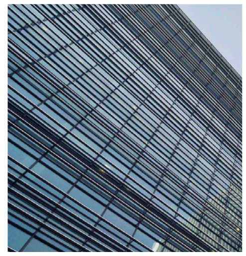
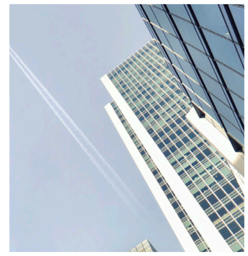
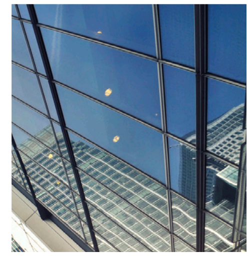
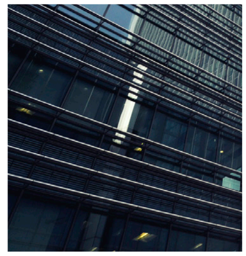

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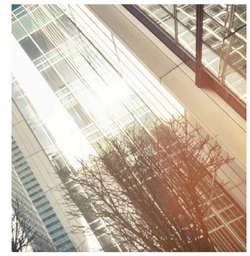

INVESTMENT ACUMEN FOR THE PENSION ACTUARY: DOES IT MATTER?

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YES IT DOES!

If you're like many pension actuaries today, a frequent discussion topic is "derisking." Pension derisking encompasses many different actions, including:

- Changing the pension benefit formula
- Closing or freezing the plan
- Terminated vested lump sum windows
- Retiree lump sum windows
- Group annuity buy-ins or buy-outs
- Plan terminations

And for most of these types of derisking actions, actuaries are frequently having robust conversations and helping their clients navigate the pros and cons of the different strategies. However, another very common and important derisking discussion, the investment strategy, has often not included the actuary as often or in as much depth, yet this is an area where we as actuaries can add so much value.

Who best understands the return characteristics and behavior of a pension liability? Who best understands the contribution needs of a pension plan? Who best understands the accounting impact of pension liabilities?

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THE ANSWER, THE ACTUARY.

The pension investment strategy impacts a pension plan's contribution needs, expense, and balance sheet liability, often an immense amount, thus a conversation about the investment strategy needs to include the actuary for clients to get a full understanding of how their investment decisions may impact their plan. In order for actuaries to contribute the greatest possible value to these conversations though, we need to be able to talk the talk and walk the walk of investments.

Do we need to understand the intricate details of managing pension assets? No. However, being able to engage clients in meaningful discussion regarding the trade-offs of different investments and investment strategies will go a long way to helping plan sponsors make the best derisking choices.

With this in mind, the Society of Actuaries is hosting two one-day investment boot camps this fall in Chicago on Tuesday, Sept. 23 (Chicago Investment Boot Camp) and in Toronto on Tuesday, Oct. 14 (Toronto Investment Boot Camp) to help pension actuaries build the investment acumen they need to engage in these discussions.

Attendees will learn about the details of fixed income markets and benchmarks and how fixed income and derivatives can be used to hedge pension liabilities. The boot camp will also include details on return seeking assets and their importance for pension investment strategies. The day will conclude with a robust discussion on common pension investment strategies today such as derisking glide paths and immunization.

Here is a more detailed look at each session of the boot camp:

- *Session 1 – The Fixed Income and Derivatives Markets*

  This first session of the Investment Boot Camp provides an overview of the fixed income and derivatives markets. We will discuss characteristics of the fixed income market, including common fixed income benchmark indices and analytical metrics, as well as the derivatives market and its structure.

- *Session 2 – Fixed Income Securities and Derivatives Applied to a Pension Plan Liability*

  Building on the knowledge from Session 1 of the Investment Boot Camp, this session will discuss how various fixed income and derivative securities can be used to hedge a pension liability and what to consider between the different options.

- *Session 3 – Beyond Fixed Income: Other Important Asset Classes for Pensions*

  Session 3 shifts the focus to the return-seeking portfolio and provides an overview of different asset classes such as public and private equities and alternative asset classes such as hedge funds and commodities with a focus on how they can be combined to produce a diversified portfolio.

- *Session 4 – Pension Investing Strategies Today*

  The fourth and final part of the Investment Boot Camp looks at the variety of pension investment strategies used today from derisking glide paths and immunization strategies to return oriented portfolios and termination considerations. Tying together the first three sessions, this final session will put together many of the investment decisions pension plans sponsors are making today.

Working with clients to find the best solutions to managing their pension risk is one of the key roles of the pension actuary today. To be as effective as possible in these discussions, a proficient level of investment acumen is critical. Understanding terms like hedge ratio, liability tracking error, and funded status volatility and knowing the trade-offs of hedging with fixed income vs. derivatives will make the actuary all that more valuable to a plan sponsor.

For those actuaries working with pension plan sponsors on derisking, I encourage you to consider attending the investment boot camp this fall. Helping pension plan sponsors understands the potential risks and rewards of any decision is something actuaries do best, and building your investment acumen will only help you and your clients to make the best decisions going forward. ■

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