cash balance plans are part of this transformation, their

adoption is often seen as a way to save money. This is false reasoning. Cash balance plans do not save money. Reducing benefit levels saves money.

What are the responsibilities of the SOA and the profession in effectively dealing with the business world's transition and the increased use of cash balance plans?

#### The profession's role

Change is never easy, and it may be especially hard in this instance because actuaries play two conflicting roles in dealing with cash balance or any type of pension plan. The valuation actuary must certify the adequacy of reserves and, under ERISA, act in the interest of plan participants. But as an advisor to plan sponsors, actuaries must help the sponsor decide if these plans fit the organization's needs and sort out the surrounding issues.

Both roles are difficult because the issues involved are complex and because most changes produce winners and losers. Different plans allocate dollars in very different ways. I see the role of the actuary as making sure that all the facts and issues are on the table. The issues should be described from the perspective of various stakeholders. Then, the plan sponsor can do a good job of evaluating alternatives, and, eventually, do a good job of communicating about the selected alternatives to employees. As a consultant, the actuary should assist the plan sponsor in linking business goals to various alternatives. It is not the job of the actuary to make value judgments about which plan is better.

Companies are not required to sponsor pension plans. They will do so only if it is good for business. The actuary should assist in making that

work. The actuary has no direct role with regard to participant communication. However, an actuary should provide complete information to the plan sponsor, which should support the plan sponsors in developing their communication programs.

Much of the press coverage on cash balance plans has been negative, and members of the profession have been criticized directly. News coverage has focused on what some see as a lack of honest and thorough communication to employees about the differences between cash balance plans and traditional plans. I strongly support giving employees honest and complete information. I also support researching employee groups to understand what information is likely to be effective. Information overkill just makes the topic incomprehensible for employees.

#### **The SOA's role**

The Society of Actuaries has concentrated heavily on education, research, and service to its members concerning the transition in American business and

the growing use of cash balance plans. Recent meetings have offered many sessions on these topics. *The Actuary* has published numerous articles, even devoting a majority of some issues to business changes affecting pensions and life and health insurance. Also, in 1998, the SOA cosponsored a symposium, "Strategies for a Changing Workforce," with the International Foundation of Employee Benefit Plans and the American Compensation Association.

The SOA has prepared two research studies on cash balance plans, one of which is discussed in this issue (see story, page 11). The other study, "Actuarial Aspects of Cash Balance Plans," includes a survey of cash balance plan provisions and discusses the associated actuarial issues. It will be released during 1999.

The SOA also has focused on events of the post-retirement period and the increased use of lump sums. A major SOA research project, "Retirement Needs Framework," seeks to advance

our thinking about these events, getting data and modeling them.

These and efforts by other actuarial organizations are helping actuaries deal with questions surrounding cash balance plans and the turbulent business world. Our clients and employers need us, and the public needs us more than ever.

*With this issue, we welcome Anna M. Rappaport to The Actuary's editorial board. Rappaport was the 1998-99 president of the Society of Actuaries. In addition to long, devoted service on SOA committees and task forces, Rappaport, a principal and consulting pension actuary for William M. Mercer, has been a catalyst for major SOA projects such as the 1998 Retirement Needs Framework Conference and the current Retirement 2000 project. She has written frequently for The Actuary on pension-related topics. Contact her by e-mail at [anna.rappaport@us.wmmercer.com](mailto:anna.rappaport@us.wmmercer.com).*

## RETIREMENT CORNER

What's going on at the SOA in the retirement needs practice area? Here are highlights of some current activities.

#### **Asset valuation methods**

A summary of survey results on asset valuation methods in use and how various plan circumstances and features may influence the method selected is now available from the SOA Books Department (phone: 847/706-3526; fax: 847/706-3599; e-mail: [bhaynes@soa.org](mailto:bhaynes@soa.org)). As a follow-up to this report, a call for papers is being issued on classification and effectiveness of asset valuation methods for uninsured pension plans. These efforts are intended to fill

gaps in the literature in order to reflect the significant changes in pension plans, investments, returns, and markets that have occurred since the 1970s.

#### **Retirement 2000**

Mark your calendars for the Retirement 2000 conference in Washington, D.C., Feb. 23-24, 2000. Featured will be presentations and discussions on roughly 20 papers discussing retirement issues and public policy implications. The presentations will be grouped in the following topics: Getting Dollars Saved, Once the Dollars Are Saved, The Border Period and the Retirement Decision, and The Payout Phase.

#### **Ongoing Research**

**Mortality:** Later this year, the SOA expects to circulate an exposure draft of the RP2000 Mortality study. The study, based on about 11 million life-years of uninsured pension plan experience, not only will provide graduated mortality tables but also discuss differences by industry, collar type, and annuity size.

#### **Actuarial Aspects of Cash Balance Plans**

This project spotlights new trends in the design of cash balance plans and the actuarial issues they raise. Results are expected this winter.

**Upcoming publication:** Papers from the Retirement Needs Framework project will be available in a monograph later this year. This project focused on the oft-ignored post-retirement period. Topics covered include modeling of changing financial needs, investment choices, effects of declining health, death of a spouse, payout options, and retirement age.

**Information on initiatives in the SOA's retirement practice area is available from the SOA office.**

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