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A View from the SOA's Staff Fellow for Retirement

By Andrew Peterson

It is no secret to pension actuaries that we are working in a time when traditional defined benefit (DB) plans are experiencing extreme challenges. The multiple factors—including low interest rates, volatile investment markets, increasing longevity, maturing plans, and so on—have created a very challenging operating environment for DB plans. As a result, we are witnessing a paradigm shift in the North American retirement landscape where individuals are increasingly being asked to take direct responsibility for their own retirement security; this requires that they directly bear investment, longevity and inflation (among other) risks. This is happening both through explicit plan design changes and the "de-risking" exercises being executed by many plan sponsors with traditional pension plans.

While this paradigm shift is perhaps most prominent (and advanced) for single-employer pension plans in the private sector, the financial challenges and pressures are also being experienced by multiemployer and public sector pension plans, in both the United States and Canada. Certainly the trend away from DB plans has not happened in public pension plans to the degree it has in the private sector, yet even as I write this, I have just read two different press articles about politicians proposing lump sum payout options in public pension systems as a way to relieve the financial stress on these plans. (Note that it wasn't clear to me how this "relief" was actually going to be realized unless they "underpay" participants.)

Unfortunately, plan sponsors often see retirement plan options as an either/or choice—either DB or defined contribution (DC). As pension actuaries, we know that plan design is actually a spectrum of options with many possible variations and choices. In fact, that was the real genesis for the Pension Section's sponsorship of the *Retirement 20/20* initiative that was initiated about a decade ago. In her chairperson column in this issue, Julie Curtis writes a bit more about *Retirement 20/20*, but a core goal of that initiative was to think about new plan designs outside the DB/DC silos, starting from a clean slate perspective. The active work of that specific initiative ended about five years ago,[1] but the spirit of the work continues in other SOA-sponsored projects.

One example is a recently completed research project the SOA sponsored on target benefit plans titled *Analysis of Target Benefit Plan Design Options*. The work was authored by Barbara Sanders of Simon Fraser University (British Columbia). As such, it is set in the Canadian context, where there seems be a much more specific application of risk-sharing plans than has happened yet in the United States. Despite its Canadian context, the paper's application transcends geographic borders as much of the work is not specific to a particular regulatory framework. The focus of the research is how different target benefit plan designs (i.e., risk-sharing mechanisms) and funding strategies impact benefit security and stability over both short- and long-term periods. The analysis and results are developed through a stochastic model and not merely a deterministic approach.

One aspect of this project that is unique and particularly helpful is that in addition to the full report, Ms. Sanders has written two issue briefs that highlight the key concepts and conclusions of the full paper. The issue briefs are each about six to seven pages, making them easily accessible and a quick read for busy pension actuaries. I believe the work of this project should be of particular use to any actuary thinking about different risk-sharing designs and how different design choices and funding strategies will impact the ultimate variability and level of benefit provision. I encourage you to read the briefs and seek to apply them when you engage in plan design projects to encourage plan sponsors to consider more options on the DB to DC plan design spectrum.

If you have specific feedback on this project or other project ideas that you think the SOA Pension Section should pursue, please feel free to contact me. ■

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ENDNOTE

1 The SOA Pension Section Council has recently started a project to revisit the work of *Retirement 20/20* to evaluate what additional work should/could be done at this time and/or whether there were key lessons learned that should be discussed further.