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Which of the following best describes the effect that the financial crisis has had on your personal work situation?

None, I'm as busy as ever

Changed my level of responsibility in same job

Substantively changed my job (e.g. my focus shifted to investments)

I'm considering a career change

I lost my job

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AN INTRODUCTION LETTER FROM EVAN INGLIS, CHAIRPERSON OF THE SOA/AAA JOINT PENSION FINANCE TASK FORCE

By R. Evan Inglis, FSA

As the new chairperson of the SOA/AAA Joint Pension Finance Task Force, I'd like to share with you some thoughts about what I believe to be the significance of our group to pension actuaries and the task force's vision of how pension finance can strengthen the actuarial profession.

Many of you might recognize this group by its old name, the "Financial Economics Task Force." The mission of the task force is to educate the pension actuarial profession about financial economics principles that influence the perspective that plan sponsors, employees, investors, the government and actuaries have on pension plans. As actuaries, other pension stakeholders need us to understand and apply these principles appropriately as we consult with and guide our clients.

Two ideas from the financial economics perspective are key:

- Risk (uncertainty) can have serious adverse financial consequences. Securities markets place an identifiable dollar cost on risk.
- Financial markets are objective price-setters. Actuaries can use financial market prices as an objective measure for calculating costs for pension plans.

Much of our focus as pension actuaries has been on issues that make a day-to-day difference to our clients. We analyze the implications of IRS and FASB rules for private plans and we focus on budgeted costs for public plans. Unfortunately, these paradigms sometimes mask risk. Other perspectives may help plan sponsors to better understand the nature of their pension obligation.

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I believe that this fuller understanding of the pension obligation would have led to many more defined benefit plans continuing to provide benefits through the tumultuous 2000's decade. Benefit promises are likely to have been more modest, funding ratios higher, and investment strategies would have been lower risk. Unfortunately, an unusually long (nearly 25-year) bull market caused the pension world to lose its perspective. Pension plans grew much bigger during that period and when financial markets deleveraged, drastic action by regulators and plans sponsors was the almost inevitable result.

If we are to provide the best advice and guidance to our clients, we should strive to incorporate pension finance principles into our knowledge base and consulting discussions. These are not principles that are right or wrong. They are valid principles that help illuminate the financial consequences sponsoring a pension plan. Different actuaries will use them in different ways with different clients, just as different consultants use different mortality assumptions for different clients. However actuaries must learn these principles and know them as second nature, like understanding how a present value is calculated.

On a practical level, pension finance principles will lead us to more effectively discuss the true cost of changing benefits or of taking on or selling plans in corporate transactions. They will help us to identify the value of applying liability-driven investment strategies, understand the real risks and risk reducing characteristics inherent in cash balance plans, and balance the needs of taxpayers, employees and employers in the public plan arena. My hope is that our profession will continue to evolve its perspective on these types of issues in a way that enhances the sustainability of both corporate and public pension plans.

The current membership of the Pension Finance Task Force is listed below. I encourage you to contact any of us with thoughts or questions. You can also visit the SOA Web site at SOA.org to find materials that will further develop your understanding of pension finance principles.

Evan Inglis (Chairperson)

Zvi Bodie

Dan Cassidy

Eric Friedman

Jeremy Gold

Malcolm Hamilton

Dick Herchenroether

Chad Huffmeier

Ari Jacobs

Gene Kalwarski

Ken Kent

Eric Klieber
Eric Klieber
Gordon Latter
Rene Martel
Joe McDonald
Bob North
Michael Peskin
Jeff Petertil
Mark Ruloff
Bill Sohn
Aaron Weindling
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