SOCIETY OF ACTUARIES

PENSION SECTION NEWS

May 2011, Issue No. 74

POLL

IN THIS ISSUE

CHAIRPERSON'S CORNER

By Eric Keener

The inaugural column from the 2011 Pension Section Council (PSC) Chairperson. Connecticut weather vs. *The Wall Street Journal* (this year the weather won!); how each of us can play a part in the national (and global) arenas; PSC initiatives for 2011; out with the former (thanks!!)/in with the current (good luck!!) members of the council and their support staff & volunteers. Full article >>

NOTES FROM THE EDITOR

By Josh Bank

A global perspective on risk and pensions, from a different perspective. Full article >>

A VIEW FROM THE PENSION STAFF FELLOW

By Andrew Peterson

Andy gives an excellent synopsis and editorial comments on the high points of the National Academy of Social Insurances 23rd annual conference, held this January at the National Press Club in Washington, DC. If you want the latest thinking and proposals for how to fix Social Security, Medicare and our other shaky social insurance programs, this update and the links that Andy provides will make you the life of the next party you attend (unless its your daughters 5th birthday party). Full article >>

PERSPECTIVES FROM ANNA: LONGEVITY; GETTING OLDER HAPPENS; ANNUITIZATION; THINKING ABOUT THINGS IN DIFFERENT WAYS

[Council](#)

[Call for Section Election Candidates](#)

[SOA News Today Has a New Look! Improved Navigation!](#)

LINKS

SOA Pension Section Web Page

20 / 20 Web site

Contact the Editor

Calendar of Events

By Anna Rappaport

Anna provides her usual highly-stimulating and thought-provoking summaries of ideas that she has heard (and generated) during some of her most recent expeditions to various conferences, meetings, roundtables, symposia and retreats that deal with a wide variety of retirement and old age security related issues. If you are not reading Anna's writings, you may be missing a whole different perspective that extends beyond the typical pension actuary/plan consultant viewpoint.
Full article >>

CERA OP-ED:
MANAGING SYSTEMIC RISK IN RETIREMENT SYSTEMS

By Minaz H. Lalani

In this inaugural, rotating-author column from CERAs (Chartered Enterprise Risk Analysts), Minaz Lalani provides insights into the different actions that key stakeholders (governments, employers, markets/financial institutions and individuals) can take to manage the systemic risks that affect retirement systems in the current environment.
Full article >>

WILL DISABILITY ALSO HARM MY RETIREMENT SECURITY?

By Jack Towarnicky

If you are a plan sponsor looking for ways to manage the risks associated with disability in an evolving landscape of shifts in retirement programs from DB to DC, read this article to see the steps taken by one corporation to provide a comprehensive LTD program for their employees.
Full article >>

THE 2011 LIVING TO 100 SYMPOSIUM:
A COMPILATION OF ATTENDING ACTUARIES' COMMENTS

By Anna Rappaport, with Eric Fredén

A compelling compendium of comments shared by top actuaries working in different roles with retirement systems who attended the fourth triennial Living to 100 Symposium in Orlando, Fla. Full article >>

WOMEN AT RISK: SECURING RETIREMENT BENEFITS IN DIVORCE

By Elizabeth M. Wells

In the less than perfect world that we inhabit, some attorneys who represent women in divorce cases possess only a modicum of retirement benefit expertise, and thus do not possess the requisite skills to ensure that the retirement benefits to which their women clients are entitled pursuant to divorce are properly secured. Elizabeth Wells describes the fundamental underpinnings and processes that can help reduce the risk of inequitable division of retirement benefits between divorcing couples. Full article >>

RESEARCH CONDUCTED BY THE PENSION SECTION COUNCIL

By Faisal Siddiqi

Pension Section Communications Team Chairperson Faisal Siddiqi points out the valuable role played by the SOA's Pension Research Team (composed of SOA staff and member volunteers), and provides insights and links to some of the resources of global interest and applicability to actuaries practicing in the retirement and related areas. Full article >>

CALL FOR SECTION ELECTION CANDIDATES

The 2011 election of new Pension Section council members is approaching. Now is your opportunity to move from section member to a leadership position. Full article >>

SOA NEWS TODAY HAS A NEW LOOK! IMPROVED NAVIGATION!

We've redesigned SOA News Today. We've changed the masthead, organized material for an easy read and improved overall navigation. Take a look!

SOCIETY OF ACTUARIES

PENSION SECTION NEWS

May 2011, Issue No. 74

CHAIRPERSON'S CORNER

By Eric Keener

As I write my first "Chairperson's Corner" at the beginning of 2011, it seems to have been quite a year already. In many parts of North America, we've been treated to record-breaking winter weather. For me, the past couple of months have been an opportunity to add the term "roof rake" to my vocabulary, and to learn that my snow blower and *The Wall Street Journal* hiding under the snow at the bottom of my driveway don't mix. The snow blower part is probably something I could have told you before, but now I have experimental proof. For my father, on the other hand—an enthusiastic amateur meteorologist and lifelong fan of winter—the past couple of months have been fascinating. I guess it's all a matter of perspective.

Perspective is something we should probably keep in mind as we move further into the new year and deal with the economic challenges facing the United States and the rest of the world. It can be overwhelming to contemplate the scale of these challenges—a slow recovery, impending inflation, sovereign debt crises, and significant unfunded retirement and health care liabilities being a few examples. However, the definition of an unsustainable situation is that it can't go on forever. As overwhelming as they seem, even these problems aren't insoluble. It's just a question of what we choose to do about them and when.

I like to think that each of us can play some small part in dealing with these issues—whether it's by participating in local government, expressing our opinions to our elected representatives or educating our fellow citizens on the issues. As actuaries, I think we're better equipped than many other professions to analyze problems like these and propose thoughtful, objective solutions in a nonpartisan manner. If we each take a moment to ask ourselves what we can do to help, then maybe we can be part of the solution.

Council

Call for Section Election Candidates

SOA News Today Has a New Look! Improved Navigation!

LINKS

SOA Pension Section Web Page

20 / 20 Web site

Contact the Editor

Calendar of Events

Members of the Pension Section are in a particularly strong position to do this with retirement-related issues. If we as pension actuaries can't provide critical insight into issues such as the funding requirements faced by public and private defined-benefit plans, as well as the sustainability of the Social Security and Medicare systems, then who can?

Initiatives for 2011

So what is the Pension Section Council doing to ensure that retirement actuaries have a voice in discussions on these important issues? The council has identified a number of initiatives that we will be working on during the coming year:

- Building on the success of the *Retirement 20/20* Call for Models competition and the 2010 symposia that followed in Washington, D.C. and Toronto. To this end, a Project Oversight Group will be reviewing the Call for Models submissions to identify key themes, develop areas of practical application for retirement practitioners, and determine where additional research may be needed.

- Supporting the Society of Actuaries' (SOA's) Rapid Retirement Research Initiative, which is intended to provide timely, data-driven research that can inform the development of public policy in the retirement arena. A council representative will serve as a member of the Rapid Retirement Research Modeling Oversight Group, helping to identify potential areas of research and monitoring research progress.

- Building awareness of the significant longer-term retirement-related research produced by the SOA, including research led by the Pension Section Research Team and the Committee on Postretirement Needs and Risks, and developing a framework to assist practitioners in using that research in practice.

- Evaluating the education process to ensure that retirement actuaries are receiving sufficient basic and continuing education in key areas such as risk management and longevity issues.

- Identifying potential areas of collaboration with other sections that share common interests with the Pension Section, including the Investment Section, International Section, Health Section, and Social Insurance and Public Finance Section.

This is an ambitious agenda, but one we think the section membership, the broader retirement actuarial community and even society as a whole can benefit from. We look forward to getting down to work! Further details on these initiatives will be announced in future editions of the *Pension*

Section News and on the Pension Section LinkedIn group.

Changes to the Council

I would like to welcome Mike Clark, Charlie Cahill and Faisal Siddiqi to the council. In 2011, Mike will serve as the secretary and Charlie as the treasurer. Faisal will serve in a dual role as an elected member of the council and as the Communications Team chairperson.

I would also like to welcome Penny Bailey in her role as council vice-chairperson, Kevin Binder in his returning role as Research Team chairperson, Ellen Kleinstuber in her returning role as Continuing Education Team chairperson, and Ian Genno in his role as Board partner.

Last, but not least, I would like to thank outgoing members for their contributions to the work of the council. Thank you to Marcus Robertson, chairperson, Scott Hittner, treasurer, Ann Gineo, council member, Josh Bank, Communications Team chairperson, and Tonya Manning, Board partner, for all your hard work.

Eric Keener, FSA, is chairperson of the Pension Section Council for 2011. He is a principal with Aon Hewitt in Norwalk, Conn. He can be reached at eric.keener@aonhewitt.com.

SOCIETY OF ACTUARIES

PENSION SECTION *NEWS*

May 2011, Issue No. 74

Linkedin

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Search Back issues

POLL

IN THIS ISSUE

NOTES FROM THE EDITOR

A GLOBAL PERSPECTIVE ON RISK AND PENSIONS (Cliff Notes Version)

By Josh Bank

RISK: The chance of loss or the perils to the subject matter of an insurance contract; also: the degree of probability of such loss. From the Italian risicare; to dare (originally to skirt cliffs in sailing), Latin resecum sharp cliff, Latin resecäre shorten, cut off (re- back + secäre to cut off). Other linguistic research places the origins of this word in Greece—although they are similar to the Latin roots, relating to navigation and cliffs. These etymological roots might make the layperson think of the term "cutting corners," although actuaries who are reading this would—by both instinct and training—surely subscribe to a more constructive interpretation such as "cutting it too close" (at least too close for comfort without the analysis and advice of a qualified actuary).

GLOBAL RISK: French (*risque, pèril, hasard*); Spanish (*riesgo, peligro, albur*); Italian (*rischio*); Portuguese (*risco, peligro*); German (*Risiko, Gefahr, Einsatz*); Russian (*РИСК, ОВáТb*); Japanese (*リスク [risuku], 危険 [kiken/kakeru]*); Thai (อันตราย *[xạntrāy]*); Chinese (*风险 [Fēngxiǎn]*); Yanomami (*they have no word for risk, or danger. However, they do have numerous words for the avoidance of risk/danger, but those words are not considered appropriate for a professional journal, as they all have negative/cowardly connotations*).

PENSIONS: In South America, "pensión" means retirement pension in some countries; in others, similarly to Italy and France and other European countries, its local analog means "boarding house" if used on its own. However, its meaning changes to "retirement pension" if used along with the word for retirement ("pension de retraite" in France and French Canada [e.g., *Pension de retraite du Régime de pensions du Canada*—RPC—is French Canadian for the *Canada Pension Plan*, or as many of us know it, the CPP]).

Council

Call for Section Election Candidates

SOA News Today Has a New Look! Improved Navigation!

LINKS

SOA Pension Section Web Page

20 / 20 Web site

Contact the Editor

Calendar of Events

In Italy, "pensione di vecchiaia" means old age pension. Back in Latin America, "jubilación" is the most common term for worker's retirement while "pensión" refers to surviving spouse's or children's (or concubine's) retirement payments. "Retiro" means retirement in some Hispanic countries, and in others it merely means termination prior to retirement.

In Germany it's "Rente" for salaried staff; "*Ruhegehalt*" (or Pension) for civil servants. (Actuary is *Aktuar* if you want to avoid tongue-twisters, or "*Versicherungsmathematiker*" [insurance mathematician] if you are one and/or want to impress your clients.)

Anyway, I hope you enjoyed the mini-lesson in global risk and pensions. The really interesting stuff, though, comes in the remaining columns and articles in this spring 2011 issue of *Pension Section News*. As you might guess, the focus of the current *PSN* is... ***РИСК***!

Remember ... Risk is Opportunity!!! (Or *Fēngxiǎn*, if you're planning on doing business in China.)

Cheers!

Josh Bank, ASA, EA, is editor of the *Pension Section News* and associate editor of *The Pension Forum*. He can be reached at jobank@gmail.com.

Actuaries
Risk is Opportunity.℠

A VIEW FROM THE PENSION STAFF FELLOW

By Andrew Peterson

Do you remember completing "dot-to-dot" exercises as a kid? Or perhaps you've even done one recently on the kids' menu while waiting for your food to arrive at a family restaurant. Sometimes the pictures were obvious even before starting, while other times it took the work of making the connections before the picture came into focus. I believe that a key role of the staff fellows here at the Society of Actuaries (SOA) is to "connect the dots." This connecting can be both an internal effort within the profession with respect to various committees and research efforts or an external effort where we work with individuals outside the actuarial profession in areas where we have common interests or opportunities to learn from one another.

National Academy of Social Insurance

One such example of "connecting the dots" is the actuarial profession's participation in the annual National Academy of Social Insurance (NASI; NASI.org) conference held each January in Washington, D.C. NASI is "a nonprofit, nonpartisan organization made up of the nation's leading experts on social insurance. Its mission is to promote understanding of how social insurance contributes to economic security and a vibrant economy." NASI has about 1,000 members from various professions who have interest and expertise in social insurance.

Actuaries were involved with NASI from its founding 25 years ago and include a growing group of members. The SOA, the American Academy of Actuaries (AAA) and The Actuarial Foundation have all been involved with NASI over the years. The SOA and AAA provide regular financial assistance for NASI's annual meeting. The Actuarial Foundation has supported the development of some issues briefs, including "When to Take Social Security Benefits: Questions to Consider ," which included advice and review by three actuaries: Joseph Applebaum, Anna Rappaport and Alice Wade.

Council

Call for Section Election Candidates

SOA News Today Has a New Look! Improved Navigation!

LINKS

SOA Pension Section Web Page

20 / 20 Web site

Contact the Editor

Calendar of Events

Involvement with NASI has been an important way for us to "connect the dots" to how academics and policymakers are thinking of the evolution of social insurance systems. This knowledge helps the SOA support our members with research and continuing education programs, building a bridge from what most actuaries do (private insurance and pensions) to social insurance programs.

2011 Annual Conference

NASI held its two-day annual conference at the National Press Club in Washington, D.C. (the standing conference site) on Jan. 27 and 28, 2011. This year's event was titled, "Meeting Today's Challenges in Social Security, Health Reform and Unemployment Insurance." The conference included a mix of topics and speakers including keynote addresses by the Honorable Kathleen Sebelius, U.S. Secretary of Health and Human Services, and Kenneth Feinberg, who is known for administering disaster payout funds, including the Sept. 11 and BP Horizon disaster compensation funds.

What I found most interesting were several sessions that focused on possible Social Security reforms and general retirement security policy. In particular, there was a session that focused on Social Security reforms titled, "Should We Adopt the Social Security Recommendations of the Fiscal Commission Co-Chairs?" Speaking at this session were Charles Blahous, a public trustee of Social Security and Medicare and formerly a Bush administration official; Andy Stern, a fellow at the Georgetown Public Policy Institute and formerly the president of the Service Employees International Union (SEIU); and Janice Gregory, president of NASI. This session focused on the report of the Obama-appointed Fiscal Commission that issued a major report in December 2010 with a whole litany of proposals for long-term deficit reduction.

Also known as the Simpson-Bowles plan, the key Social Security reforms in the proposal include:

1. Make the retirement benefit formula more progressive.
2. Provide an enhanced minimum benefit for low-wage workers.
3. Enhance benefits for the "very old" and longtime disabled.
4. Gradually increase the early and full retirement ages and tie to life expectancy.
5. Give more flexibility in claiming benefits and create a hardship exemption for those who cannot work past age 62.

6. Gradually increase the taxable wage base to cover 90 percent of all wages.
7. Adopt an improved Consumer Price Index (CPI) measure.
8. Cover future state/local employees in Social Security (after 2020).
9. Improve the Social Security Administration's (SSA's) communication to beneficiaries.
10. Begin a broad dialogue on the importance of personal retirement savings.

I had reviewed the key Social Security provisions of the Fiscal Commission's report upon its release and personally thought it was a pretty good proposal. In addition, having heard a fair amount of criticism from both sides of the political spectrum on the proposal, I presumed that it might actually be a reasonable compromise between "progressive" and "conservative" views. Not surprisingly, the panelists found much to debate and disagree about.

Blahous' overall view of the recommendations was that the plan "strikes a reasonable compromise between containing costs and raising revenues to close the shortfall." On the other hand, Stern, who was a member of the Fiscal Commission, argued that there are better alternatives to the Simpson-Bowles plan and that he would prefer to focus on the bigger issue of retirement security (as described in point 10 above) rather than just Social Security. Finally, Gregory argued against any benefit cuts to the current program, pointing to the increasing reliance of individuals on Social Security for retirement security as a reason to avoid cuts. She argued instead that the program could be supported by additional payroll taxes through raising the taxable wage base and/or slowly raising the FICA tax percentages. (All the presentations can be downloaded by clicking here, and the formal agenda and video recordings are available here.)

Both Stern and Gregory argued for the need to focus on a retirement age range, although this seemed to be different than increasing the retirement eligibility ages (as summarized in point 4 above), which is something that has been discussed at length in the actuarial profession.

Commentary and Conclusions

Since this a personal column, I will take the liberty of inserting some personal opinions (that do not reflect an official position of the SOA or any other actuarial organization). I found the presentation by Blahous the most convincing. While I don't profess to be a Social Security expert, it seems to me that any "solution" to the long-term Social Security sustainability questions should include changes on both sides of the "balance sheet." The Simpson-Bowles plan does this by including both increases in contributions by increasing the wage base and decreases in projected benefits through changes in the CPI formula and an additional bend point in the retirement benefit formula (as examples).

Clearly, one's personal political philosophy will drive one's own opinions on where to land when it comes to decisions about what is the "right" answer for issues like Social Security reforms. However, as actuaries, I believe we need to be present in these discussions because we can bring an intellectual integrity to discussions where numbers and statistics are thrown about to make political points. Our presence can help to "connect the dots" between numbers and inform the philosophical discussions, which hopefully results in better long-run policy.

Feel free to shoot me an email with your thoughts (apeterson@soa.org) or start a discussion on our SOA Pension Section subgroup on LinkedIn.com. Also, for another interesting illustration from the NASI meeting of how viewpoint impacts interpretation of statistics, see this discussion link started by Anna Rappaport on our LinkedIn site.

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SOCIETY OF ACTUARIES

PENSION SECTION NEWS

May 2011, Issue No. 74

IN THIS ISSUE

PERSPECTIVES FROM ANNA: LONGEVITY; GETTING OLDER HAPPENS; ANNUITIZATION ... THINKING ABOUT THINGS IN DIFFERENT WAYS

By Anna Rappaport

During 2010 I participated in a number of meetings with different groups and had the chance to meet interesting people and talk about a range of ideas. New ideas help me think about things differently. I am bringing some of them to you to see if they help spark new ideas for you or add to the collection of ideas you are focused on.

Some of the groups I met with included:

- Financial Planning Association retreat
- Investment Company Institute Annual Meeting
- Intercompany Long Term Care Insurance (ILTCI) Conference
- The Conference Board Retirement Roundtable
- The Society of Actuaries (SOA) *Retirement 20/20* Conference.

Thinking about Longevity—Opportunity, Risk or Both?

During the year, I had the privilege of presenting at the ILTCI Conference with Steve Mitchell, the COO of Retirement Income Industry Association (RIIA) and also an independent retirement consultant. We talked about long life and the big picture issues. Steve proposed that we should think more about the opportunities that come with the potential of long life, and not be as focused on the risks. This sparked a discussion of the topic with several of the people whom I have worked with as part of the Post-Retirement Needs and Risks Task Force. While the idea of "opportunity" intrigued some discussants, it seemed to frighten others, perhaps partially linked to economic circumstance. Economically, the population falls along the following spectrum:

Council

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SOA News Today Has a New Look! Improved Navigation!

LINKS

SOA Pension Section Web Page

20 / 20 Web site

Contact the Editor

Calendar of Events

- At the lower end are people with little in the way of financial assets and income beyond Social Security and Medicare. Running out of money is not a concern for this group, since they will have about the same support throughout retirement as long as the government programs continue at about the same level. "Risk management," where they are making their own decisions about financial products, is not part of their life. Rather, many in this group live financially from period to period. For them, opportunity, very possibly in the form of continued work, can help to improve their life from both a financial and engagement point of view.

- At the high end are people who have investment income that more than covers their regular expenses and assets that may well continue to grow over time. Maximizing estate values is often a priority, and for this group the age 701/2 Required Minimum Distributions are likely to be their personal default option for withdrawing defined-contribution (DC) and other tax-sheltered funds. For this group, opportunity is very important as they think about a long life span, again from both a financial and engagement point of view. They may wish to think about how they can personally make a difference, how to stay engaged, and what, if any, legacy they wish to leave behind. They have complex financial issues that, no doubt, include risk management; but focusing on life planning from the point of view of opportunity makes a lot of sense.

- It is the group in the middle that faces the greatest likelihood of running out of money or being ruined by unexpected long-term care or medical costs. This group has choices to make and, depending on how well they manage, can have more life choices and a more enjoyable and productive time during retirement. Risk management, budgeting and planning are very important for them, particularly if their resources are self-managed rather than defined-benefit-plan income. It seems that the issue is not choosing between risk and opportunity, but rather achieving a proper balance between them.

"Getting Older Happens"

At the Financial Planning Association retreat, I met Colin Ben Coombs, author of the website, "Getting Older Happens," GettingOlderHappens.com. The website offers interesting perspectives on the realities of old age. Here are three quotes from Coombs' website:

- *"One of the goals of this website is to motivate you to take command and control of your aging; therefore we want to give you* *every opportunity to delve deeper into all the aspects of aging that interest you and to find competent sources of advice and counsel. You will read many times throughout this website that action is required."*

- *"All of the articles and essays, whether written by your host or by others, will be organized in 9 topical categories: Getting Older Happens, Stories, Envision But Don't Accelerate, Home is Where?, Financial Management, Living with the Realities of Your Estate Planning, How You Leave is Just as Important as How You Lived, Leave Your Wisdom Not Just Your Wealth and What Do I Do Now?"*

- *"There are going to be many readers who have had this very basic estate planning done or have even done some very extensive planning. But, I would hazard a guess, that most don't have the faintest idea about what it will be like for the surviving spouse or subsequent heirs to live with the implementation and management of this estate planning structure after their death. I have lived through this with any number of surviving spouses—male and female—and beyond that with their children."*

The website includes a ***Lifestyle and Circumstances Audit***, which is focused on answering the questions: "*How are We Doing and Can it Continue? If Not, What's Next?*" A major focus of the 2007 SOA Risks and Process of Retirement Survey was what changes during retirement and how people plan for later stages. A special report on the phases of retirement documents that research. However, there was no focus on how people make the transition, and whether it is voluntary or forced on them.

The idea of a lifestyle and circumstances audit is extremely interesting and important. When my mother was living in a senior community, we discussed whether she thought the people were happy there. She responded that some were and some were not, and as we pursued the conversation, her perception was that the people who had chosen to live there themselves were mostly satisfied and the people who had been sent there by their children were mostly unhappy. Having a process in place to help people make this type of decision is very important.

The website "Getting Older Happens" offers many stories, including that of Sarah and Cita. This particular story brings forward the issues of helping people make decisions in similar circumstances, and illustrates two different situations and the challenges in them. Sarah and Cita were both moved, against their will, by their children. Sarah was moved into a continuing care retirement community, and Cita was moved into independent living followed by assisted living. Sarah was moved while she was still able to care for herself. She became engaged in the community, but resented the move. Cita remained at home beyond the point where she could still care for herself. She was unable to do her chores, clean her house, fix proper meals or go out walking (due to her loss of sight). Following an accident and a number of other incidents, her children moved her. Like Sarah, Cita was unhappy with the move. The question these two stories raise is which set of children made the wrong decision?

"Was it Sarah's two sons who moved her against her wishes when she was still very active and engaged in life or was it Cita's two daughters who moved her against her wishes when she had become mentally and physically unable to care for herself?

"*The answer? Neither of them made the mistake. It was Sarah and Cita who made the mistake of not envisioning their future and the possible outcomes as they aged. If they had, they could have (should have) given guidance to their children as to what they would want when they could no longer live as they had been living and guidelines on how to make that determination. It is possible, even likely, that when the time came for a move they would still have been resistant and unhappy but, at least, the children would have known that they were doing what their mothers had wanted them to do when they were in a position to think things through with detachment. If this had been the case both Sarah and Cita would have retained their autonomy and control over their lives. As it was they lost that and their children were never certain that they had done the right thing."*

I felt that there was a lot of wisdom in the comments and content in "Getting Older Happens," and I recommend that readers consider this approach and how it fits into traditional planning. Readers may agree with the specifics of the lifestyle and circumstances audit as set forth or may have different ideas. Regardless, being prepared for next steps when change is necessary is essential.

Retirement 20/20—Some Quick Observations about the Payout Period

During 2010, papers were presented as part of *Retirement 20/20* offering ideas for the retirement system of the future. The topics overlapped and varied, and in total they offered a valuable resource for the future. Most of the papers focused on an organized and systematic way of using accumulated retirement resources to provide retirement income. Some of the variations in that retirement income included:

- Mandating or not mandating an annuity payout
- Inclusion of indexing for inflation in the annuity payout

- Varying the payout with investment experience (an approach now used in variable annuity contracts for many years)
- Sharing the risk that population mortality improves over entire population by using pools linked to cohorts
- Using Treasury inflation-protected securities (TIPS) as an investment to offer inflation protection with minimal risk
- Using longevity insurance that starts at a high age.

The majority of the authors are very supportive to organized systems of annuity payment. Many actuaries and economists who are not in this author pool also favor systematic payouts.

Are the Experts Aligned with Other Stakeholders?

In June 2010, just two weeks after *Retirement 20/20*, The Conference Board sponsored a Retirement Roundtable, offering a chance for plan sponsors to get together and share their concerns and priorities. I had the privilege of serving as co-chair of the roundtable and working to get input from the participants about their major concerns surrounding retirement plans today. The participating employers were mostly from larger organizations in a range of industries. As the world has shifted more and more toward DC plans, lump sums are the most common method of payout.

Methods of managing the payout period are not high on the priority list of the plan sponsors, and it seems that an increasing number of plan sponsors do not consider it to be their problem. In many cases, people have multiple jobs during their careers and the plan sponsors' mentality makes sense. It seems to me that there is a totally different perspective about the payout period from these two groups: plan sponsors view payout period as an individual responsibility; and experts thinking about the future of the retirement system are concerned about how to build in well-structured payouts.

We can get more insight into this topic if we look at the responses to the Request for Information sent out by the U.S. Department of Labor and the Treasury Department. They asked a long list of questions about the payout period and received over 700 responses, which are available online for those who wish to study them. My big takeaway from them is that there is a great deal of diversity of opinion and opposition to any mandates. Some of the takeaways from the Request for Information responses, *Retirement 20/20* and other work on this topic are as follows:

- Individuals are very opposed to any idea of a mandate related to annuitization or life income. They consider their 401(k) balances to be their own money and want full control. SOA research would indicate that they do not necessarily have a plan for making the money last. Anecdotal information from talking to many people indicates that, for some, the intention is to retain that money as savings and not to use it unless absolutely necessary. They often seem to view these funds as a combination of an emergency fund and a potential inheritance. One of the unfortunate results is that the money is often spent to care for the first spouse who gets sick, and the surviving spouse may be left without very much.

- Some experts point out that Social Security, which is already annuitized, is a major part of income for many. Medicare is also a form of annuity. Furthermore, for people who own their home without a mortgage, the reduction in living expenses due to reduced monthly outlays into a home is considered by some to be similar to an annuity. As a result, people with limited additional financial assets are heavily annuitized.

- Employers who are very concerned about the security of employees during the payout period remain very concerned about fiduciary liability and the complexities of offering options when few employees elect them. Those employers who have offered these options had very low elections. A method of providing such annuities that is gaining acceptance is rollover IRAs, which offer access to institutionally priced annuities. This approach provides for competitive shopping for annuities and allows for partial annuitization and gradual annuitization.

- Many actuaries and economists think that systematic payout plans—preferably annuities—are very desirable, particularly for DC plans which are the primary source of income. They point out that these plans have replaced traditional retirement plans and the life income is the key idea. They generally favor joint and survivor annuities. People have different views on whether the life income should be mandatory.

- Another approach that leads to a stable income stream but at a lower level is investing in TIPS. This is favored by some economists and in some of the *Retirement 20/20* papers.

Annuitization or No Annuitization? The Real Conversations are Just Beginning

Annuitization is not an all-or-nothing proposition. One of the challenges is helping people figure out the right balance and the right timing for annuity purchases. I believe that it is virtually impossible to mandate annuity payouts from DC plans, but the payout period will continue to be an important topic with increasing attention paid to it. I plan to focus on this topic in further work.

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 SOA. Currently, Rappaport is president of Anna Rappaport Consulting in Chicago, Ill. She can be reached at anna@annarappaport.com.

CERA OP-ED: MANAGING SYSTEMIC RISK IN RETIREMENT SYSTEMS

By Minaz H. Lalani

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Retirement systems are built on three foundational pillars:

- employer-sponsored pensions
- government pensions
- pensions provided by personal savings.

Historically, the total pension consists of the following distribution: 50 percent coming from employer-provided pensions; 25 percent from government benefits; and the remaining shortfall of 25 percent being provided from personal savings.[1]

Employer-sponsored pensions have gradually been shifting pension risk[2] to individuals by moving from defined-benefit plans to defined-contribution plans.[3] The effect is that the portion contributed by employer-sponsored pensions toward the retirement pillar is expected to be significantly reduced to around 30 percent (from 50 percent). In addition, government pensions are under review, and the long-term expectation is that government pensions will be reduced, or paid at a later retirement age, so as to reduce the cost of these government programs. The anticipated

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SOA Pension Section Web Page

20 / 20 Web site

Contact the Editor

Calendar of Events

shortfall (in excess of 50 percent), due to the reduction in employer-sponsored and government pensions, is expected to be recovered from personal savings.

For the short to medium term, employers and the government will be transferring the provision of retirement to individuals who will be ill-equipped to have adequate savings for retirement.[4] The inadequacy of savings will be compounded by the fact that individuals will require more savings as a result of increased life expectancy, transfer of postretirement medical costs onto individuals, and the expectation of lower investment returns in the "new normal" world.[5] In combination, these trends will yield unintended consequences. In my view, without any explicit actions, these trends will result in social unrest (society may not accept these changes), sociological impact (e.g., society will have declining living standards), organizational workforce impact (employees will be unable to afford retirement, thus working longer and deferring their retirement age), institutional impact (financial companies will have to restructure their product offerings) and restructuring of the economy (financial regulators will have to deal with the decline of corporate defined-benefit pension plans as a major player in the financial market).

In this essay, potential actions are recommended for key stakeholders to manage the unintended consequences of a systemic risk "brewing" within the retirement system today.

Governments

In countries where a pay-as-you-go approach is used to deliver government pensions, it is imperative that such governments stay at arm's length and facilitate a process to fund future pension obligations through a separate trust apart from the general revenues of the government. Countries may want to adopt Canada's approach, as it has in place an effective working model consisting of a separate trust and robust governance structure. In addition, all countries should remove uncertainty and have a long-term policy clearly articulated in legislation that states the level of government pension that individuals can expect to receive. This would allow individuals and their pension advisors to better focus on retirement planning for the future. Since the expectation is that individuals should be directly responsible for a significant portion of their retirement income, governments could also provide meaningful incentives (e.g., tax credits) to individuals who attain a threshold level of savings for adequate retirement as prescribed (after collaboration and agreement with pension experts), or to individuals who participate and complete a certain prescribed set of educational courses on retirement planning. Governments could consider sponsorship of voluntary programs to facilitate provision of retirement for small- to medium-size companies that currently do not provide pensions to their employees.[6]

Employers

In most countries, it is a fact that employers have been moving to defined-contribution plans. This is due to increasingly complex pension funding rules and unclear, ambiguous surplus ownership rules for defined-benefit plans. The result has been the underfunding of pension plans to minimize future actuarial surpluses. It may be too late to reverse the trend away from defined-benefit plans; however, simplicity and clarity of pension legislation could slow the trend. Most employers have introduced auto-enrollment, auto-deductions and other auto-features in defined-contribution plans to ensure that their employees adequately save for retirement. This is a great start; however, the underlying issue is that employer contributions to defined-contribution plans are significantly less than to defined-benefit plans. Employers should be voluntarily asked to revisit their defined-contribution plan designs and mirror the aggregate contributions paid into the defined-benefit plans. Failing that, minimum defined contributions should be legislated so that all employers contribute toward an employee's retirement account whether it is in a registered/qualified or nonregistered/nonqualified account. Of course, there will be push-back and resistance from employers, but governments need to consider the long-term social and societal impact of inadequate retirement income. Some forward-looking employers may welcome such an initiative, as it could allow such organizations to effectively manage their workforce. In other words, employers will be able to develop robust growth plans to manage attrition and retirement in a socially acceptable manner (employees would have adequate income to retire on).

Financial Institutions

Investment managers/counselors, life insurance companies and trust companies are key stakeholders in the retirement industry. Traditionally, each of them has fulfilled an important role of managing assets and/or administering defined-benefit pension plans. Also, in the emerging defined-contribution market, these stakeholders have continued to be major players fulfilling similar roles. However, these institutions need to switch their focus on delivering innovative retirement and investment products, and implementing creative retirement educational programs. For example, an innovative retirement retail product would allow employees to manage their longevity risk and crystallize their retirement income by an annual/periodic purchase of deferred annuities over the employee's working lifetime. Creative retirement education programs could incorporate dynamic modeling of employees' retirement income, taking into account employees' income from all sources, and incorporating expenses from personal data and comparative mainstream data. Currently, pension funds are very active in the financial markets from an investment and governance standpoint. With the decline of defined-benefit plans, and subsequently the maturity (pension outflows will exceed contribution, expenses and investment) of these plans, there will be a material impact on the role of pension funds in the financial marketplace. It would be prudent for market regulators to anticipate the consequences and develop strategies for a revised financial infrastructure.

Individuals

Retirement risk has the most impact on individuals who have to make provision for their retirement either as pension plan members or non-pension members, and as citizens who have to fund government pensions directly (via pension contributions) or indirectly (via tax payments). Unfortunately, individuals do not have the ability to take actions to minimize systemic risk. However, individuals can take steps to understand their personal affairs and make adequate provision to save for retirement. An individual can be helped with retirement with proper education from the government, employer and financial institutions (as stated earlier). Collectively, individuals who care about retirement risks can vote out nonperforming governments, or choose their employer; however, this is a "tall order," and it is easier said than done.

At present, we do not "appear" to be in an immediate crisis mode on retirement; therefore, none of the above approaches may seem relevant. Unfortunately, retirement risk is an emerging and "silent" systemic risk; such a risk, if left unaddressed, will creep into our society with damaging consequences. Prudence dictates that all stakeholders should take immediate action to evaluate the systemic risk posed by a retirement crisis.

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[1] For simplicity, the rounded percentages are determined on a generalized framework of pensions in Canada for a career individual earning $55,000 with 35 years of service. Of course, such percentages will differ by salary bands, service periods, and eligibility to government pensions and by country. Despite this, the commentary in this essay is still applicable for most circumstances and for other countries with a mature retirement system.

[2] Pension Risk: a complex and multifaceted concept. It incorporates the following key risks: investment, interest rate, inflation, salary, longevity, demographic, retirement adequacy, governance and regulatory.

[3] Defined-Benefit Plan: a plan which provides a pension based on a defined-accrual formula based on years of service and salary history; usually, an employer will take most of the pension risk (e.g., volatility of ongoing contributions, or payment of any solvency deficiency) related to such a plan.

[4] Defined-Contribution Plan: a plan based on a defined-contribution formula, which grows with investment return over the individual's working period to provide an accumulated fund for provision of pension; usually the individual is responsible for most of the pension risk (e.g., investment risk) related to such a plan. Canadian Institute of Actuaries (2007), Planning for Retirement: Are Canadians Saving Enough? CIA and University of Waterloo.

[5] "New Normal" is the phrase coined by PIMCO to describe an economic environment of de-leveraging, re-regulation and de-globalization resulting in slower, long-term economic growth.

[6] Ambachtscheer, Keith (2008), The Canada Supplementary Pension Plan, Towards an Adequate, Affordable Pension for All Canadians," C.D. Howe Institute Commentary No. 265.

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PENSION SECTION NEWS

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WILL DISABILITY ALSO HARM MY RETIREMENT SECURITY?

*By Jack Towarnicky**

(Editor's note: In case the reader is distracted by the author's refreshingly out-of-the-ordinary narrative style, this paper discusses the impact of long-term disability on pension and other welfare benefits in the U.S. occupational/regulatory qualified plans environment.)

From the Plan Sponsor's Corner ...

A welfare benefit plan solution to continue retirement benefit accruals for workers who become disabled before completing their preparation for retirement.

Feb. 16, 2008

It was a little better than most Saturdays in February. High 40, low 20, partly cloudy. I was in the office working off my perennial backlog of email.

My employer at that time, a Fortune 150 financial services firm with 35,000+ workers, had just reduced the workforce by about 3 percent via a layoff. While 2007 was profitable, it was already clear 2008 would be quite rough for the enterprise. And, it wasn't only revenue and expense issues. Our retirement benefits were in a state of flux as well. We offered a defined-benefit pension plan with a final-average-pay formula, a retirement savings plan (a 401(k) plan) and retiree medical coverage with company financial support. We had recently made changes to add automatic features to the 401(k) plan, changed the defined-benefit pension plan to add a cash balance formula, and changed our retiree medical coverage supplement to Medicare into a different program, something called a Medicare Advantage Open Fee for Service plan.

Internal Revenue Code Section 402(a)

So, against that backdrop of change, and looking at that email backlog, on that February 2008 day, I considered but declined to attend a Washington, D.C. meeting to discuss proposed regulations under Internal Revenue Code Section 402(a). Back on Aug. 20, 2007, the Treasury Department

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Contact the Editor

Calendar of Events

(Internal Revenue Service, or IRS) had proposed regulations (Prop. Reg. § 1.402(a)) focused on the continuation of defined-contribution retirement plan accruals for employees on long-term disability (LTD). The proposed regulations would, among other things, limit the use of plan assets to fund/insure continued retirement benefits accruals during LTD. Unfortunately, the regulations were in conflict with past IRS private letter rulings.[1] Once finalized, the regulations could create a situation where a worker might be currently taxed on coverage purchased with plan assets. The new regulations also added complex administrative requirements which, if violated, could endanger the plan's tax qualification.

Retirement preparation for disabled workers was a topic of discussion before I arrived in 1985 and from time to time thereafter. But, with everything else, it just wasn't a top priority in February 2008—even though too many Americans underestimate the potential for disability [2], and too many overestimate their ability to maintain their standard of living after disability. [3] Our workers were no different than other Americans as just over 50 percent were actually enrolled in LTD coverage in our welfare benefits plan.

Here's my Feb. 16, 2008 email response to the invite:

"Can't be there. Interested in continuing 401(k) and pension accruals during periods of LTD—clarification under 402(a) would be good.... That said, there are other alternatives if using plan assets is precluded under 402(a) by the final IRS regs.

Clarification (thumbs up or down) would likely spur us to action. Probably more important for folks like (other employer) to be there—as they already have this in their 401(k) plan (if I remember correctly)."

So, we would wait. But could participants wait?

2010 New Retirement Benefit Designs

Well, 2008 turned out worse than anticipated, for our enterprise AND for America. And disability claims skyrocketed by some measures—for example, the Social Security Administration had applications of almost 750,000 (second quarter 2010), up 50+ percent from four years earlier. [4] Against that backdrop of expense management and increased risk of disability claims, we made some changes our defined-benefit pension plan ... including eliminating disability pension accruals for those disabled after Dec. 31, 2009. [5]

To fill the gap, during 2008 and 2009, we considered a number of options —such as the defined-contribution disability programs that had been in place in some 401(k) plans for a number of years [6]; however, the IRC 402(a) regulations were still not final. We had never added disability coverage or continued accruals in the 401(k) plan before, so there was no precedent to add such coverage now. Instead, we decided to improve existing LTD benefits in the welfare plan:

Disabled Before Jan. 1, 2010:
- Savings plan (401(k) accruals stop once LTD starts (6 months)).
- Defined-benefit pension plan accruals continue if worker is enrolled in welfare plan, qualifies for LTD benefits under that plan, AND qualifies for Social Security disability benefits.

Disabled After Dec. 31, 2009:
- Savings plan (401(k) accruals stop once LTD starts (6 months)).
- Defined-benefit pension plan accruals stop once LTD starts.
- Add a new component to existing LTD welfare plan coverage based on foregone retirement accruals, paid once LTD benefits stop.

For those who became disabled after the Dec. 31, 2009 change, company-paid pension accruals stopped, lowering company-paid expense. And, starting Jan. 1, 2010, those who enrolled in LTD coverage saw a significant increase in their contributions to fund the new disability benefits. However, for those who became disabled after Dec. 31, 2009, the new *associate-paid* disability benefit would reflect much of the lost income replacement from stopping accruals in both the defined-benefit pension plan and the 401(k) plan.

It's Not Enough To Continue Retirement Benefit Accruals!

The enterprise also took other actions to ensure more and more workers would have adequate benefits should they become disabled—it was "paycheck insurance," disability benefits to replace lost wages, but it was also post-employment medical and long-term care (custodial, daily living expenses) coverage:

- First, in 1997 with the increased prevalence of incentive compensation, we expanded the definition of covered compensation to include variable pay (annual bonus, overtime, shift differential, etc.).

- Second, in 1994, LTD coverage was now available on a pre-tax or after-tax contribution basis, so that those who needed a greater income replacement rate could receive 60 percent of pay free of income taxes.

- Third, in 2005, we added a Health Savings Account to allow workers to save on a tax-preferred basis for post-employment medical costs and long-term care insurance and out-of-pocket expenses.

- Fourth, in 2008, we changed the LTD coverage default so new hires were automatically enrolled in after-tax LTD coverage unless they opted out or affirmatively chose the pre-tax LTD coverage.

- Fifth, in 2010, the new disability benefit was made part of existing LTD coverage, so enrollment in "paycheck insurance" automatically included the amounts paid after disability ended.

- Sixth, and finally, the enterprise continues its past practice of accruing eligibility service for retiree medical coverage while LTD/income replacement benefits are in a payable status.

Not too surprising, changing the default to coverage, and specifically to after-tax LTD coverage, helped to ensure that more workers:

- Enrolled for LTD coverage,

- Received higher income replacement, tax-free benefits funded with after-tax contributions, [7] and

- Prepared for a financially successful retirement after an extended disability.

Welfare Benefit Plan Disability Coverage
New Hire Enrollment

	Before 2009		After 2008
Waived LTD	49%		24%
Enrolled in LTD	51%		76%
Increase		25%	
Percentage Improvement		49%	

Anyway, it would surely be a lot easier to incorporate a default retirement benefit accrual option to continue accruals for a future retirement if we could use a disability policy within the pre-tax 401(k) or Roth 401(k) or employer-match source buckets of a 401(k) plan. And, for those who don't have access to a 401(k) plan, the same disability benefit coverage policy might be extended to Individual Retirement Accounts—to continue accruals in those plans in the event of disability.

Thanks for the opportunity to share this story.

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** The comments presented in this article are those of the author and do not necessarily reflect the views of any employer, nor any trade association or other agency or group with which he is affiliated, past, present or future.*

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[1] See LTR 200031060 and LTR 200235043.

[2] See, for example, "The Disability Divide," Council for Disability Awareness, January 2011. March 2010 research confirmed 90 percent of respondents rated their ability to earn an income as more valuable than any other resource in maintaining financial security; however, only 37 percent had thought about taking steps to protect their income.

[3] "The Disability Divide" confirmed that 65 percent of survey respondents indicated that they could sustain their current standard of living for at most one year; however, few workers, even those with LTD coverage, understand how a disability benefit with 60 percent pay replacement would impact their financial status. Few consider the impact on purchasing power from inflation. Many have ongoing increased medical costs. Too many find themselves removing assets from their 401(k) plan, not adding retirement savings. Finally, it should be noted that both the 2009 and 2010 American Payroll Association surveys, "How America Gets Paid," confirmed that over 70 percent of Americans live paycheck to paycheck where even a two-week delay in a paycheck would create a financial hardship.

[4] Selected data from the Social Security Disability program, see: http://www.ssa.gov/oact/STATS/dibStat.html.

[5] Prior to 2010, defined-benefit pension accruals continued during a disability in two ways: first, we continued participation service accruals (or pay credits in the cash balance formula), and, second, we indexed covered compensation by up to 2.5 percent per year. To continue, a participant needed to meet the definition of disabled in both the LTD welfare benefit plan and Social Security.

[6] See, "Corporate Compensation Plans Says Treasury torpedoes Key 401k Benefit," Business Wire, June 2, 2010; or http://www.corpcompinc.com/401kabout.aspx; or: http://www-01.ibm.com/employment/us/benefits/ipb01.shtml. [7] Until the change to default to coverage at hire (instead of defaulting to no coverage), after-tax LTD was not available; the chart below shows a comparison of the last 12 months prior to the change in default against the first 12 months after the change in default, where new hire enrollment increased 49 percent, and 73 percent were covered on an after-tax basis, while 27 percent affirmatively selected pre-tax coverage!

SOCIETY OF ACTUARIES

PENSION SECTION NEWS

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THE 2011 "LIVING TO 100" SYMPOSIUM
A COMPILATION OF ATTENDING ACTUARIES' COMMENTS

By Anna Rappaport, with Eric Fredén

The Society of Actuaries (SOA) has been investigating high-age mortality for many years and embarked on a Living to 100 and Beyond project about 10 years ago. Livingto100.soa.org. The fourth triennial symposium was held in Orlando in January 2011. The website includes the papers from each symposium (in a monograph) as well as resources and other information. The Pension Section along with several other SOA groups and many outside groups were sponsors of the 2011 Living to 100 Symposium.

The papers and panels cover a wide range of topics including mortality trends and projection methods, implications of long life, high-age mortality data, international comparisons and more. Attendees are diverse and take away from the symposium different observations about what is important to them. This article is a compilation of comments shared by several actuaries working in different roles with retirement systems who attended the recent symposium.

The Overall Experience at Living to 100 Symposium

Steve Siegel, SOA research actuary supporting retirement systems, observed as follows.

"*For me, the Living to 100 Symposium series is an effort that actuaries and the SOA, in particular, are well-suited to lead. Given our expertise in mortality, morbidity, and their implications, it's a natural fit for us! I attended the first Living to 100 Symposium in 2002 just a couple of months after I started in the research department at the SOA. I remember at that time being awestruck by the debate on what is the potential for the length of the human life span. I had always been fascinated by this subject since my childhood, reading about the world's oldest men and women in the annual edition of the Guinness Book of World Records. But, there is really*

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SOA Pension Section Web Page

20 / 20 Web site

Contact the Editor

Calendar of Events

no substitute for hearing the preeminent experts in the world discuss this in person and that's definitely made the Living to 100 series among my personal favorite experiences in my time at the SOA."

"At this year's symposium, keynote speaker Steve Austad led off with an intriguing presentation of the drug known as Rapamycin, which has been shown in some studies to prolong the life span of mice. As well, the drug also holds promise for a number of diseases. Whether or not this extension of life effect can somehow be transferred to human beings remains to be seen. One important takeaway I've learned from the Living to 100 series is to have a healthy bit of skepticism for anything that claims to extend life or has definitive answers to aging. It's important to hear both sides and that's what the Living to 100 series does so well by providing a forum for debate—and one that changes at each event."

Jean-Claude Ménard, chief actuary of the Office of the Superintendent of Financial Institutions (OSFI) in Canada, opened his response to me by indicating that he feels privileged to have the opportunity to speak at this symposium. I feel the same way, and I have participated in all four symposia. Ménard focused us on the key ages to think about: *"For a pension plan actuary, the future challenge is not so much to project how many people will still be alive at 100, but more so at age 85."*

Projecting Mortality was a Key Part of the Discussion

The actuaries devoted a lot of their discussion to this topic, and there is overlap in what we heard from them. Chris Bone, principal, Edth Ltd LLC, focused on the topic of mortality projection scales and the need to rethink them.

"In the United States and in pretty much all Western countries the age group projected to show the highest percentage increase is the centenarian population. Modal ages for death (the age at which the largest number of individuals die) have continued to increase and are now in the late 80s for many populations. These are just a couple of the facts bandied about at this great conference—one which I have always meant to attend, but could never fit into the January timetable of a retirement consulting practice.

"Over a period as short as my career, life expectancies for pensioners have increased quite dramatically. In the mid-'90s there was a discussion of whether increases in life expectancy were permanent enough so that actuaries should explicitly reflect future improvements in mortality. After robust debate on the various committees, this led to a decision for the SOA to issue the 1994 Group Annuity Reserving table with an explicit provision for reflecting future mortality improvement set forth as Table AA. Table AA was based on a blend of the mortality improvement observed in

the Civil Service Retirement System and Social Security during a period centered on the 1980s, but extending several years in either direction (1977-1993).

"In keeping with the focus of this conference, several papers looked at actuarial projections of mortality improvement in the United Kingdom, United States and Canada. Other papers reviewed the utility and experience of scale AA against more recent experience, finding that actual improvements in mortality have generally occurred more rapidly than scale AA predicted. One paper found that while scale AA fairly represented the mortality improvement of the '80s, recent mortality improvement trends, as shown in the Human Mortality Database, have accelerated."

"There remains much debate as to whether these trends can or will be maintained, but those who formulate the next version of scale AA will need to carefully consider how scale AA compared to Lee-Carter extrapolation and the interesting work taking place in the United Kingdom and other countries. But it is now time for retirement actuaries to begin considering the replacement for scale AA."

Diane Storm, another long-term participant in the SOA's retirement research efforts, also commented about mortality projections. *"The Lee-Carter model and subsequent variations of the model are sophisticated and helpful, but other methods historically used by actuaries for projecting mortality improvement still give reasonable results. The mid-range/moderate improvement rates used for SSA projections are not nearly as high as the recent actual improvement rates."*

Lisa Schilling, the actuary of the General Board of Pensions of the United Methodist Church, joined in the discussion of mortality projections as well. When asked, *"What did you learn or hear at Living to 100 that you would most like to share with your colleagues?" she responded, "A Canadian study showed that actual mortality improvements have borne little resemblance to projection scale AA. We need to re-think how we're projecting mortality."*

Ménard told us: *"I learned that it might be possible to reach a life expectancy at birth of 88 to 90 years old for both sexes in the next three decades. At the same time, reaching 100 years old for half of the population represents a huge challenge. Reaching age 88 for half of the population would nevertheless create a huge financial pressure on pension plans."*

Tom Levy, chief actuary of the Segal Company, said, *"Among the key evidence about life span limits is that the mode age at death has been increasing, but the maximum age essentially has not. This suggests that* *we might hit a limit in, say, 30 years by which time we may have virtually eliminated today's terminal illnesses, but still be left with physical deterioration." Levy also said, "In Taiwan, there was a noticeable increase in the rate of mortality improvement after National Health Insurance was implemented. This is obviously an area that could potentially change current expectations for mortality improvement in the United States. Of course, we are primarily concerned with the mortality of those in defined-benefit (DB) pension and postretirement medical plans, and they may already be getting satisfactory care."*

Levy says he was surprised by this: *"At older ages (85+), male mortality rates in Canada are actually lower than female rates in the United States."* Ménard responded that the statement is *"true if you calculate a mortality rate for the age group 85+ as a whole. The story is different if you look at mortality rates age by age. Nevertheless, since 2000, the shrinking of the difference of mortality rates between these two groups is remarkable."*

We Should Be Thinking about Fundamental Change in Our Retirement Systems

As we live longer, and as we experience the impact of the baby boom, our society will change in fundamental ways. My first choice would have been to focus on that fundamental change. The retirement panel on the first afternoon focused on these issues. An audio tape is available and there will be an article published later this year. My paper written jointly with Mary Nell Billings and presented at Living to 100, "Living to 100: Challenges and Opportunities for Employers," focuses on these topics.

Schilling, in responding to the question: *"What are the most important implications of what you learned for retirement actuaries and the overall retirement system?"* said, *"Retirement as we know it needs to change, and quite dramatically. This idea and several related specifics have been 'out there' for a while, and the various papers and perspectives presented at the symposium really drove it home."* The SOA Retirement 20/20 project is another source of information on this topic.

Ménard added to this discussion: *"Retirement is expensive and will become even more expensive in the future. No matter if it is a fully funded plan or a pay-as-you-go plan, no matter if it is a DB or a defined-contribution (DC) solution, no matter if it is a national public scheme or a private pension plan, the fact is that increased longevity will continue to put pressure on the financing of pension plans. It seems that there is a natural convergence among countries and among sexes while, at the same time, there is a growing disparity between countries.*

"Said differently, there is a continued decrease in mortality rates particularly after age 65 around the world. At the same time, some

countries are progressing faster than others. Over the past 20 years, the United States tends to lag compared to Scandinavian countries, Japan, Central Europe (mainly France and Italy), Australia and Canada. It seems that disparity of income within a population might be the reason for this growing disparity. While medical improvements theoretically permit a longer life, an adequate income (either working or retirement income) is needed to live longer."

Different Perspectives and Views

Ménard reminded us of the uncertainty as we deal with these issues: *"There are huge uncertainties behind any projections of future centenarians over the next century."*

Storm told us: *"There is a tension and almost a disconnect in the way demographers, gerontologists and health professionals view mortality improvement versus how statisticians and many actuaries view it. The former see obesity and other health issues as important factors to be used when projecting mortality improvement. The latter are more focused on projecting past improvements using statistical modeling."*

Schilling found a difference in the 2011 and 2008 discussions: When asked: *"Was there anything that surprised you?" she responded: "The lack of controversy. Three years ago, there were clearly two viewpoints, each represented by various presenters. This year, no one argued that mortality would continue to improve like it has in recent decades. Everyone who spoke on this topic agreed that at some point, mortality improvements are expected to slow down quite a bit and probably we'll see decreases in life expectancy, largely due to the dramatic increase in obesity, and especially obesity among children."*

Beverly J. Orth, a principal at Mercer, and author of a Living to 100 paper, told us:

"I saw stark contrasts between the 2008 and the 2011 Living to 100 Symposia. In 2008, we focused on exploring ways to extend healthy years beyond current life expectancies. In 2011, we are starting to grasp the societal implications of a much longer life span.

"I found the panel of public pension fund actuaries quite thought-provoking. Two of the speakers said that they expect life expectancies to continue increasing along the straight-line trajectory followed for the last 150 years. Yet most biologists believe there is a natural limit to the human life span, as exhibited by all organisms that reach a fixed size in adulthood. Clearly, these two theories cannot both be correct."

"My view is that, as we eliminate causes of early death from diseases, most humans will live to between 130 and 150 years of age and then die from the effects of dementia. Reproductive years will continue into the 70s or later and we will be able to (and need to) work beyond age 100. The challenge will be to postpone the onset of dementia to the very end of life so that its financial and emotional effects are brief."

Storm commented: *"While many scientists/biologists think we are near a breakthrough in extending the upper age limit at death, most of the recent mortality studies all over the world show that the survivor curve is simply becoming more square at the end" (or as one study put it, "...more rectangular due to the increase in the concentration of deaths around the mode").*

Levy focused on a different area of uncertainty: *"There is no real data to evaluate whether work-related skills are deteriorating at a slower rate as people live longer. That is, it is not clear that people will be able to work longer just because they are living longer. The best that can be said at this point is that there is some evidence that one's ability to do the same work one has been doing does not deteriorate as fast as other abilities. I suspect that this has always been true, and therefore that we cannot yet assume that the limits of people's potential work lives are changing. Of course, we know that the baby boomers appear reluctant to give up their jobs and that those in DC plans work longer than those in DB plans."*

Advice to the SOA

Ménard offered this advice: *"The SOA should focus on mortality rates past age 65. Indeed, it would be useful to study mortality trends for people aged between 65 and 89 and where it could go in the next three decades. There are significant uncertainties during a crucial period where most baby boomers will reach and live beyond the retirement age of 65. The financial impact could be significant depending on the trajectory of mortality rates."*

Symposium Favorites and Interesting Conversations

Storm shared these comments with us: *"I found very interesting one of the conclusions of the Gavrilov/Gavrilova paper regarding early-life predictors of exceptional longevity. Their study of U.S. death data for people who lived past 100 seems to indicate that the age of the mother of these centenarians is statistically significant. In other words, you have a better chance of living to 100 if your mother was younger than 25 when you were born. Since it seems that the percentage of first-time mothers over the age of 25 has been increasing, at least in this country, I wonder if this will affect how many people live to be 100."*

Ménard commented: *"I liked all the papers. The ones that caught my eye were: Bob Howard's presentation on mortality rates at advanced ages (95 to 110); Leonard Hayflick, Stephen Prus, Valerie Jarry, Steven Austad,* *Tom Perls and Rob Brown on public pension reforms; Geoff Rashbrooke on annual accrual rate, function of longevity; Chresten Dengsoe; and Steve Goss. One interesting quote of Hayflick's was: "Biological aging is the spontaneous, random, systemic, loss of molecular fidelity (or dysfunction) that eventually exceeds repair or maintenance capacity after reproductive maturation. It then becomes expressed as changes in higher levels of organization. This progressive molecular dysfunction increases vulnerability to age-associated diseases." AND "Longevity is governed by the excess physiological reserve and efficiency of repair, synthesis and turnover processes that must be maintained until the time of reproductive maturation." Indeed Hayflick's presentation is the one that I've enjoyed the most."*

One of the opportunities presented by Living to 100 is the chance to talk to very interesting people. Ménard commented: *"At the end I had an interesting discussion with Jay Olshansky and Leonard Hayflick. I agreed to follow up with Leonard within a year with something he asked me. My intention is to further continue the discussion with Leonard and to come with some interesting results in three years' time at the next symposium."*

Conclusions

Living to 100 offers a very interesting chance to learn about a range of research on change very important to our society at large and to our retirement systems. Several actuarial colleagues have shared their key takeaways, and others will have different views. We encourage you to look at the website, read the papers and discuss the issues. In addition, maybe you would like to submit a paper to the next Living to 100.

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SOCIETY OF ACTUARIES
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WOMEN AT RISK: SECURING RETIREMENT BENEFITS IN DIVORCE

By Elizabeth M. Wells

In most state divorce courts throughout the United States, retirement benefits earned by either spouse that are attributable to the period in which the parties were married are considered to be marital property and thus are divisible by the Court.[1] Statistics indicate that, as of 2009, the divorce rate in the United States was approximately 50 percent.[2] (Approximately 6.8 individuals out of 1,000 were married in 2009; approximately 3.4 individuals out of 1,000 were divorced in that year.[3]) Women participate in retirement plans less frequently than their male counterparts.[4] For those women who do participate in retirement plans, the value of their benefits is on average less than the value of their male counterparts' benefits.[5]

In light of these statistics, in a heterosexual divorce situation it is more likely that the wife will be entitled to a share of her husband's retirement benefits than that the husband will be entitled to a share of his wife's retirement benefits. If both parties have retirement benefits, it is more likely that the husband's retirement benefits will be of greater value than the wife's retirement benefits. Women generally live longer than men.[6] Thus, it is vitally important to the financial well-being of divorcing women that the retirement benefits earned by their husbands are fully identified, properly valued and equitably allocated during the divorce process. Any flaws in the process may subject these women to substantial financial risk at a time in their lives when they are least able to cope with such risk. The purpose of this article is to provide some very basic information to non-attorneys regarding the steps that should be taken to secure a divorcing woman's share of her husband's (or former husband's) retirement benefits.

A. Obtaining Information about the Retirement Plans

Before determining how to allocate retirement benefits between divorcing parties, one must learn what retirement benefits are involved. The attorney who represents the spouse in a divorce who is not the participant in the Plan at issue ("the non-participant spouse") may easily write a letter requesting that the attorney representing the "participant spouse" provide information on all of the participant's retirement benefits. If the participant is aware of all of his retirement plans, and if he, via his attorney, fully discloses all the plans involved, a simple letter request from the non-participant's attorney to the participant's attorney may suffice. If, however, the participant is not aware of all of his retirement benefits, or if the participant does not wish the non-participant to know about all of his retirement benefits, all benefits may not be disclosed as a result of a letter request. The non-participant and her attorney must make a determination as to whether or not it is advisable to do "formal discovery" regarding the retirement benefits. Formal discovery may include, among other methods, written interrogatories to be completed by the participant, written subpoenas to be issued and sent to the participant's employer(s) requesting information, and/or written subpoenas to be issued to other entities (e.g., a financial institution managing IRA funds) requesting information. If the participant does not fully answer interrogatories, or if a subpoena recipient does not fully provide information requested in a subpoena, legal ramifications to the non-disclosing party may ensue.

The information obtained regarding the retirement benefits should include at least the following for each plan in which the participant has accrued benefits:

- Name of Plan
- Most Recent Summary Plan Description (or if the Plan has no Summary Plan Description, a document outlining the basic features of the Plan)
- Date participation commenced
- Date participation terminated (if any)
- Most recent Account Statement or Statement of Benefits (showing at least current benefits accrued, percentage vested)
- Documentation regarding any outstanding loans
- Documentation regarding recent (varies by case) withdrawals
- Procedures for allocation via divorce (if any)
- Model Court Order for allocation via divorce (if any).

Failure to obtain at least the above information before making a determination regarding how to divide the parties' retirement benefits may cause a variety of problems for the non-participant spouse. For example, suppose the parties and their attorneys have decided to save money by skipping "formal discovery." Suppose the parties assumed that the participant's plan was a defined-contribution (DC) plan, and that the non-participant would receive a lump sum of $10,000 from the Plan immediately after the parties were divorced. Suppose further that the parties' divorce Agreement stated this detail, and suppose that the Agreement was entered by the Court (thus finalizing the parties' divorce).

Suppose that after the Court entered this Agreement, the non-participant requested her benefit from the Plan Administrator, and at that time she first learned that the Plan is, in fact, a traditional defined-benefit (DB) plan. In most traditional DB plans no lump sum payment option is available. To receive her share of benefit from this DB plan in light of no lump sum payment being available, the non-participant must now devise an alternative solution and must obtain the participant's agreement with that alternative solution. If the parties cannot reach agreement, the non-participant must involve herself and the participant in Court proceedings to seek a solution. The cost of retirement- benefits-related "formal discovery" to the non-participant will almost always prove far less than the cost of "undoing" a flawed agreement and seeking a new solution.

Many other problems may occur when the non-participant's attorney fails to obtain full information on the retirement benefits. In some cases, participants have failed to disclose plans of significant value. In these cases the non-participant may never receive her share of benefits, or if she does receive her share, she may receive it only after she expends a significant amount of time (perhaps years) and money. In some cases, the parties assume that the retirement benefits have relatively minimal worth, the non-participant is offered and accepts a share of other assets "of equal value," and later it becomes clear that the retirement benefits were actually worth far more than the parties believed. In some cases the parties assume that the non-participant can receive a lump sum retirement benefit as of the date of the divorce. After the divorce is final they learn that the non-participant can receive a lump sum but only if and when the participant retires, and further that if the participant predeceases the non-participant, the non-participant will receive no benefit at all! This "unfair" result can occur even though the parties' Agreement (signed, sealed and entered by the Court) states otherwise. Clearly it is in the best interest of the non-participant to obtain Plan information BEFORE any written divorce Agreement is finalized and entered by the Court.

B. Obtaining Information about Allocation Options and Procedures

Once a divorcing non-participant spouse's attorney has obtained information about the participant's retirement benefits, the next logical step is to determine the options available for allocating those benefits between the parties.

1. Determining Marital Share

   One step in determining the options available is to determine how the relevant state Court defines the marital share of a retirement plan. Although parties may agree to divide their property in a way that does not necessarily reflect that state Court's definition of marital share, the state Court definition is often a good starting point for negotiation. For DC plans, assuming that the parties were married before the participant began participating in the Plan, many state Courts define the marital share as the value of the benefit "as of the date of divorce." Loans and withdrawals may or may not be added back in depending upon the state law in which the divorce occurs and the specific circumstances of the parties involved. Market performance may or may not be relevant again depending upon state law and specific circumstances.

   For DB plans, some states determine the marital share similarly to the method of determining the marital share of DC plans as outlined above. Many other states, however, determine the marital share of DB plans by first determining the value of the benefit payable as of the date of benefit commencement (a date that may not occur until years after the date of the parties' divorce) and then by multiplying that value by a fraction which represents the proportion of marital service to total service. Illinois, for example, falls into this latter category. [7] The non-participant's attorney should have a thorough knowledge of all applicable state law regarding the marital portion and should negotiate for the non-participant in light of that law.

2. "Offset" versus "Reserved Jurisdiction"

   Another step in determining the options available for allocation is to decide if it is best to value the plan at issue and "offset" its value against other assets (in effect swapping assets of equal value), or if it is best to do a division of the Plan by having the Court "Reserve Jurisdiction" to divide benefits. Under the Reserved Jurisdiction method, the Court may order the participant to pay benefits to the non-participant when the participant's benefits commence, or the Court may order the Plan itself to pay benefits to the non-participant when the participant's benefits commence or at some earlier or later time.

When the plan at issue is a DC plan, swapping benefits may be a workable solution but only if the differences in asset types are taken into account. For example, it may seem equitable to "swap" a $50,000 interest in a DC plan for a $50,000 interest in home equity, but such a swap does not necessarily take into account that whereas it generally costs $0 for upkeep of a retirement plan, upkeep on a home can run easily run upwards of $10,000 per year. Also income tax ramifications of all asset swaps should be considered. When the parties have insufficient assets to offset the value of their DC plans, the parties often decide to use the "Reserve Jurisdiction" approach.

When the plan at issue is a DB plan, "offsetting" the value of the Plan against any other asset (even another DB plan) can be problematic, particularly when attempting to serve the best interests of a divorcing woman. The "present value" of a DB plan may vary substantially depending upon the assumptions used to calculate the present value. Many attorneys are unaware that present values increase over time even if the participant has ceased actively accruing benefits in the Plan. One of the more common assets used to offset the present value of a DB plan is the equity in the parties' home. As is true with DC plans, such an offset may not be in the best financial interests of a divorcing woman, particularly if she is a non-participant who has no other retirement assets and if the home requires maintenance or repairs. Due to these and other concerns, the parties often decide to divide DB plans via the "Reserved Jurisdiction" method.

3. Reserved Jurisdiction: Via Participant or Direct from Plan

As indicated above, if the parties decide that the plan will be divided using the "Reserved Jurisdiction" method, it must be decided if it is best for the participant to pay non-participant when the participant's benefits commence, or if it is best for the Plan to pay non-participant directly. Because it can be emotionally painful for a participant to pay a non-participant any funds, and because it can be time-consuming and expensive for a non-participant to enforce such arrangements with the participant, when the Court uses the Reserved Jurisdiction method, parties generally prefer that the Plan directly pay the non-participant her share of retirement benefits.

This type of arrangement almost always requires a Court Order separate and apart from the parties' Agreement and/or Divorce Decree (Judgment). Such a Court Order is usually drafted by the attorney for the non-participant or by a third party retained by the non-participant, reviewed by the participant's attorney or by a third party retained by the participant, entered by the state Court and then forwarded to the Plan. For some plans these Orders are called Qualified Domestic Relations Orders (QDROs). For other plans these retirement benefit allocation Orders have different names.

Divorcing parties and their attorneys have been known to assume that all retirement benefit plans will accept Court Orders mandating the Plan to pay benefits to a spouse or former spouse. Not all plans, however, accept such orders. In Illinois, for example, the City of Chicago Deferred Compensation Plan does accept such Court Orders. But the Cook County Deferred Compensation Plan (Cook County being the county in which Chicago is located) does not accept such Court Orders. This lack of uniformity among plans is yet another reason that plan information should be obtained and reviewed before the non-participant enters into any agreement regarding retirement benefits.

4. Model (Form) Court Orders

If it has been determined that it is best for the retirement benefits to be allocated using the Reserved Jurisdiction method, and if it has also been determined that it is best for the non-participant's share to be paid directly by the Plan, it must be further determined what language will be used in the Court Order that will be sent to the Plan. Many attorneys assume that any model or form Court Order provided by the Plan Administrator (or any Plan Administrator) contains the best language to allocate the benefits at issue. This assumption, however, is often incorrect. Some model Court Orders provided by Plan Administrators (particularly model Court Orders for DC plans) may be very workable, or may be made very workable after careful review and only a few minor changes. This is because DC plans tend to be very similar and because benefit amounts payable to non-participant beneficiaries generally do not vary as a result of the circumstances of the non-participant.

On the other hand, using a DB plan model Court Order to allocate the non-participant's benefits may well result in the non-participant receiving far less of a benefit than that non-participant would have received if a carefully drafted custom Court Order had been used.

For instance, many DB plan model Orders do not address early retirement benefits. In most cases, retirement plan administrators will not allocate early retirement benefits to the non-participant unless the language of the Order *specifically* directs such an allocation. Thus using a DB plan model Order may result in the non-participant receiving no part of the participant's early retirement benefit. Early retirement benefits in DB plans can be very valuable.

As another example, many DB plan model Orders contain language limiting the non-participant's share of surviving spouse benefits to a percentage or amount of the benefit earned by a certain date (the Accrued Benefit), or to a certain percentage of the projected benefit. If the parties agree or if the Court so orders, however, the relevant law may mandate that the non-participant divorcing spouse receive *any or all* of the participant's benefit that is or will be payable from the Plan. Most relevant law contains *no inherent time or percentage limit* regarding the benefit that may be awarded to the non-participant. Thus using a DB plan model Order may result in the non-participant receiving less of benefit than was agreed on by the parties or less of a benefit than was ordered by the Court.

As an additional example, many DB plan model Orders mandate that the non-participant take the benefit in a certain form and/or at a certain time (e.g., a single life annuity payable at the participant's earliest retirement age). The relevant law, however, may indicate that the non-participant is permitted to take her benefit in any form (other than a Joint and Survivor Annuity with a subsequent spouse), and at any time on or after the participant's earliest retirement date. Thus, using a DB plan model Order may result in forcing the non-participant to take a form of benefit or taking the benefit at a time that is not the most financially advantageous to her.

The examples above indicate only some of the many ways in which DB plan model Orders may reduce the non-participant's benefits by significant amounts. Under certain circumstances, these reductions do not result in corresponding increases to the participant's benefit. For these and other reasons, model Court Orders (and particularly DB plan model Court Orders) should only be used to allocate non-participant retirement benefits if they are used with extreme caution.

C. Retirement Orders to be Entered ***With*** (Not After) the Divorce Agreement (or Judgment)

Women are at risk if their attorneys do not obtain sufficient information on all the plans at issue, and/or if their attorneys do not understand all the optional methods whereby retirement benefits can be allocated between divorcing parties. But perhaps the greatest risk to divorcing women who are entitled to receive a share of their spouse's or former spouse's retirement benefits is the risk that their attorneys will not enter the Orders allocating their share of retirement benefits until *after* the parties' divorce Agreement (or Judgment) has been entered by the Court.

An example of the problem with this "after the date of divorce" procedure can be illustrated using plans covered by Title I of ERISA (plans subject to QDROs). In an ERISA DC plan, as long as the parties are married, if the participant spouse dies, unless the non-participant spouse has waived this right in a signed and notarized writing, the non-participant spouse will be the named beneficiary and will receive a death benefit at least equal to the participant's account balance. In an ERISA DB plan, as long as the parties are married, if the participant spouse dies, unless the non-participant spouse has waived this right in a signed and notarized writing, the non-participant spouse will be entitled to receive (at some point, even though it may be years after the participant's death) the surviving spouse benefit of the qualified survivor annuity (either the pre-retirement survivor annuity (QPSA) or the survivor portion of the joint and survivor annuity (QJSA)). Once the parties are divorced, however, these automatic protections for DC plans and for DB plans are no longer assured.

To illustrate, in Case #1, assume the parties have decided that wife is to receive 50 percent of husband's retirement benefits as of the date of divorce and are working out the details of the allocation. The Court has not yet entered the parties' Agreement. Wife's attorney has insisted that the Agreement will not be entered until the QDROs have been drafted and preliminarily approved by the Plan. In Case #2, the parties also have decided that wife is to receive 50 percent of husband's retirement benefits as of the date of divorce. These parties too are working out the details of the retirement benefit allocation. However, in Case #2, the Court entered the parties' Agreement on March 1, 2011, the date as of which the parties were divorced. The parties' divorce Agreement states that wife is to receive 50 percent as of March 1. Assume the participants in both cases die on March 2, 2011.

In Case #1, because of surviving spouse protections, the wife is automatically considered to be the participant's surviving spouse. For the DC plans at issue, wife will receive the balance of the participant's account. For the DB plans at issue, wife will receive (perhaps at a later date) an annuity payable every month until the date of her death. Thus, in Case #1, wife will receive a share of each of these plans.

In Case #2, because the parties are no longer married, former wife is arguably no longer entitled to surviving spouse protections. For the DC plans at issue, former wife is at risk that former husband named another party (a sister? a girlfriend?) as his beneficiary. If former husband's beneficiary designation has been changed, the DC Plan Administrator may argue that the benefit should be paid to the participant's new designated beneficiary. Even if former wife presents the DC Plan Administrator with a copy of her divorce Agreement and/or her divorce Order, even if the former wife prepares a QDRO, the Court enters the QDRO, and the former wife forwards that QDRO to the DC Plan Administrator, the Administrator may argue that former wife is entitled to no benefit. Former wife may eventually succeed in obtaining her portion of the participant's benefit, but probably only if she commences court action against the designated beneficiaries who received the participant's DC plan funds. Such court action may prove lengthy and expensive.

In Case #2, for the DB plans at issue, former wife is at risk no matter what action was or was not taken by the participant. The Plan may raise an argument that has been raised successfully in several Courts around the United States. This argument runs that under ERISA a plan may only pay 1) the participant; 2) the surviving spouse of the participant; or 3) an Alternate Payee via a QDRO. As the participant is deceased the Plan cannot pay the Participant. As the participant was not married upon his death there is no surviving spouse. Thus the Plan cannot pay a surviving spouse. As there is no QDRO in place, there is no Alternate Payee. Thus the Plan cannot pay the Alternate Payee. If there is no participant to pay, no surviving spouse to pay and no Alternate Payee to pay, there is no benefit to pay. Thus, in Case #2, the former wife may receive no part of these benefits despite language to the contrary in the parties' Agreement, an Agreement which was signed, sealed and entered by the Court. And even if the former wife prepares a QDRO, the Court enters the QDRO, and the former wife forwards that QDRO to the DB Plan Administrator, the Plan Administrator may argue that no benefit is payable to the former wife.

These same problems may occur in many non-ERISA plans when Orders allocating retirement benefits are not entered until after the parties' divorce Agreement is finalized and entered by the court.

D. Conclusion

In a more perfect world, attorneys who represented women in divorce cases would possess a superior knowledge of retirement benefits, of the law relating to retirement benefits, and of the special risks women face regarding retirement benefits. These attorneys would use their knowledge to do everything possible to be certain that all retirement benefits earned by their clients' husbands were identified, properly valued and equitably allocated. These attorneys would not delegate their duties regarding these retirement benefits to non-attorneys who have little or no understanding of or training in the relevant law.

Alas, as the world we inhabit is less than perfect, some attorneys who represent women in divorce cases do not possess more than a modicum of retirement benefit expertise, and thus do not possess the requisite skills to ensure that the retirement benefits assigned to their women clients pursuant to divorce are properly secured. If divorced women, divorcing women, and financial professionals who work with these women have some basic information regarding the proper steps to take in the allocation of retirement benefits in divorce, these individuals may be able to identify situations where a divorce attorney may not be taking (or may not have taken) the steps necessary to properly secure a woman's share of her husband's retirement benefits. The sooner a woman learns that a potential problem may exist, the more likely the potential problem can be addressed and resolved before any irreversible financial loss occurs.

Elizabeth M. Wells, J.D., is the principal of the Law Office of Elizabeth M. Wells in Chicago, Ill. For over 13 years she has limited her legal practice to working with domestic relations attorneys and their clients to identify and effect productive retirement benefits settlement and litigation strategies. Wells played a major role in drafting the 2006 revisions to the Illinois statute that regulates the allocation of retirement interests in domestic relations matters for Illinois state and local government employees. She received her Juris Doctor from Chicago-Kent College of Law in 1995. She can be reached at emwellsesq@earthlink.net.

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[1] For example, in Illinois see 750 ILCS 5/503.

[2] *National Vital Statistics Reports.* U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Health Statistics, National Vital Statistics System. Volume 58, Number 25, Aug. 27, 2010.

[3] Ibid.

[4] U.S. Department of Health and Human Services. Administration on Aging http://aoa.gov/AoAroot/Aging_Statistics/Profile/2007/18.aspx.

[5] Women's Institute for a Secure Retirement. http://www.wiserwomen.org/index.php?id=250&page=Women_Face_Unique_Challenges_When_Planning_for_Retirement

[6] *National Vital Statistics Reports*. U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Health Statistics, National Vital Statistics System. Volume 58, Number 21, June 28, 2010.

[7] See for example, In re Marriage of Wisniewski, 286 Ill.App.3d 236 (Ill. App. 4

Dist., 1997)

IN THIS ISSUE

RESEARCH CONDUCTED BY THE PENSION SECTION COUNCIL

By Faisal Siddiqi

You have probably noticed that the Society of Actuaries (SOA) has been mentioning many of its research activities of late through different media. You'll have seen research mentioned in *SOA News Today*, on the SOA website, in meetings, and through regular reminders via blast emails that list activities actuaries can pursue for continuing education purposes. Given that the SOA is an education and research organization, this makes a lot of sense. The purpose of this article is twofold: first, to raise the awareness of the research that has been conducted by the Pension Section Council's Research Committee and the research conducted by the Committee on Post-Retirement Needs and Risks; second, to outline the plan we have for making it useful for practitioners.

Before I begin, if you want to just get an overview of the SOA's research activities, check out the Web page, SOA.org/research/at-a-glance.aspx . On that page there is a good article under "About Us" that outlines the SOA's research activities. Even if you haven't thought about it recently, you may be asking yourself why research is done at all by the SOA. There are many good reasons, but I think the most important one is that it frees up time for today's actuaries. This allows many practitioners to concentrate on their work fully knowing that many of the questions that they wonder about are being addressed by a group of experts who can provide good answers. Eventually, this work helps us all.

The Pension Section's research is actually divided into various activities, as follows: Retirement 20/20, Pension Finance Task Force, technical retirement research (includes monographs and experience studies) and Committee on Post-Retirement Needs and Risks (CPRNR). I will concentrate on the technical research and the CPRNR. With respect to the technical research, the Pension Section Council's Research Team has done a lot here. The team is headed by Kevin Binder, and he and the leadership before him have put in many years helping the council coordinate and understand the work done. There are articles on selecting mortality tables, pension plan turnover studies, aging curves for health care costs, single life versus joint life payout options, a life expectancy calculator, reversion taxes on pension plan funding, etc. For a full list please go to SOA.org/research/research-projects/pension/default.aspx. This page includes work conducted from 2003 to date and has many practical applications.

With respect to the CPRNR, its objective is to focus on the risks individuals face when in or nearing retirement. This objective is a very broad one and it connects to people at an individual level or human level. The committee is chaired by Anna Rappaport and its strength is in part due to the participation from both actuaries and individuals with other professional backgrounds. If you go to the CPRNR page on the SOA website, SOA.org/professional-interests/section-committees/pension-committees/post-retire-needs-risk.aspx, you'll find a listing of all the contributing parties.

The exact purpose of the committee is to initiate and coordinate the development and maintenance of educational materials, continuing education programs, and research related to risks and needs during the postretirement period. In terms of some of the activities this committee has done, you'll be interested to know that it runs a risk survey every two years (originally started in 2001). There will be one conducted this year. The main focus area has yet to be finalized. The 2009 survey discussed the impact of retirement risk on women, the process of planning and personal risk management, and understanding and managing risks in retirement. The 2007 survey discussed phases of retirement and health and long-term care risks in retirement. The CPRNR has also looked into the following topics which provide great insight: housing in retirement, managing postretirement risks, whether my assets will last my lifetime, health and long-term care risks in retirement, retirement implications of demographic and family change, etc. Check out the following link: SOA.org/research/research-projects/pension/research-post-retirement-needs-and-risks.aspx .

As you can tell from the foregoing, there is a lot of material out there and much work has been done. However, I find that many actuaries don't know about it and even fewer have perhaps thought it could help them with their everyday work. I think we should all know more about this research and find ways to use it. Therefore, as part of my role on the Pension Section Council, I am leading a project group that will find many ways to make section members more aware of this body of work through the *Pension Section News*, Pension Section Update and LinkedIn, and at meetings. We will also publish articles that highlight particular research and give suggestions on how it can be used.

I hope you will find this interesting and useful to you.

Faisal Siddiqi, FSA, FCIA, is chairperson of the Pension Section Communications Team and an appointed member of the Pension Section Council for 2011. He is a principal with Buck Consultants in Toronto, Ontario, Canada. He can be reached at faisal.siddiqi@buckconsultants.com.

CALL FOR SECTION ELECTION CANDIDATES

The 2011 election of new Pension Section council members is approaching. Now is your opportunity to move from section member to a leadership position. Council members typically serve three-year terms. A *quick look* at the general roles and responsibilities of council members can be found on the SOA website.

If you are interested in becoming a candidate for election, please fill out the "*Section Election Expression of Interest Form*" no later than May 11, 2011. If you have interest in volunteering, but aren't sure about running for the council, feel free to contact staff fellow, Andy Peterson, to learn about other volunteer opportunities.

SOCIETY OF ACTUARIES

PENSION SECTION NEWS

May 2011, Issue No. 74

SOA NEWS TODAY HAS A NEW LOOK! IMPROVED NAVIGATION!

We've redesigned SOA News Today. We've changed the masthead, organized material for an easy read and improved overall navigation. Take a look !

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