PENSION SECTION NEWS

NUMBER 36 APRIL 1998

Chairperson's Corner

by Carolyn E. Zimmerman

This "Chairperson's Corner" is a collection of thoughts rather than a single theme.

As I mentioned in our last issue of *Pension Section News*, this year the Pension Section Council's focus is on improving the value of the Section to its members. We have started some new initiatives based on what we believe will benefit the membership, but we would like to know what you think. (In other words, using actual information is better than making an actuarial assumption!) So, using a time-honored approach, we are enclosing a survey with this newsletter. I know that pension actuaries are notoriously busy, but please try to take some time to complete the survey and return it to Lois Chinnock at the Society office at the address indicated on the form. We are in the process of deciding which projects to support, and want to focus our efforts on issues of most importance to you.

On another front, I am very excited about the prospect of developing a training course for entry-level actuaries. We

continued on page 2, column 2

A New Pension Accounting Standard for Multinational Companies

by Dennis M. Polisner

In the world of employee-benefit plans, employers and their advisors are faced with requirements to comply with governmental requirements, tax regulations, and accounting standards which continue to increase in their detail and complexity. In the U.S., the focus has been on local requirements, but increasingly, multi-national companies are faced with compliance issues that vary widely from country to country.

Public companies that have operations around the world may be accounting for their pension and other long-term benefit plans both in accordance with local country accounting standards and with the standards of the parent company's country for consolidated reporting purposes. This can be a time-consuming and costly process. Many of these companies might be better served if there was a single international accounting standard which could be used to report pension costs and liabilities for all countries on a single, consistent basis. One of the principal reasons this has not occurred in the past is that each country has its own security regulation mechanism such as the SEC in the U.S. Each country's regulators have tended to require local accounting standards for companies issuing equity or debt securities.

It is first necessary to understand the structure of international regulation and standard setting in order to address the establishment of uniform standards around the world. This article briefly describes that structure, the process that is taking place to establish uniform standards, and some of the significant provisions of the new international accounting standard for pension and other postemployment benefits.

continued on page 4, column 1

In This Issue

PENSION SECTION NEWS
Issue Number 36, April 1998

Published quarterly by the Pension Section
of the Society of Actuaries
475 N. Martingale Road, Suite 800
Schaumburg, IL 60173
Phone: 847–706–3500
Fax: 847–706–3599
World Wide Web: http://www.soa.org

This newsletter is free to Section members. A subscription is $15.00 for nonmembers. Current-year issues are available from the Communications Department. Back issues of Section newsletters have been placed in the Society library. Photocopies of back issues may be requested for a nominal fee.

Chairperson's Corner

continued from page 1

have sketched out the general concept and are planning to hire someone to design the course. This is the first phase of the project. The ultimate goal is to put the course on an interactive CD so that employers can make it available to their actuarial students. We will soon be soliciting proposals for this first phase. The "Request for Proposal" will soon be available on the SOA web page and will be mailed on request to anyone who is interested (see the announcement on page 13.) Please spread the word. This newsletter is generally seen only by members of the Pension Section and we would like to hear from nonmembers as well.

I was disappointed to see a letter to the editor in the last issue of *Pension Section News* that criticized Jim Kenney's comments on the improvement of the SOA spring meetings (September 1997 issue). We believe that we have made great strides in the past few years in improving the quality and content of these meetings. I, like Jim, have heard many comments about the improvement of these meetings relative to SOA meetings of the past, and I suspect that the writer of the letter in question has not attended an SOA Spring Meeting recently.

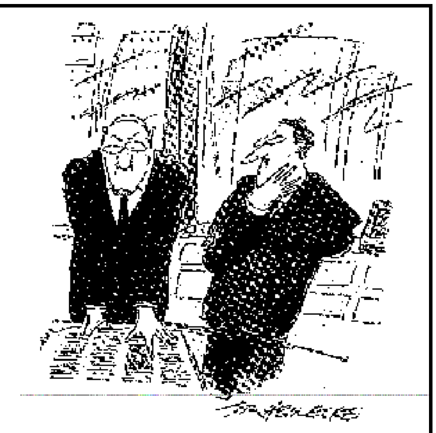
The Spring Meeting generally offers at least three pension sessions per time slot (not one, as the writer thought), and as you can see from the list of sessions offered at this year's meeting, we are including topics that should be of interest to more advanced actuaries, such as the "seminar" track on mergers and acquisitions. We may not offer as many pension sessions as are available at the EA or ASPA meeting, but, to my knowledge, the SOA Spring Meetings are the only meetings with a full range of sessions for the many actuaries who practice both in the pension and health areas. As far as being responsive to new developments, speaker outlines are requested by the SOA four weeks before the meeting but are accepted up to the day before the presentation if necessary. This approach affords as much time as possible to incorporate up-to-the-minute information while allowing time for the SOA staff to duplicate and distribute the material.

In short, if you haven't been to an SOA Spring Meeting recently, I encourage you to give the next one a try. I think you'll be pleasantly surprised.

I wish good luck to ASPA and their new PAC. It is sad but true that those who contribute to political campaigns have more attention paid to their issues than those who do not. ASPA has had success in the past in its lobbying efforts; hopefully this new PAC will help increase its access to members of Congress. These efforts, in combination (and maybe even coordination?) with ERIC and other similar organizations, should help make members of Congress aware of the effect of pension legislation on our clients and on plan participants.

Last but not least, for those of you attending the meeting in Maui, enjoy!

Carolyn E. Zimmerman, FSA, is with Ernst & Young LLP in Pittsburgh, Pennsylvania and Chairperson of the Pension Section Council.



"Have you seen the latest issue of *Pension Section News*? It's Dan Arnold this, Dan Arnold that, and nothing about us."

Calculations of Maximum Earner's PIA (Age 65 in 1998)

by Richard G. Schreitmueller

Editor's Note: *Following is a detailed calculation of the PIA for maximum earners who retire in January 1998. It goes through six steps, including each year's COLA and rounding. Mr. Schreitmueller says he has had favorable comments on this presentation from nonactuaries, who tell him they finally understand how indexing works.*

☞ STEP ONE—EMPLOYEE EARNINGS HISTORY		☞ STEP TWO—INDEXED EARNINGS WORKERS ELIGIBLE IN 1995		
Year	**Earnings**	**Wage Series**	**Wage Index**	**Indexed Earnings**
1954	$ 3,600	$3,155.64	7.33	$26,390.09
1955	4,200	3,301.44	7.01	29,428.74*
1956	4,200	3,532.36	6.55	27,504.90
1957	4,200	3,641.72	6.35	26,678.94
1958	4,200	3,673.80	6.30	26,445.97
1959	4,800	3,855.80	6.00	28,797.35*
1960	4,800	4,007.12	5.77	27,709.88*
1961	4,800	4,086.76	5.66	27,169.89
1962	4,800	4,291.40	5.39	25,874.26
1963	4,800	4,396.64	5.26	25,254.93
1964	4,800	4,576.32	5.05	24,263.34
1965	4,800	4,658.72	4.97	23,834.19
1966	6,600	4,938.36	4.68	30,916.26*
1967	6,600	5,213.44	4.44	29,285.01*
1968	7,800	5,571.76	4.15	32,383.81*
1969	7,800	5,893.76	3.92	30,614.55*
1970	7,800	6,186.24	3.74	29,167.12*
1971	7,800	6,497.08	3.56	27,771.68*
1972	9,000	7,133.80	3.24	29,184.17*
1973	10,800	7,580.16	3.05	32,958.78*
1974	13,200	8,030.76	2.88	38,022.71*
1975	14,100	8,630.92	2.68	37,790.95*
1976	15,300	9,226.48	2.51	38,360.23*
1977	16,500	9,779.44	2.37	39,029.75*
1978	17,700	10,556.03	2.19	38,788.09*
1979	22,900	11,479.46	2.02	46,146.61*
1980	25,900	12,513.46	1.85	47,879.34*
1981	29,700	13,773.10	1.68	49,882.76*
1982	32,400	14,531.34	1.59	51,578.07*
1983	35,700	15,239.24	1.52	54,191.44*
1984	37,800	16,135.07	1.43	54,193.44*
1985	39,600	16,822.51	1.38	54,454.05*
1986	42,000	17,321.82	1.34	56,089.50*
1987	43,800	18,426.51	1.26	54,986.59*
1988	45,000	19,334.04	1.20	53,841.32*
1989	48,000	20,099.55	1.15	55,243.43*
1990	51,300	21,027.98	1.10	56,434.62*
1991	53,400	21,811.60	1.06	56,634.29*
1992	55,500	22,935.42	1.01	55,977.31*
1993	57,600	23,132.67	1.00	57,600.00*
1994	60,600	N/A	1.00	60,600.00*
1995	61,200	N/A	1.00	61,200.00*
1996	62,700	N/A	1.00	62,700.00*
1997	65,400	N/A	1.00	65,400.00*

☞ STEP 3—AVERAGE INDEXED MONTHLY EARNINGS (AIME)

(a) Identify 35 years with highest indexed earnings. These are marked by * in Step 2.
(b) Calculate average indexed monthly earnings:
  (1) Total of highest 35 earnings is $1,575,241.83.
  (2) Divide by (35 × 12). Result is $3,750.58.
  (3) Drop cents. Result is AIME of $3,750.

Note: This example omits earnings before age 21.

☞ STEP FOUR—PRIMARY INSURANCE AMOUNT (PIA) AT AGE 62

(a) Enter AIME into PIA formula. Use bend points for 1995, the year of attained age 62:

90% of first $426:	$383.40
32% of next $2,141:	685.12
15% of remaining $1,183:	177.45
Total	$1,245.97

(b) Round down to $0.10 multiple. PIA is $1,245.90.

☞ STEP FIVE—COLAS TO AGE 65

		Age 62 PIA:	$1,245.90
(a)	Dec. 1995 COLA is 2.6%		× 1.026
	Round down to $0.10	Age 63 PIA:	$1,278.20
(b)	Dec. 1996 COLA is 2.9%		× 1,029
	Round down to $0.10	Age 64 PIA:	$1,315.20
(c)	Dec. 1997 COLA is 2.1%		× 1.021
	Round down to $0.10	Age 65 PIA:	$1,342.80

☞ STEP SIX—MONTHLY BENEFIT PAYABLE AT 65

(a)	Percentage of PIA paid to worker	100.00%
(b)	Monthly benefit before adjustment	$1,342.80
(c)	Drop cents to get benefit payable	$1,342.00

Note: Before dropping cents, the benefit often is reduced for Medicare premiums and excess earnings.

Richard G. Schreitmueller, FSA, prepared the original report from which this article is derived when he was Principal and Director, Regulatory and Legislative Services, Aon Consulting in Baltimore, Maryland. He is now a consulting actuary in Kensington, Maryland.

A New Pension Accounting Standard
continued from page 1

International Regulatory Environment

There is a structure established on the international level that addresses the regulation of securities, the establishment of accounting standards, and the public opinions of the global actuarial profession on relevant issues issues.

In most industrialized countries around the world, there exists a security regulation body, an accounting standards body, and an actuarial organization. In the U.S., these bodies are the Security and Exchange Commission (SEC), the Financial Accounting Standards Board (FASB), and the American Academy of Actuaries (AAA). At an international level, a structure has been established to address security registration, accounting, and actuarial issues. This has been accomplished through the following three international organizations:

- International Organization of Security Commissions (IOSCO)
- International Accounting Standards Committee (IASC)
- International Forum of Actuarial Associations (IFAA).

Each of these three bodies comprises members from the corresponding local country organizations, and each has a similar mission—to provide a more uniform process of doing business on a global basis. It is helpful to understand a little about the specific goals of each organization.

IOSCO

The IOSCO is made up of more than 130 member agencies and has the following objectives:

- To promote high standards of regulation in order to maintain just, efficient and sound markets
- To exchange information on their respective experiences in order to promote the development of domestic markets
- To unite their efforts to establish standards and an effective surveillance of the international securities transactions
- To provide mutual assistance to promote the integrity of the markets by a rigorous application of the standards and by effective enforcement against offenses.

As a step in the furtherance of its mandate, in 1993, the IOSCO agreed on a set of core accounting standards that would comprise a comprehensive body of accounting principles for enterprises undertaking cross-border offerings and listings. In 1995, the IOSCO announced that the IASC had developed an agreeable work plan that, once successfully completed, would enable IOSCO to recommend endorsement of International Accounting Standards for cross-border capital raising and listing purposes in all global markets, particularly the U.S., Canada, and Japan. In the U.S., the SEC has said it intends to consider allowing the use of IASC standards by foreign issuers once the core standards have been completed.

IASC

The IASC, as the international counterpart to the FASB in the U.S., is the body responsible for issuing the core standards required by the IOSCO. To date, the IASC has completed many of the required core standards. The most recent was the finalization of the employee benefits standard, which was approved by the IASC in January 1998. This standard will replace the existing employee benefit standard, IAS–19.

IFAA

The IFAA was founded in 1995 and currently has 36 associations as full members from 34 countries on six continents around the world. Recognizing the important and increasing role of actuaries throughout the world, the IFAA has as its principal objective the promotion, across international boundaries, of high standards of professionalism and education within the world's actuarial associations. Among the objectives of the IFAA are the following:

- To provide a forum for discussion among actuarial associations of matters relating to the initial and continuing education of actuaries, professional conduct and discipline, the role of actuaries in relation to matters of government regulation and public policy, and the setting of standards of practice in relation to particular national and international jurisdictions
- To accredit those actuarial associations which meet agreed upon requirements in relation to the education and professionalism of its members
- To suggest, where appropriate, international standards of practice
- To represent member associations in discussions with international bodies.

Development of Employee Benefits Standard

The development of the international accounting standard on employee benefits began, after some research and study by the IASC staff, with the issuance of an exposure draft called E-54 in October 1996. In order to comply with the timetable that the IASC had established, there was very little time allowed for comments. A comment deadline of January 31, 1997 was established. The IFAA formed a subcommittee to study E-54 and to provide comments to the IASC from the international actuarial profession.

The exposure draft followed the general framework of U.S. Generally Accepted Accounting Principles (GAAP) and looked on the surface to be very much like *FAS 87*, *FAS 88*, *FAS 106*, and *FAS 112* combined into a single standard. However, there were some very significant differences in the exposure draft from U.S. GAAP. There were also some important issues that needed to be addressed in the context of a single standard applying to benefit plans in countries with diverse benefit arrangements and economic conditions. The IFAA subcommittee addressed these issues and provided a formal response to the IASC on behalf of its member associations.

Some of the significant differences between *FAS 87* and the E-54 exposure draft were as follows:

- Actuarial gains and losses were subject to a 10% corridor just as in *FAS 87*, except that amounts in excess of the corridor were to be recognized immediately instead of amortized
- The immediate recognition of gains and losses was to be those amounts which occurred in the current year.

continued on page 5, column 1

A New Pension Accounting Standard
continued from page 4

FAS 87 recognized gains or losses in the year following the one in which they occurred. The effect of this would have been a full recognition of amounts outside the 10% corridor, and those amounts would not be known until measured after the close of a fiscal year. This would create volatility in earnings with no possibility to plan or prepare for those fluctuations in earnings.

- Plan assets are measured at fair value under E-54 without the possibility of using a smoothed market-related value as allowed under *FAS 87*.
- There would be no required minimum liability under E-54 as is required under *FAS 87*.
- If a balance sheet asset occurs under E-54, the amount of that asset would be limited to the amount of economic value anticipated from future refunds from the plan to the employer or from future reductions in contributions. *FAS 87* has no such limitation on an asset.
- E-54 attributed costs to fiscal years on a straight-line basis as contrasted with *FAS 87*, which attributes cost to fiscal years based on the pattern of benefit accrual.
- E-54 left open the recognition of past service costs and requested comments. It presented two options. One was to recognize all past service costs immediately, and the other was to immediately recognize the past service cost for inactive participants and amortize the past service cost for active participants. Under *FAS 87*, all past service costs are amortized.
- *FAS 87* provided for amortization of any transition adjustment. E-54 did not provide any guidance in transition issues.

The IFAA subcommittee did not agree with some of the above differences with *FAS 87* and had a significant disagreement on the basis for selecting the discount rate. The discount rate was to be selected based substantially on the same criteria used for *FAS 87*. That was the rate of return on corporate bonds. The IFAA disagreed with this basis on two accounts.

First, unlike the U.S., private pensions in many countries are more a function of long-term prices and wages, and as a result, the duration of liabilities tends to be longer. The IFAA's opinion was that corporate bonds, or any other fixed-income basis, do not adequately reflect the nature of the liabilities and that a basis which included price and wage indexation would produce more appropriate measurements.

Second, from a more practical perspective, most countries outside the U.S. do not have a deep market for long-term corporate bonds.

The principal comments to the IASC by the IFAA and the final outcome are outlined below. A more complete outline of the provisions of IAS 19 and a comparison of its provisions to *FAS 87* is shown in the Appendix on pages 6–8.

Discount Rate

The IFAA argued strongly for a discount rate that would be more suitable from an actuarial perspective. This was included in the formal response and was discussed at several of the subsequent meetings of the IASC staff. The final decision of the IASC was to leave the discount rate as originally communicated in E-54 because it was not convinced that the IFAA arguments had sufficient merit. In the absence of more data, the IASC believed the discount rate as stated would provide greater comparability. The IASC, however, is now working on an insurance standard and will be developing a general standard on discounting. It has left this door open to further discussion related to those two projects and, pending the outcome, may be willing revisit the discount rate issue in IAS 19.

Gains and Losses

The IFAA proposed an alternative that provided for amortization of gains or losses and the deferral of recognition to the year subsequent to the occurrence of the gain or loss. The IASC ultimately adopted the *FAS 87* methodology which, while not what the IFAA had proposed, addressed its main concerns.

Attribution

The IFAA proposed that attribution follow a plan's benefit formula or use straight-line attribution if the formula was back-loaded. The IASC adopted this approach.

Past Service Cost

The IFAA recommended that past-service cost for active employees be amortized. The IASC adopted a position that all vested past-service cost would be recognized immediately and nonvested past-service cost amortized over a period until vested.

Unfunded Plans

Unfunded plans are more common in some countries than in others. For example, in Germany pension plans accrue book reserves and are not funded. The IFAA suggested that combining service cost, interest cost, and return-of-plan assets into a net pension cost amount would cloud comparability between funded and unfunded plans. It suggested that the interest cost and return-of-plan assets could be included as financial costs separate from the pension cost. In IAS 19, the IASC ultimately provided that these costs could be placed wherever the sponsor desires in the income statement with appropriate disclosure.

Transition

The IFAA suggested that the final statement provide guidance on transition and that a five-year transitional period be provided. The final IAS 19 standard did include transitional guidance and an optional five-year period over which to recognize transitional adjustments.

Conclusion

The international organizations have made a strong push towards allowing for uniform accounting standards across country lines and the acceptance of those standards for the purpose of listing securities. The actuarial profession has, through its international association, been able to have an impact on this process in its sphere of practice.

It remains to be seen how swiftly these international accounting standards

continued on page 6, column 1

A New Pension Accounting Standard
continued from page 5

will receive approval. The IOSCO will first have to approve all the core standards which have been issued by IASC. The IOSCO will then have to obtain approval from its members for local application. The outcome of this process is still uncertain, but clearly been an impressive effort has been made to date to establish a basis for global acceptance of uniform accounting for pensions and other postemployment benefits, as well as other core accounting standards.

Dennis M. Polisner, FSA, is Principal at KPMG Peat Marwick LLP in Chicago, Illinois.

APPENDIX

Comparison of IAS 19 Provisions U.S. GAAP as per *FAS 87, 88, 106,* and *112* (Actuarial Valuation Method: Projected Unit Credit Method)

	International Standard IAS 19	U.S. GAAP *FAS 87, 88, 106*, and *112*
Measurement Data	Balance sheet data	Balance sheet date or any other consistent date not more than three months prior
Attribution of Benefits to Period		
• Attribution Begins	• When employee first becomes entitled to earn benefits	• When employee first becomes entitled to earn benefits
• Attribution Ends	• When additional benefits are no longer conditional on future service other than for increases in salary	• For pensions, when additional benefits are no longer conditional on future service other than for increases in salary. For OPEBs, at full eligibility date.
• Attribution Method	• Follow benefit formula unless formula is back-loaded and then use straight-line	• Follow benefit formula unless formula is back-loaded and then use straight-line
Discount Rate	Yield on high-quality corporate bonds at balance sheet data unless, for a given country, there is no deep market for such bonds, in which case government bonds are used. Nominal rate to be used except where real terms may be more reliable such as in hyper-inflationary countries.	Effective settlement rate/return on high-quality fixed-income investments. Discount rate to be stated in nominal terms.
Other Assumptions	Reflect plan provisions or constructive obligations, be individually realistic reflecting historical data and future expectations.	Reflect plan provisions or constructive obligations, be individually realistic reflecting historical data and future expectations.
Measurement Assumes Future Benefit Increases	Only if such increases are part of the formal plan or if there is a constructive plan to provide those increases.	If part of the substantive commitment of the plan or if regular or automatic
Actuarial Gains and Losses	Gains or losses inside of 10% corridor may be ignored and amounts in excess must be spread over average future service of employees. No gains or losses are recognized until the year following the year in which they were incurred. More rapid amortization permitted.	Gains or losses inside of 10% corridor may be ignored, and amounts in excess must be spread over average future service of employees. No gains or losses are recognized until the year following the year in which they were incurred. More rapid amortization permitted.

Comparison of IAS 19 Provisions
U.S. GAAP as per *FAS 87, 88, 106,* and *112*
(Actuarial Valuation Method: Projected Unit Credit Method)

	International Standard IAS 19	**U.S. GAAP *FAS 87, 88, 106*, and *112***
Past Service Costs • Immediate or Deferred Recognition	• Immediate recognition for inactive participants and for active participants who are vested in the past service benefits. Amortization for nonvested benefits or active employees.	• Deferred recognition
• Amortization Basis	• Nonvested past service cost is to be amortized on a straight-line basis over the period until vesting is achieved.	• For pensions, over average future service period of participants. For OPEBs, over average period to full eligibility date.
• Plan Amendments that Reduce Benefits	• Treat as negative past-service cost.	• Treat as negative past-service cost.
Additional Minimum Liability	There is no additional minimum liability to be recognized.	For pensions, there is a requirement to recognize an additional minimum liability if the unfunded accrued benefit obligation (ABO) is greater than the balance sheet accrued pension cost. For OPEBs, there is no additional minimum liability requirement.
Measurement of Plan Assets	Measured at fair value for all purposes within the standard	Measured at fair value for disclosure purposes. Measured at either fair value or market-related value for the purpose of determining pension expense and applying the gain/loss corridor provisions.
Limit on Recognition of Balance Sheet Asset	Yes. Limited to the lesser of the asset than results from the application of the statement or the net total of any unrecognized past-service cost, any unrecognized losses (either inside or outside the corridor), and the present value of expected reductions in future contributions and refunds from the plan.	There is no limit on recognition of a balance sheet asset.
Curtailments and Settlements • Timing of Recognition	• When the event occurs	• For settlements, when the settlement occurs. For curtailments, when probable and estimable if it is a loss. If it is a gain, when event occurs.
• Components Included in Measurements	• Both past-service costs and unrecognized gains or losses included	• Past-service cost included in measuring curtailment gains or losses and unrecognized gains or losses included in measuring settlement gains or losses
Termination Benefits	Recognized immediately when the employer is demonstrably committed to terminate employees or to enhance benefits for a voluntary program	Recognized immediately. If voluntary, it is recognized when employees accept the offer and amount is reasonably estimable. If involuntary, when amendment or decision is made.
Multiemployer Plans with Defined-Benefit Characteristics	Use defined-benefit accounting	Use defined-contribution accounting

Comparison of IAS 19 Provisions
U.S. GAAP as per *FAS 87, 88, 106,* and *112*
(Actuarial Valuation Method: Projected Unit Credit Method)

	International Standard IAS 19	**U.S. GAAP *FAS 87, 88, 106,* and *112***
Business Combinations	Recognize all unrecognized gains or losses, past service costs and transition adjustments at the date of combination	Recognize all unrecognized gains or losses, past-service costs and transition adjustments at the date of combination
Transition Provisions	The cumulative effect of adopting the new standard can be recognized immediately as an adjustment to retained earnings, or it can be spread over up to five years	The cumulative adjustment can be amortized over the average future service period of employees or, if longer, 15 years for pensions or 20 years for OPEBs
Short-Term Post Employment Benefits	Those benefits that accumulate with employee service should be recognized as the rights of those benefits accumulate. Benefits that do not accumulate with employee service should be recognized when an event occurs.	Those benefits that accumulate with employee service should be recognized as the rights to those benefits accumulate. Benefits that do not accumulate with employee service should be recognized when an event occurs.
Effective Date	Fiscal years beginning on or after January 1, 1999. Early adoption permitted.	Effective dates were: • *FAS 87:* Fiscal years after December 15, 1986 • *FAS 106:* Fiscal years after December 15, 1992 • *FAS 112:* Fiscal years after December 15, 1993

Study Note Corner

Valuation of Pension Benefits for Disabled Participants (Course P–461U Study Note)

by Edward Sypher

The mortality rates for a pension plan's disabled participants are substantially greater than the mortality rates for the healthy participants. Experience data from some large plans show that the disabled participants can be subject to mortality rates that are two or three times as great as those for the nondisabled. Because of this, many pension actuaries choose to use separate mortality tables for their disabled populations.

In this paper, we discuss some of the considerations involved in choosing such a table. We start with a brief review of fundamental concepts and terminology used in actuarial discussions of disability. Following this, there is a discussion of common disability tables, as well as other sources of disability data (including the disability experience of the Social Security program). Finally, we address several questions that a pension actuary should consider when valuing disability benefits.

The paper addresses only the valuation of benefits to persons who are currently disabled. It does not address the prediction of future rates of incidence. Nor does it address questions of how a plan's funding method might reflect the value of disability benefits.

To order Study Notes, please contact Aleshia Zionce, Study Note Coordinator, at 847–706–3525. The price for Study Note 461–64–98 is $8. An up-to-date list of Study Notes and prices is available on the SOA website at http://www.soa.org in the Education and Exams area.

Incidence of Disability for U.S. Government Employees: 1988–1993

by Steve A. Lemanski

The purpose of this article is to call attention to a table of rates of disability based on recent experience under the Civil Service Retirement System (CSRS) that covers federal government employees hired prior to January 1, 1984, and the Federal Employees Retirement System (FERS) that covers such employees hired on or after January 1, 1984. Reference also is made to other resources that actuaries may find helpful when selecting an incidence of disability assumption.

Consistent with *Actuarial Standard of Practice No. 4* (*ASOP 4*), "Measuring Pension Obligations," issued by the Actuarial Standards Board, "the actuarial assumptions individually and in combination should reflect the actuary's best judgment." Also, under *Actuarial Standard of Practice No. 27* (*ASOP 27*), "Selection of Economic Assumptions for Measuring Pension Obligations," an actuary is required to select each assumption within the best-estimate range for that particular economic assumption. Although the combination of these Standards of Practice applies to all assumptions, there are certain assumptions that typically do not get as much "attention" as others. One of the "neglected" assumptions often is the incidence of disability.

Actuaries may not evaluate the disability assumption as closely as they might for other assumptions, for a variety of reasons. First, it may be expected that the use of a more refined assumption would not produce materially different results from the current assumption. Second, it may be inappropriate to use a non-zero disability assumption for small plans when, in the actuary's judgment, the probability that any active participant will become disabled before retirement is small. Third, it is more difficult to compare plan experience to actuarial "norms," because disability experience is highly sensitive to the type of employment, definition of disability under the plan, general economic conditions, and the disability benefit provided under the plan.

Recent Study

The study was performed by Michael Virga, Senior Actuary for Pension Programs at the U.S. Office of Personnel Management in Washington D.C. The study was based on experience during the plan years 1988–1993.

The 1988–1993 incidence of disability for the CSRS and FERS can be summarized as shown in Table 1.

The combined CSRS and FERS disability experience was used to generate disability rates by age and gender. The disability rates were based on salary. The rates reflect the incidence of disability only; they do not consider recovery. The rates were graduated from ages 22 to 61 to produce the disability incidence data shown in Table 2 on page 10.

Exposure Base

The exposure base for this study is the entire disability experience under the CSRS and FERS for the years 1988 through 1993, inclusive. The CSRS and FERS cover a combined 2.9 million active workers, including approximately 750,000 postal workers. Therefore, the exposure base for this study includes both white-collar and blue-collar components.

Definition of Disabled under the Plans

Under the CSRS, an employee is eligible for disability retirement if he completes five years of service and has become disabled. An employee is considered disabled "if the employee is found to be unable to render useful and efficient service in the employee's position and is not qualified for reassignment to a vacant position which is in the agency at the same grade or level and in which the employee would be able to render useful and efficient service."

Under the FERS, eligibility for disability is effectively the same as under the CSRS, except that the employee is only required to have completed at least 18 months of service.

Based on the above, the definition of "disabled" does not appear to be as strict as under Title II of the Social

continued on page 10, column 2

TABLE 1
1988–1993 Incidence of Disability for the CSRS and FERS

	Active Lives			Incidence of Disability		
Year	CSRS	FERS	Total	CSRS	FERS	Total
1988	2,011,000	919,000	2,930,000	6,800	700	7,500
1989	1,918,000	1,052,000	2,970,000	6,300	1,100	7,400
1990	1,826,000	1,136,000	2,962,000	5,800	1,200	7,000
1991	1,726,000	1,260,000	2,986,000	4,900	1,500	6,400
1992	1,654,000	1,279,000	2,933,000	5,000	1,900	6,900
1993	1,525,000	1,318,000	2,843,000	4,800	2,400	7,200

Incidence of Disability
continued from page 9

TABLE 2
Rate of Disablement by Salary

Age	Male	Female
22	0.0001	0.0002
23	0.0001	0.0003
24	0.0001	0.0003
25	0.0002	0.0003
26	0.0004	0.0004
27	0.0005	0.0005
28	0.0006	0.0005
29	0.0007	0.0006
30	0.0008	0.0007
31	0.0009	0.0008
32	0.0010	0.0009
33	0.0010	0.0010
34	0.0011	0.0011
35	0.0012	0.0012
36	0.0013	0.0013
37	0.0014	0.0014
38	0.0015	0.0015
39	0.0016	0.0016
40	0.0017	0.0017
41	0.0018	0.0018
42	0.0019	0.0019
43	0.0019	0.0021
44	0.0020	0.0022
45	0.0021	0.0024
46	0.0022	0.0026
47	0.0024	0.0029
48	0.0026	0.0032
49	0.0028	0.0036
50	0.0030	0.0040
51	0.0032	0.0045
52	0.0034	0.0050
53	0.0038	0.0056
54	0.0044	0.0063
55	0.0052	0.0071
56	0.0063	0.0078
57	0.0072	0.0083
58	0.0081	0.0088
59	0.0088	0.0091
60	0.0092	0.0093
61	0.0095	0.0094

Security Act and the regulations thereunder. That definition requires that "the worker must have a medically determinable physical or mental condition that (1) prevents him or her from engaging in any substantial gainful work, and (2) is expected to last (or has lasted) at least 12 months or is expected to result in death."

Disability Benefit under the Plans

The disability retirement benefit under the CSRS is equal to the participant's accrued benefit at the date of disability, subject to a minimum benefit of the lesser of (1) 40% of average pay, or (2) *X*% of average pay, where *X*% is the percentage obtained under the plan's benefit formula using total service projected to age 60.

Under the CSRS, the plan's accrued benefit is defined as follows:

- 1.50% × Service × Average Pay (up to five years of service)

  plus
- 1.75% × Service × Average Pay (for service greater than five years, but less than 10 years)

  plus
- 2.00% × Service × Average Pay (for service in excess of 10 years).

Under the FERS, the disability retirement benefit is equal to the participant's accrued benefit at the date of disability, subject to a minimum benefit of 40% of average pay minus 60% of the annual Social Security benefit being received.

Under the FERS, the plan's accrued benefit is defined as follows:

1.00% × Service × Average Pay.

"Average pay" under both the CSRS and FERS is defined as three-year final average compensation.

The study did not address how any potential subsidized disability retirement benefits may have an impact on the plans' disability experience.

Additional Resources

Information on the selection of assumptions for both the incidence and continuance of disability can be found in several SOA Study Notes.

- Study Note 461–24–98, "Pension Topics," by Stuart G. Schoenly, FSA, and Kathryn Garrity, FSA. As its title suggests, this study note provides guidance on a wide variety of issues to consider when performing an actuarial valuation.
- Study Note 461–66–98, "Selection of Actuarial Assumptions," by William M. Mercer, Inc. This study note deals solely with considerations when selecting actuarial assumptions. It also addresses how one might select economic assumptions consistent with *Actuarial Standard of Practice No. 27*.
- Study Note 461–64–98, "Valuation of Pension Benefits for Disabled Participants," by Edward Sypher, ASA. This study note discusses valuation of benefits to persons who are currently disabled. It contains several selected disability tables that may be helpful when evaluating a plan's disabled mortality assumption (see "Study Note Corner" on page 8).

Steve A. Lemanski, ASA, is a pension analyst at Hooker & Holcombe, Inc. in West Hartford, Connecticut.

Resources for Pension Actuaries

by Judy Anderson

SOA Research Studies

Reports Available from Recently Completed Projects

- **PENSION PLAN TURNOVER AND RETIREMENT RATES**. This study analyzed turnover and retirement rates from data collected on 38 large pension plans representing 3,065,000 life years of exposure over the period 1989 to 1994. Basic tables are provided, including differences by gender and differences by years of service. A five-year select and ultimate version is also provided. A follow-up to this study is a benefit value comparison of cash balance plans to traditional final average pay plans.
- **SAFEST ANNUITY RULE**. After the Department of Labor issued its "safest annuity" rule, changes in the group annuity market were expected. Surveys were made of both annuity providers and purchasers to assess the impact of the new guideline. PBGC data on standard plan terminations were also analyzed.
- **IMPACT OF MORTALITY IMPROVEMENT ON SOCIAL SECURITY IN THE U.S., CANADA AND MEXICO.** This project brought together actuaries, demographers, biologists, and economists to exchange ideas on future mortality improvements and attempt to arrive at a consensus projection. The results were then applied to the U.S., Canadian, and Mexican social security systems to measure the impact. These papers on the future of mortality rates are available through the SOA. An additional project is in progress which will analyze the impact of projecting mortality improvements on private pension plans.

Projects in Progress

- **GATT MORTALITY STUDY**. When the GATT legislation was passed, the mortality table for calculating current liability was prescribed. The IRS will update the mandated table by the year 2000. The SOA has gathered data on more than 14 million life years of mortality experience in order to produce an updated table to make available to the IRS. In addition to analyzing the aggregate mortality, we will also be looking at variations by gender, industry, collar (blue or white), and amount. We will also look at variations within these classifications and correlations between classifications. The report exposure draft is anticipated for 1999.
- **ASSET VALUATION METHODS**. This study will examine the variety and prevalence of different asset valuation methods currently in use. It will then go on to investigate measures for the effectiveness of different asset value smoothing techniques.
- **MACRODEMOGRAPHIC MODEL FEASIBILITY AND BACKGROUND STUDY**. The SOA, ASPA, CCA and the SOA Pension and Computer Science Sections are sponsoring research to evaluate current data sources and models of the economic/demographic environment for pension plans and how they are affected by public policy decisions. The researchers will also analyze the feasibility of developing a macrodemographic model so that actuarial input on various public policy proposals can be developed. The report on the first phase of this project should be completed this year.
- **RETIREMENT NEEDS FRAMEWORK**. A Call for Papers has been issued discussing changing needs faced in retirement. The compilation of papers will provide a basis for a framework within which to analyze requirements to maintain a standard of living during retirement. Accepted papers will be published by the SOA and we further anticipate a conference to be held in December 1998. We are also planning a follow-up project to identify and maintain a database of current statistics that can be used to assess retirement needs.

www.soa.org

On the SOA Website for Pension Actuaries

- **STATISTICS FOR EMPLOYEE BENEFITS ACTUARIES**. This database includes current, and historical, statistics of relevance to all employee benefits actuaries, including:
  - U.S. and Canadian interest rates and economic factors
  - U.S. and Canadian pension plan limitations
  - U.S. National Health Statistics and Medicare data.

  The tables are updated monthly where appropriate and annually overall.
- ***PENSION SECTION NEWS***. This is the monthly newsletter of the SOA Pension Section. It includes a variety of articles and columns of interest to the pension actuary. It also prints meeting minutes of Retirement System Practice Area Committees to help you keep up with relevant SOA activities.
- **DISCUSSION FORUMS.** Have a question you can't find the answer to, want other opinions on an issue or do you just want to chat with other pension actuaries? Try the SOA's pension discussion forum. Messages and responses are posted along with easy-to-use maps for tracing a discussion.
- **CONTINUING EDUCATION**. If you think you need more EA CPE credit or you heard about an interesting seminar coming up soon, look at the International Continuing Education Calendar. The continuing education area of the SOA website also has information on tapes and CDs available through the SOA.
- **RESEARCH**. There's a lot of activity on pension related research going on at the SOA and it's all on

continued on page 12, column 1

Resources for Pension Actuaries
continued from page 11

the web site. The research area contains info on recently completed projects (for example, turnover and safest annuity), monographs, experience studies, and order forms for the various reports. If you're interested in getting involved in research, there are also copies of the latest Requests for Proposal and Calls for Papers.

- **LIBRARIES**. The libraries house the long shelf life items. Included are:
  - The Salomon Brothers Pension Discount Curve and Liability Index
  - Mortality Tables. A program and databases that let you download just about any table you can think of.
  - The *Record of the Society of Actuaries* meetings since 1996.
- **LINKS**. If you haven't found what you're looking for yet, the website has links to numerous websites with information for the pension actuary. These include the IRS, PBGC, Social Security, HCFA, Federal Reserve Banks, ASPA, the Academy, the Conference, Pension Research Council, EBRI, BenefitsLink, Revenue Canada, PCO, and lots more.
- **OTHER PUBLICATIONS**. The website also has articles from the *North American Actuarial Journal*, Specialty Guides, study note information, pass lists and other items of interest.

Online Resources for Pension Actuaries

Listed below are Web sites for a variety of resources useful to pension actuaries. In addition, many of these Web sites link to a wide variety of other useful data sources.

ACTUARIAL ORGANIZATION	WORLD WIDE WEB SITE
Society of Actuaries	www.soa.org
Canadian Institute of Actuaries	www.actuaries.ca
American Society of Pension Actuaries	www.aspa.org
Canadian Resources	
Bank of Canada	www.bank-banque-canada.ca
Canada Pension Plan and Old Age Security	www.hrdc-drhc.gc.ca/isp
Canadian Institute of Chartered Accountants	www.cica.ca
Department of Finance	www.fin.gc.ca
Revenue Canada	www.rc.gc.ca
Statistics Canada	www.statcan.ca
U.S. Resources	
Bureau of Labor Statistics	stats.bls.gov
Department of Labor—Pension Welfare Benefits Administration	gatekeeper.dol.gov/dol/pwba
Financial Accounting Standards Board	www.rutgers.edu/accounting/raw/fasb/hom.htm
Government Printing Office (Federal Register)	www.access.cpo.gov/index.html
Health Care Financing Administration	www.hcfa.gov
Internal Revenue Service	www.irs.ustreas.gov/basic
Pension Benefit Guaranty Corporation	www.pbgc.gov
Railroad Retirement Board	www.rrb.gov
Social Security Administration	www.ssa.gov
Federal Reserve Banks:	
FRED (St. Louis)	www.stls.frb.org
Fed Flash (Dallas)	www.dallasfed.org
Liberty-Link (New York)	www.ny.frb.org
Fed Link (Chicago)	www.frbchi.org
Woodrow (Minneapolis)	woodrow.mpls.frb.fed.us

Judy F. Anderson, FSA, is Staff Fellow at the Society of Actuaries in Schaumburg, Illinois.

Can America Afford to Retire?

Editor's Note: *"Can America Afford to Retire?" is a 16-page paper available from the National Commission on Retirement Policy (NCRP), Center for Strategic and International Studies, 1800 'K' Street, NW, Suite 400, Washington, D.C., 20006. Phone: 202–887–0200; Fax: 202–775–3199; Web Site: "www.csis.org/retire/". The NCRP is an initiative of the Center for Strategic and International Studies, a public policy research institution.*

DEAR FELLOW AMERICANS:

One of the most daunting public policy challenges of the next decade is how to put federal programs for senior citizens on a sound financial footing. In just a few years, the millions of Americans we call the Baby Boom generation will begin to retire, straining the government's capacity to provide benefits promised under federal entitlement programs.

Quite simply, the nation cannot afford the expected growth rates in the costs of these programs. But this is not just an abstract budgetary problem. Fewer resources at the federal level means that families will have to shoulder more responsibilities themselves in order to provide for a financially secure retirement. They will need to save more: by participating in employer-sponsored pension plans, contributing to Individual Retirement Accounts, and investing in mutual funds or other financial instruments. At the same time, Congress will need to implement reforms to ensure the long-term financial viability of programs such as Social Security.

The National Commission on Retirement Policy, which we are privileged to co-chair, was established to respond to this challenge by educating the American public about the important issues; by laying the foundation for nonpartisan and informed policy debate; and by building a national consensus for the policy changes necessary to put the nation on a long-term path of economic prosperity and ensure a financially secure retirement for all Americans.

Can America Afford to Retire? is intended to expand public awareness of these issues and provide the American people with basic factual information that will illustrate the scope and magnitude of the fiscal challenges posed by the impending retirement of the Baby Boom generation. In the months ahead, the Commission will meet with citizens groups and interested constituencies from around the country, as well as economists, academics, and retirement policy experts, with a view of crafting practical policy recommendations that will have the support of the American people and can be enacted into law.

Therefore, we hope that you will take a few minutes to read this publication and share your views and concerns with the Commission and your elected representatives. Well all have a stake in this debate.

Sincerely,
Judd Gregg, U.S. Senate
John Breaux, U.S. Senate
Jim Kolbe, U.S. House of Representatives
Charles W. Stenholm, U.S. House of Representatives
Donald B. Marron, Chairman and CEO, Paine Webber Group Inc.
Dr. Charles A. Sanders, Retired Chairman, Glaxo, Inc.

Request for Proposals

Do you enjoy training your company's new actuaries? Would you be interested in an opportunity to build a training program for new actuaries that would be used by employers nationwide?

The Pension Section Council is in the beginning stages of producing a training course for entry-level actuaries, which will eventually be used as the basis for an interactive CD-ROM. We intend to make this available to employers to give them a tool to teach their "raw recruits" basic actuarial concepts.

The Pension Section Council is planning to hire someone to design the initial course with the expectation that the person (or persons) involved in this phase would be given preference in later stages of the project, including coordination with technical experts in setting this up for a CD-ROM presentation.

The request for proposal will be available the week of April 13 on the SOA web site at www.soa.org under the Special Interest Sections area. Or, if you would like a copy, contact Lois Chinnock at the SOA by phone at (847) 706–3524 or by e-mail at lchinnock@soa.org.

If you have any questions about the contests of the request for proposal, please call Amy Timmons, Vice Chairperson of the Pension Section Council, at (303) 714–9940.

We hope to hear from you!

Engagement of the Enrolled Actuary on Behalf of All Plan Participants: Where's the Engagement?

by Theodore Konshak

The provisions of a defined-benefit pension plan promise the payment of a monthly income to participants for the remainder of their lifetimes. Money is deposited into a trust fund, invested by the pension plan trustees, and, according to the instructions of the administrator, periodically withdrawn to pay the retirees their monthly benefits. An enrolled actuary operating under the requirements of the Employee Retirement Income Security Act (ERISA) impartially determines the minimum pension plan deposit.

Under the requirements of Section 103(a)(4)(A) or ERISA, the enrolled actuary is engaged by the administrator of the pension plan on behalf of all plan participants. The administrator is a fiduciary and must discharge his or her duties solely in the interest of plan participants. Under ERISA Section 3042, the enrolled actuary is an individual person and is not the actuarial consulting firm employing that individual.

Corporate pension plan actuaries and the administrators who hire them can wear more than one hat. In addition to being the enrolled actuary impartially determining the minimum pension plan deposit on behalf of all plan participants, corporate pension actuaries can also wear the hat of a consultant providing advice to the corporate sponsor of that pension plan. That employer, who is responsible for contributing the minimum pension plan deposit, can also wear the hat of the administrator.

Analyzing the engagements of enrolled actuaries can be difficult because the parties involved in that fiduciary decision can be wearing a multitude of hats. It is not always apparent which hat is being worn when the enrolled actuary is being engaged. To simplify this analysis, the studies reported in this article were restricted to those situations in which the corporate sponsor was *not* the administrator.

Previously Reported Study Results

Defined-benefit pension plans with more than 100 participants must provide an explanation for a change in enrolled actuary on the Schedule C attached to the Form 5500. A study of these Schedule C explanations was conducted and reported in the Spring 1997 issue of *Compensation and Benefits Management* [1].

If the administrator is not the corporate sponsor, the Form 5500 instructions notify the administrator of the need to apply for and use a different Employer Identification Number (EIN) on the Form 5500. Using the 1993 Form 5500 database obtained from the U.S. Department of Labor, the name of the corporate sponsor, name of the plan administrator, EIN of the corporate sponsor, and EIN of the plan administrator were reviewed to obtain the subset of pension plans legally administered by a committee or individual person with an EIN different than the one used by the corporate sponsor.

Legally designating a committee as the plan administrator is a conscious act because an application form (that is, an IRS Form SS–4) must be completed in order to obtain the EIN. In contrast to multiemployer pension plans, the pension committees of corporate pension plans generally have no employees and the members of that committee generally serve without compensation. Corporate pension plan committees do not need an EIN for income tax purposes or for any other general business purpose. The Form SS–4 is completed, and the EIN is obtained solely for Form 5500 reporting purposes.

The Schedule C explanations for a change in enrolled actuary were reviewed to determine the identity of the decisionmaker. Under ERISA Section 103(a)(4)(A), the enrolled actuary is engaged by the administrator of the pension plan on behalf of all plan participants. In situations when the decisionmaker was identifiable, only 6% of the explanations reported engagement by the administrator as required under these provisions of ERISA. The remaining 94% reported engagement by the corporate sponsor contrary to the requirements of ERISA. The corporate sponsor was *not* the administrator.

Previously Unreported Study Results

Because the enrolled actuary is defined as an individual person under ERISA Section 3042, an explanation for the change in enrolled actuary must be provided on the Schedule C even if there is no change in the actuarial consulting firm providing those services. Using the subset of pension plans administered by a committee with an EIN different from the corporate sponsor, explanations for a change in enrolled actuary within the same actuarial consulting firm was tabulated (Table 1 on page 15).

These Schedule C explanations express various degrees of involvement in that decision. Reporting the changes as an "internal reassignment of responsibilities within the actuarial consulting firm" (84 of 121 explanations) implies the replacement was selected by the actuarial consulting firm. Explaining the change only as a termination of the prior enrolled actuary's employment (37 of 121 explanations) does not provide any information relating to that decision. None of the explanations could be interpreted as a selection by the client.

Responses to Alternative Explanations

A number of simple conclusions can be derived from these study results. However, whenever dealing with the actuarial profession, you must first dismiss the litany of alternative explanations:

- *Corporate sponsors were acting in their capacity as administrator*

continued on page 15, column 1

Engagement of the Enrolled Actuary
continued from page 14

when engaging the actuarial consulting firm. In the situations being tabulated here, corporate sponsors were not serving in the capacity of administrator.

- *Long-standing judicial decisions do not preclude corporate sponsors from selecting an actuarial consulting firm or making other fiduciary decisions, on behalf of all plan participants, which may also incidentally benefit the corporate sponsor*. In the situations being studied, ERISA would preclude engagement of the enrolled actuary by the corporate sponsor. ERISA required engagement by the administrator of the pension plan. The corporate sponsor was not the administrator.
- *The corporate sponsor can delegate fiduciary responsibilities to a pension committee and retain the fiduciary responsibility for engaging the enrolled actuary*. Many pension plans are administered on this basis. The corporate sponsor is the administrator of the pension plan and delegates some, but not all, of the fiduciary obligations to a pension committee. In this situation, however, the pension committee would not be the legally designed administrator and would not apply for or obtain a separate EIN. These are not the situations being tabulated by this study.
- *There is no impropriety because the corporate sponsor's choice of an actuarial consulting firm is submitted to the corporate pension plan committee for its approval*. The terms "approval" and "engagement" are not synonymous. At best, the corporate pension plan committee could reject the actuarial consulting firm and require the corporate sponsor to engage a different one.
- *The person completing the Form 5500 and supplying the Schedule C explanation was a low-level employee not directly involved in the engagement of the enrolled actuary*. Most of these Schedule C explanations were probably written by low-level employees. These employees, however, are involved in the administration of the pension plan and would have observed the engagement process directly or indirectly through those who were directly involved. These low-level employees are not very knowledgeable of the legal requirements of ERISA, and they provided a Schedule C explanation derived from their observation of the process rather than from their knowledge of ERISA.

Under penalty of perjury, the signer of the Form 5500 states that he or she has examined Form 5500 and its accompanying schedules, and to the best of his or her knowledge, the information is true, correct, and complete. The person signing Form 5500 would have been more directly involved in making the decision to change actuarial consulting firms. Most signers of Form 5500 may not have completed the form, a low-level employee having performed that task, but they would have performed at least a cursory review and would have read that Schedule C explanation for the change in enrolled actuary.

- *You haven't proven any impropriety. The corporate sponsor could have selected the actuarial consulting firm. The corporate pension plan committee may have had the opportunity to select any enrolled actuary employed by that actuarial consulting firm*. "Selection" or words that could be interpreted as having that effect rarely appear when describing a change in enrolled actuary within the same actuarial consulting firm. The explanations that do appear, "reassignment within the actuarial consulting firm" indicated the opposite. This individual was not selected by the corporate pension plan committee or the corporate sponsor. This individual was selected by the actuarial consulting firm.

Under Section 3042 of ERISA, the enrolled actuary is an individual person and is not the actuarial consulting firm employing that individual. The enrolled actuary must be engaged by the administrator of the pension plan.

- *If another enrolled actuary must be assigned to a case, the actuarial consulting firm may recommend another enrolled actuary, but the corporate pension plan committee has the ultimate decision-making authority on whether to accept that recommendation*. If actuarial consulting firms had emphasized committee responsibility, these Schedule C explanations would have reflected that sentiment. They do not.
- *In the majority of these cases, the corporate sponsor has the authority to appoint and fire the pension committee members and has therefore retained a large measure of the fiduciary responsibility for engaging the enrolled actuary*. Members of corporate pension plan committees can be designed by a title (for example, Vice President of Corporate Finance or Vice President of Human Resources). Their meetings are normally held on company time. These individuals may not

continued on page 16, column 1

TABLE 1
Explanations for a Change of Enrolled Actuary within Actuarial Consulting Firms when Committee Serves as Administrator

Reason for Change	Number
Internal reassignment of responsibilities within actuarial consulting firm	84
Termination of enrolled actuary's employment with no further elucidation	37
Explanation that could be interpreted as a selection of a new enrolled actuary	0
Total	121

Engagement of the Enrolled Actuary
continued from page 15

leave their titles at the door and may discuss administration of the pension plan within the responsibilities of their titles rather than as a fiduciary discharging duties solely in the interest of the plan participants. In such an instance, the corporate sponsor may effectively retain the ability to make the fiduciary decisions of the administrator. Buy why go through the effort of completing an IRS Form SS–4 to legally designate the committee as administrator?

The enrolled actuary must be engaged on behalf of all plan participants by the administrator of the pension plan. Is this a sham too? To comply with this requirement of ERISA Section 103(a)(4)(A), actuaries should determine the identity of the administrator before they are engaged. And if they solicited the identity of the administrator in order to be properly engaged, 94% of the Schedule C explanations would not have inappropriately identified the corporate sponsor as the decision-maker.

Discussion

The following explanations, provided on 1993 Schedule C filings for a change in enrolled actuary, elegantly describe the engagement process.

- *There was a change in consulting firms which therefore resulted in a change in enrolled actuaries.* The corporate sponsor, who is responsible for contributing the minimum pension plan deposit, hires an actuarial consulting firm as its advisor. The change in enrolled actuary is a mere consequence of that act.
- *The firm of William M. Mercer Inc. is engaged to provide actuarial services for the Hunter Douglas Inc. Retirement Plan. Mr. Abbazia was a Mercer employee who served as the plan's enrolled actuary. He has terminated his employment with Mercer to pursue other professional opportunities. Mercer will assign another employee to serve as the plan's enrolled actuary.* When there is a change in enrolled actuary within the same actuarial consulting firm, the corporate sponsor does not select a new enrolled actuary. Corporate sponsors initially selected the actuarial consulting firm. They did not initially select that individual, and they are not doing so when there is a change in enrolled actuary within the same actuarial consulting firm. The actuarial consulting firm initially assigns and reassigns enrolled actuaries to the case. Engagement (or assignment) of the enrolled actuary is a fiduciary decision. That fiduciary decision is being made by the actuarial consulting firm.

ERISA does not explicitly define enrolled actuaries or actuarial consulting firms as fiduciaries. On the other hand, ERISA does not preclude enrolled actuaries or actuarial consulting firms from being a fiduciary. ERISA also does not preclude the delegation of a specific fiduciary responsibility to an actuarial consulting firm. There would be no impropriety in the second Schedule C explanation, for example, if the administrator delegated the selection of enrolled actuary to the actuarial consulting firm and the actuarial consulting firm fulfilled its fiduciary responsibilities in selecting that individual.

"The enrolled actuary must be engaged on behalf of all plan participants by the administrator of the pension plan. Is this a sham too?"

Enrolled actuaries are accredited and regulated by the Joint Board for the Enrollment of Actuaries, a federal board consisting of three members appointed by the U.S. Secretary of the Treasury and two members appointed by the U.S. Secretary of Labor. Under the Standards of Performance for Enrolled Actuaries published under 901.20(b) of its regulations, the Joint Board defines professional duty as follows:

> "An enrolled actuary shall not perform actuarial services for any person or organization which he/she believes or has reasonable grounds for believing may utilize his/her services in a fraudulent manner or in a manner inconsistent with law."

In the actuarial organizations in which they work, enrolled actuaries can be subordinate to account managers attempting to satisfy the needs and objectives of the corporate sponsor. If a single person is both account manager and enrolled actuary, the role of the enrolled actuary is a less important and subordinate role. Under Joint Board regulation, enrolled actuaries are prohibited from performing actuarial services for any person (for example, account managers) or organization (for example, actuarial consulting firms) that may utilize their services in a fraudulent manner or in a manner inconsistent with the law. The actuarial organization has no policy to discourage coercive subordination of enrolled actuaries by account managers or does not actively enforce a policy created to discourage such coercive subordination. In annual performance appraisals of its employees, the actuarial consulting firm emphasizes account management rather than satisfying the duties and obligations of an enrolled actuary.

Research previously reported in *Compensation and Benefits Management* included an analysis of twenty 1992 and 1993 Schedule B attachments [2]. There were 57 changes in actuarial assumptions and cost methods that needed to be reported and justified under ERISA Section 103(d)(3). Thirty-six of these changes were reported by the enrolled actuary on attachments to Schedule B. Only 13 of the 36 reported changes were justified by the enrolled actuary. If enrolled actuaries complying with their duties and obligations under ERISA was an issue of primary importance for actuarial consulting firms, these results would have never occurred.

- *Under ERISA Section 3042, the enrolled actuary is an individual and that individual is responsible for justifying changes in actuarial assumptions and cost methods. The actuarial consulting firm is not responsible.* Under ERISA Section 103(a)(4)(A), the enrolled actuary is engaged on behalf of all plan

continued on page 17, column 1

Engagement of the Enrolled Actuary
continued from page 16

participants by the administrator of the pension plan. Do corporate sponsors and actuarial consulting firms consider the enrolled actuary to be an individual person in this instance as well? The actuarial consulting firm is responsible because it is the fiduciary that engaged the enrolled actuary. Its on-going fiduciary reviews of those individuals should have included justifying changes in actuarial assumptions and cost methods as required under ERISA Section 103(d)(3).

If the Joint Board for the Enrollment of Actuaries directed its enforcement efforts only against individual enrolled actuaries, it would not necessarily discourage the activities of actuarial consulting firms with hundreds of enrolled actuaries. But what if these enforcement efforts related to all current and future enrolled actuaries employed by that firm? Enrolled actuaries are prohibited from performing actuarial services for any person (for example, account managers) or organization (for example, actuarial consulting firms) that may utilize their services in a fraudulent manner or in a manner inconsistent with the law.

Theodore Konshak, ASA, is President of Actuarial Rating Bureau Inc., in Green Bay, Wisconsin.

END NOTES

1. Konshak, Theodore. "Identifying the Capacity in Which the Enrolled Actuary Serves," *Compensation and Benefits Management,* Vol. 13 No. 2 (Spring 1997): 50–54.
2. Konshak, Theodore. "The Three Faces of the Corporate Pension Plan Actuary," *Compensation and Benefits Management*, Vol. 12 No. 4 (Winter 1996): 62–68.

Enrolled Actuary Credit

The Society of Actuaries is authorized by the Joint Board for the Enrollment of Actuaries to offer programs that meet the requirements for both core and noncore EA credits. Such sessions are designated in SOA brochures and meeting programs. The enrollment cycle is three years. The current enrollment cycle began January 1, 1996 and will expire on December 31, 1998. Actuaries are required to attend a total of 36 hours of continuing education credit with at least one-half being core credit hours.

The Enrolled Actuary must maintain records for the current enrollment cycle that include the name and address of the sponsor, title and description of program content, dates attended, credit claimed for core and noncore hours, names of instructors, and certificates of attendance as well as the total core and noncore hours claimed.

The SOA regularly sends attendees who have completed an evaluation form for EA credit sessions a certificate which indicates the breakdown of core and noncore hours for that session.

For those who need to meet continuing education requirements for the current enrollment cycle year and are not able to attend seminars or meetings, video and audio tapes, along with worksheets, are available to help meet credit requirements. The "Enrolled Actuary Order Form for Credit" is available in the Continuing Education area of the SOA website at http://www.soa.org.

Questions can be directed to Sherri Fiore at the Society of Actuaries at (847) 706–3537 or sfiore@soa.org.

❋ ❋ ❋

John Hanson Memorial Prize

The John Hanson Memorial Prize is given on a regular basis for the best paper on an employee benefits topic published in the *Proceedings of the Conference of Consulting Actuaries*. The author must write a paper but need not apply nor be a member of the Conference to be considered for the prize. The winning paper will be selected by an employee benefit subcommittee on the Committee on Papers. Papers are judged on appropriateness of subject material, timeliness of topic, originality, and practical application to employee benefits.

Due to lack of appropriate papers in the past year, the CCA Board of Directors has decided that the prize for 1997 will be $2,000, and the CCA will waive its Annual Meeting fee for next year to the recipient. Thereafter, until further notice, the prize will be $1,000 a year, and the CCA will waive its Annual Meeting fee for that year to the recipient.

❋ ❋ ❋

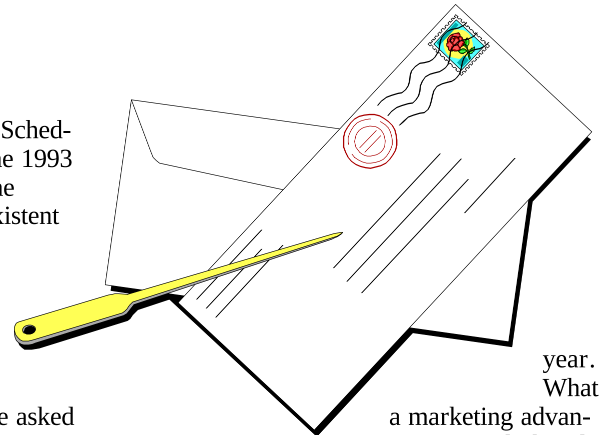
KWEL-Project Web Site Announced

Kortanek and Medvedev are pleased to announce a web site for the KWEL Project in the College of Business at the University of Iowa, Iowa City. The project focuses on the term structure of interest rates, the spot rate, and replications of thinly traded options.

The "Markets Comparison" section (previously "Coming Soon") compares estimates of daily 3MO rates in the Secondary U.S. Treasury Market with reported rates, and "Today's Forecast" is regularly updated as weekly 3MO Auction data from the St. Louis Federal Reserve Bank become available. There is also a comparison between the previous forecast with materialized 3MO U.S. Auction rates reported by the St. Louis Fed.

The web address (3MB) is: http://www.biz.uiowa.edu/kwel/kwel/

Letter to the Editor



"Conflict of Interest and the Theory of Duality"

Dear Dan:

In the "Letters to the Editor" section of the January 1998 issue of *Pension Section News,* Anna Rappaport discussed my September 1997 article, "Conflict of Interest and the Theory of Duality." I appreciate the opportunity to reply.

From my actual experience with the Actuarial Board of Counseling and Discipline (ABCD), it is not the strong professionalism program she claims. Or, at least, it is not a strong professionalism program in the way I use the term. For me, professionalism is satisfying the duties and obligations of your position. For other actuaries, professionalism may be a matter of etiquette and demeanor.

I published statistics in *Compensation and Benefits Management* regarding the failure of enrolled actuaries to justify changes in actuarial assumptions and cost methods on the Schedule B as required under Section 103(d)(3) of the Employee Retirement Income Security Act (ERISA). For those enrolled actuaries who neither read the law or regulations thereunder, this ERISA requirement is also contained in the instructions for completing the Schedule B.

Publishing these statistics created a dilemma. On one hand, Precept 14 of the Code of Professional Conduct requires me to inform the ABCD of any actuarial malfeasance. On the other hand, reporting each and every ERISA disclosure failure to the ABCD would be an immense paper burden and copying expense. I can't be completely naive. I filed one complaint enclosing the 1992 Schedule B with attachments, the 1993 Schedule B with attachments, and a list of actuarial assumptions and cost methods that were changed but not justified on the 1993 Schedule B.

The ABCD acknowledged my complaint, requested that I cite with some specificity on how and where the enrolled actuary failed to justify changes in actuarial assumptions and cost methods, and requested that I provide a copy of the analysis I used in making that evaluation. Compare the assumptions and methods listed on the 1992 Schedule B attachments to those on the 1993 Schedule B attachments; note the changes; and look for the nonexistent justifications.

The Chairpersons of the ABCD eventually wrote me a letter dismissing the complaint. In their discussions with the enrolled actuary, the enrolled actuary claimed to have asked the client whether the actuarial cost method was changed in the prior three years. Because the client failed to inform him of any change in the prior three years, he felt he should not be held responsible for failing to obtain IRS approval for the change in actuarial cost method. The enrolled actuary had claimed automatic IRS approval under Revenue Procedure 82–59, as extended by Revenue Procedure 92–48, on his attachment to the 1993 Schedule B.

Confused? You should be. Automatic IRS approval of a funding method change was not the subject of my complaint. Somehow the topic got changed. Moreover, even though, under Revenue Procedure 82–59, automatic IRS approval for changes in the actuarial cost method was not available if the cost method had been changed in the prior three years, there was an exception to this general rule. If there was a change in both the enrolled actuary and the actuarial organization providing those actuarial services, the three-year ban would not apply. In this instance, there was a change both in the enrolled actuary and the actuarial organization providing actuarial services. The automatic IRS approval under Revenue Procedure 82–59 was available. Claiming that automatic IRS approval was perfectly valid.

Changing the actuarial asset valuation method can be a means of adjusting contributions to a more desirable amount. In conducting my research, I encountered a number of instances where a newly hired enrolled actuary change the actuarial asset valuation method and claimed automatic IRS approval under IRS Revenue Procedure 82–59 even though the prior enrolled actuary had changed the actuarial asset valuation method in the preceding plan year. What a marketing advantage! A newly hired enrolled actuary could change the actuarial asset valuation method and obtain automatic IRS approval. The prior enrolled actuary could have not obtained that automatic IRS approval because of the three-year ban.

Under the ABCD's rules of procedure, decisions of chairpersons will be reviewed by the entire Board if the complainant requests it. I wrote a letter to the ABCD requesting such a review, but I never received any acknowledgment of that letter.

If you intend to eliminate or severely reduce the PBGC variable-rate premium by adopting actuarial assumptions which are individually unreasonable, but reasonable in the aggregate, how do you justify those actuarial assumption changes under the requirements of ERISA Section 103(d)(3)? How do you justify any tweaking of the numbers by changing actuarial assumptions? Does this tweaking benefit enrolled actuaries professionally or commercially benefit the firm for whom they work?

From my random sample of actuarial Schedule B filings, attachments to the Schedule B are usually copied from the actuarial valuation report. Do peer review and billable-hour goals discourage deviation from a firm's standard actuarial valuation report?

Theodore W. Konshak, ASA
President
Actuarial Rating Bureau Inc.
Green Bay, Wisconsin

Minutes of the Committee on Social Security—Retirement and Disability Income Meeting

February 26, 1998
Washington, D.C.

In Attendance: Joe Applebaum (Chairperson), Bernard Dussault, Steve Goss, Bob Katz, Bruce Schobel, and Judy Anderson, SOA staff liaison. Attending by phone: Rob Brown, Mike Sze, Bob Johansen, and Larry Pinzur.

Impact of Mortality Improvement on Social Security in North America

At the October 30 conference, experts were asked to complete a questionnaire on their predictions of mortality improvement. It was hoped that a consensus assumption for improvement would result. However, there was significant variance in the responses. Therefore, four different scenarios of mortality improvement were tested. The effect of each of the four was fairly minor for the U.S. and Canada, at no more than a 1% absolute change in the tax rate. The effect on Mexico was more dramatic because Mexico has a younger population. However, the effect was still within a 2% absolute change in the tax rate.

Results were presented at the AAAS meeting. The presentation was successful though lightly attended, being held on the last day of the conference. The SOA hopes that this will be the first of continued sessions at the AAAS meetings.

Proposed Symposium on Social Security Economic Assumptions

Bob Johansen submitted a suggestion for a symposium on economic assumptions and forecasts for Social Security. The committee expressed a number of concerns with the idea, including:

- The breadth of the topic. The mortality improvement topic had a clearer and more manageable scope.
- The limited impact of economic assumptions given that the taxes and benefits are both indexed
- Significant correlation between various economic assumptions
- A sense that this topic was more in the domain of economists and not be optimal for demonstrating actuarial expertise.

Joe Applebaum will follow up with Bob Johansen.

20th-Century Fund Web Site

The 20th-Century Fund is planning a website on Social Security issues. They have invited us to contribute to it. SOA staff is getting more information on the fund and web site before we proceed.

Social Security—A Statement

The committee discussed the draft paper, "What Is Social Security—A Statement," and made the following observations/suggestions:

- Too much focus on the national economy versus international considerations.
- Add an introductory statement that the paper is addressing a generic system without finely detailed provisions.
- Keep the focus on macroeconomic issues and not distribution issues.
- Be clear on the difference between looking at savings/Social Security over time versus cross-sectionality between workers and retirees and other beneficiaries.
- Be clearer about the distinction/ similarity between savings and investment.
- Clarify what is included in the definition of wages in the paper.
- Clarify the meaning of "money" as used in the paper.
- Keep the scope limited to the core of the problem, which the committee can come to a consensus on. Follow-up papers can go the next step.
- Add the distinction between private and public plans because of government's ability to print money and to tax.

Judy will request comments and suggested edits to the paper. She will then attempt to create a revised draft reflecting all comments. The draft will be circulated as soon as possible with the intent of having a conference call and another round of editing in preparation for the committee's June meeting.

Liaison Report—AAA Social Insurance Committee

The AAA Committee has created a draft press release on Social Security's impact on the deficit. They are also drafting an issue brief on women's issues. Other proposed issue briefs include discussion of: (a) the length of the income averaging period, (b) cost-of-living adjustments, and (c) annuitization of individual accounts. The AAA Committee continues to work on a quantitative analysis framework for Social Security.

New Projects

Two new projects were suggested and discussed at the meeting:

- An analysis of "rate of return" as it applies to Social Security
- A symposium on demographic assumptions, such as retirement rates, fertility, and so on.

Because of limited resources, the committee has chosen to focus on the "statement" paper and, in the future, to limit activities to one, or at most two, projects at a time. This also puts four projects discussed at past meetings on hold.

Future Meetings

The committee will next meet in June at the Maui Spring Meeting. It has tentatively been set for 5:00 p.m., Sunday, June 21. A poll will be distributed to check availability.

Respectfully Submitted,
Judy F. Anderson, FSA
Staff Fellow

Minutes of the Pension Section Council Meeting

January 9, 1998
Atlanta, Georgia

In Attendance: Carolyn Zimmerman (Chairperson), Amy Timmons, Amy Viener, Colin England, Martha Moeller, and Lois Chinnock (SOA staff liaison).

MINUTES APPROVAL. The minutes of the September 29, 1997 meeting were approved.

MEETINGS

- ***Annual Meeting Review.*** It was reported that the Annual Meeting in Washington, D.C. was quite successful and many favorable comments had been received, especially on the tour of the PBGC.
- ***Spring Meeting.*** Amy Timmons reported that speaker recruiting was behind schedule and that Section Council members needed to focus on this. The Pension Spring Meeting will be held June 22–24 in Hawaii.

OUR MISSION. Much time was spent discussing how we could best serve our members. We agreed that some of the research projects we funded in the past were of little or limited use to our members and thus we need to change our focus.

The most popular idea was to spend our time and resources developing a CD-ROM on basic pension and actuarial issues. This would allow members to devote more time to their work and less to training new employees.

Amy Timmons will do some research on potential authors and will prepare a draft RFP for a CD-ROM project manager for the March meeting.

PENSION SECTION NEWS. The newsletter is doing well, but many of us were surprised to learn that Dan Arnold was not being compensated for all his hard work. He publishes the newsletter on a volunteer basis. We agreed that some type of public acknowledgment and thank you was long overdue.

POSTCARDS. Lois reported that all Society members who listed pension as their area of expertise but who were not Pension Section members received a postcard encouraging them to join the Section when they pay their Society dues. The postcard described the benefits of membership.

TREASURER'S REPORT/NEW BUDGET. Martha Moeller presented the budget which was approved after a few modifications.

OLIVIA MITCHELL CONFERENCE. Lois presented a proposal submitted by Ms. Mitchell for the 1998 Pension Research Council Conference April 27–28 at the Wharton School. The Section decided not to participate. However, notice of the conference will be placed in the next issue of *Pension Section News*.

CAREER DEVELOPMENT PUBLICATION. Lois presented a career development manual that was prepared by the SOA Committee on Management and Personal Development. The committee was asking all Sections to underwrite the cost of printing and distribution. Although a few of the other Sections have agreed to underwrite this manual, the Pension Section Council debated the degree of its usefulness for Section members and decided to discuss the project again in March.

RESEARCH. The Council decided it needed more information on the GATT Mortality Study before discussing it at the March meeting.

NEXT MEETING. The next Pension Section Council meeting is to be held in Washington, D.C. on March 22 at 9:30 a.m.

Respectfully Submitted,
Amy C. Viener, ASA
Secretary, Pension Section Council

Minutes of the Retirement Systems Professional Education and Development Committee Meeting

October 20, 1997
Princeton, New Jersey

Participants: Marilyn Oliver (Chair-per son), Douglas Borton, Neil Parmenter, Arnold Shapiro, and Judy Anderson (SOA staff liaison).

Rotating Consulting Column

The initial column was from Coopers & Lybrand. The second column was from Mercer. Upcoming columns will be from Actuarial Science Associates, Towers Perrin, and The Principal Financial Group, in that order.

Spring Meeting Sessions

The committee is sponsoring two sessions. Yuan Chang and the SOA's Asia Committee will help with recruiting for the session on consulting in the Pacific Rim. The other session is on stochastic pension valuations and will be moderated and recruited by Kevin Shand.

Annual Meeting Sessions

The committee will be sponsoring a five-session "seminar," described in the minutes of the August 22, 1997 conference call. The committee is also hoping to package the seminar as a CD-ROM, and therefore, these sessions will need more advance planning and videotaping. The seminar will also need appropriate publicity. Experience with this type of seminar (SOA San Antonio meeting and the Hawaii meeting) and other plan-design seminars will be closely considered. Neil Parmenter will recruit a seminar coordinator.

The other sessions, in order of preference, are:

- Late-breaking developments or dialogue with the IRS
- The Actuary and Public Affairs (Mary Adams to assist)
- Selected Insurance Company topic(s) (as suggested by various insurance company pension actuaries).

Final, formal session descriptions are due in February 1998.

SOA Internet Web Page

The Committee would like input from its users on the web page. It is suggesting a time-limited "suggestion box" in the page as a way of getting input from the users. It could also be used to get additional input on future committee projects. The idea of a "suggestion box" will be raised with the web page coordinators.

Papers for *Pension Section News*

Debbie Nice was given the green light to proceed with her papers on risks related to pension plans and on GATT legislation.

Marilyn Oliver and Judy Anderson will work on an outline for the paper on "Rules of Thumb." This may be done as a series of short articles rather than a single paper.

Suggestion Box

The Retirement Systems Professional Education and Development (RSPED) Committee's activities include the booklet, "Statistics for Employee Benefits Actuaries," a variety of articles and papers in the *Pension Section News* and *The Pension Forum*, Specialty Guides (annotated topic bibliographies), studies of retirement-related issues, and SOA Spring and Annual Meeting sessions.

The RSPED wants input and feedback from those interested in the SOA's initiatives for pension actuaries on these activities and additional suggestions for the SOA web page or other publications. Please e-mail Judy Anderson, Retirement Systems Staff Fellow, at janderson@soa.org, phone (847) 706–3590, or fax (847) 706–3599.

Specialty Guides

Marilyn Oliver is reviewing the Specialty Guide on government plans. Kevin Shand is reviewing/updating the Specialty Guide on Canadian pension plans.

The Committee would like to find an author for a guide on multiemployer plan issues.

Respectfully Submitted,
Judy F. Anderson, FSA
Staff Fellow

SEE THE "SOA COMMITTEE ON RETIREMENT SYSTEMS PROFESSIONAL EDUCATION AND DEVELOPMENT" SURVEY ENCLOSED IN THIS MAILING.

Minutes of the Retirement Plans Experience Committee Meeting

January 8, 1998
Deerfield Beach, Florida

In Attendance: Vince Amoroso, Kevin Binder, Edwin Hustead (Chairperson), John Kalnberg, Diane Storm, and Mike Virga. Lindsay Malkiewich, Julie Pope, Bart Prien joined by phone at 3:00. Tom Edwalds, of the SOA staff, was also present. Ethan Kra and Lawrence Pinzur were present as observers.

Technical Subcommittee

Kevin Binder reviewed the progress of this subcommittee. Greg Schlappich's graduation formula was used with minor adjustments by Mike Virga. Mike will update the report to document those changes. A large number of submittals did not supply amount data (annuity size or accrued benefit amounts). The life based *q*'s determined from the entire dataset were adjusted by graduated amount adjustment factors. The amount adjustment factors were derived from the subset of data which supplied the amount data. The resulting amount adjusted life-based *q*'s were again graduated. Tom Edwalds reported on the discussion with Bruce Jones on using amount weightings. Jones agreed that our method is reasonable.

The survivors were blended with the healthy retirees, and deaths and exposures were combined to created blended q_x's. Actives and retirees were blended between ages 50 and 70. The active retiree blend was based on exposures of submittals that supplied both active and retiree data. (Some submittals did not supply active data. These were omitted in determining the active/retiree blend.) The retirement rates implied by the difference between the active and the blended q_x's were imputed and shown in a table. Tables and graphs were presented to show the effects of the blending and the comparison between UP–94 and this study. The rates were very similar to the UP–94 rates.

Larry Pinzur pointed out a small "blip" in the blended rates and suggested graduating the blended rates or publishing the blending factors. The committee decided that enough graduation had been done already and that it would leave the blending as the subcommittee suggested. Ethan Kra suggested that the report clearly state how the blending is done. Also, it should be clear that the purpose of the blended table is for comparison purposes with previous tables. The primary tables recommended for use by this committee will be separate sex-distinct tables for actives and retirees.

The Technical Subcommittee wants to do more work on determining *q*'s where study data are not credible and determining endpoint ages for the tables. The next step for the Technical Subcommittee is the endpoints and projections. The subcommittee will not work on a healthy/disability blend until the approach to blending is discussed at the next committee meeting.

Tom Edwalds suggested contracting with an academic researcher to do a multivariate analysis on the different factors, for example, collar/amount/ SIC. The researcher will be asked to develop methods for applying the multivariate analysis in day-to-day actuarial work. Tom will write an RFP, send it out, and hopefully have responses to select from by the next meeting. Work on issues to be dealt with in the contract, such as the appropriate RM factors, will not resume until the contractor's report is received.

Legislative History of GATT

Vince Amoroso gave us an overview of the meetings and negotiations (especially between the PBGC and several large employers) that preceded the passage of the mortality provisions in the GATT legislation. This current study meets the required criteria for the table to be designated by the Treasury in 2000.

Drafting Subcommittee

Sections 7 and 8 were discussed. It was agreed to omit the PBGC/IRS perspective. How the tables are intended to be used will be stated instead. Kevin suggested using illustrations, graphs, and so on as much as possible. The possibility of producing a blended retiree and disabled table was discussed. This will be addressed at a later meeting. Tom confirmed with Kathy Elder that the data were submitted so that retiree and disabled data could be directly combined.

Sections 1 through 3 of the report will be reworked with drafts sent to Ed by March 10. Ed Hustead, Section 1; Bart Prien, Section 2; Diane Storm, Section 3.

Next Meetings

The next meeting will be held on March 25, immediately following the EA meeting. Tom is coordinating the meeting room with the conference. Tentative agenda:

- Technical Subcommittee presentation of unprojected final basic tables
- Technical Subcommittee recommendation for the projection factors
- Selection of proposal for multivariate analysis
- Draft of chapters 1, 2, and 3 of the subcommittee report.

The following meeting is tentatively set for May 14 from 11:00 a.m. to 3:00 p.m. in Newark, New Jersey.

Respectfully Submitted,
Diane M. Storm, ASA

Minutes of the Retirement Systems Practice Advancement Committee Meeting

December 3, 1997

In Attendance: Ethan Kra, Joe Applebaum, Dick Joss, Neil Parmenter, Don Segal, Larry Pinzur, Marilyn Oliver, Arnold Shapiro, Anna Rappaport, Ed Hustead, and Tom Edwalds, Barbara Choyke, Marta Holmberg, Judy Anderson, and Cathy Cimo of the SOA staff.

By phone: Pat Scahill, and Joan Boughton.

1997 Planning Committee—Retirement Systems Practice Area Gap Analysis

Ethan discussed the restructuring into practice areas and how well it is working for the Pension and Health areas. The practice area research and continuing education projects are practical and are helping the pension actuary.

The committee would like to have actuaries on the programs of other organizations. We are working with the National Academy of Social Insurance and the American Compensation Association and making contacts with other organizations. We should look at submitting papers in other journals, getting speakers at our meetings from other organizations, and providing speakers to other organizations.

Services for the Small Consulting Firms

The smaller consulting firms are probably looking for less expensive ways to stay current. However, rather than guess at what the small firms need, we should survey them. There is a report on a small-firm survey due in about three to four weeks. It will be distributed to the committee.

Small firms that want business support should probably join ASPA. We should focus on what services the SOA can add and not duplicate what is already offered. Perhaps the SOA could be a clearinghouse for large-firm client mailings. Another alternative may be to have a subsection of the Pension Section for small firms. We could also look at providing a small-consulting-firm page on the SOA web site.

ASPA/AAA Research Request

The Academy and ASPA requested research on IRA savings and DB plan benefits by income classes in order to determine whether mandatory savings plans would favor the highly compensated more than current plans. We declined to do this research because it is not actuarial in nature and the time frame requested is very short. We provided sites for existing information, data sources, and possible researchers. We were clear that we will continue to offer actuarial research assistance to the Academy.

Joint Seminar with IFEBP and ACA

The committee liked the idea of this seminar. All EAs and ASPA members should receive the brochure along with all SOA members.

Retirement Plans Experience Committee (RPEC)—GATT Mortality Study

The data includes age, sex, status (active, retired, disable, survivor), size of benefit, SIC code, and blue versus white collar. The RPEC has decided not to publish an interim report. The exposure draft should be ready in early 1999.

The following items were discussed:

- Margins should probably not be included because the primary purpose is for uninsured plans.
- The RPEC should not adjust its work in anticipation of the table's use by regulators.
- Generational mortality projection factors were recommended. A review of the work for the project, "The Impact of Mortality Improvement on Social Security in the U.S., Canada and Mexico," was suggested.
- The committee agreed with the RPEC on splitting the table by active, retired, and disabled status. The report should discuss how these splits should be applied in light of the underlying data.

E&E Redesign

The committee discussed the coordination of the new SOA E&E system with the EA examinations. There is a concern that the U.S. pension actuary may require more examinations than in other tracks. Further, there is a sense that many firms will not encourage ASA and FSA designations under the new system, but may prefer only the EA or MBA designations. These concerns will be presented to the SOA Board of Governors. We will also begin discussions with the Joint Board on improving the coordination.

SOA Meetings—Pension Sessions

The committee discussed packaging the Spring Meeting sessions as seminars to attract attendees. People like seminars, but many are limited to attending only one meeting per year. Marketing may be the primary issue. The Retirement Systems Professional Education and Development Committee (RSPED) is presenting a seminar on Retirement Plan Design at the Annual Meeting during five one and one half-hour sessions covering plan design, corporate goals, participant goals, and case studies. A single moderator for all sessions, or at least some faculty overlap, was suggested. RSPED is also developing a session for nonconsulting pension actuaries.

Barb Choyke handed out information on attendees from the Pension Section at previous meetings. She discussed new media for continuing education such as teleconferencing, CD-ROM, and computer-based learning. A brochure/booklet listing all CE credit opportunities is being developed.

continued on page 24, column 1

RSPAC Meeting Minutes
continued from page 22

Research Committee Reports

- ***Macrodemographic Model.*** Five chapters have been completed, including descriptions of three models.
- ***Turnover Study.*** A copy of the final draft is now available through the SOA Books Department for $20. The report will appear in a future volume of *TSA Reports*.
- ***Mortality Projections.*** This is being coordinated with Mike Sze's project on the impact of mortality improvement on Social Security. The working group is also looking at ways to assess the effects on pension valuation over time.
- ***Asset Valuation Project***. Initial survey results have been compiled. Additional surveys will be sent to an expanded group. Phase 2 will address objectives and effectiveness of different methods.
- ***Safest Annuity Rule.*** Proposed final draft is being reviewed for approval.

Future Meetings

The committee will meet approximately three times per year. We will poll for the next meeting to be held in May in Washington or New York.

Respectfully Submitted,
Judy F. Anderson, FSA
Staff Fellow

Minutes of a Joint Committee Meeting

October 20, 1997
Princeton, New Jersey

Participants: Joe Applebaum, Marilyn Oliver, Douglas Borton, Gerald Campbell, Ed Hustead, Lindsay Malkiewich, Neil Parmenter, Laurence Pinzur, Arnold Shapiro, Michael Virga, Judy Anderson, and Tom Edwalds (SOA staff liaison).

The Committee on Retirement Systems Professional Education and Development and the Committee on Retirement Systems Research held a joint meeting in Washington, D.C. on October 20, 1997 and discussed the following topics.

Administrative Items

Larry Pinzur will be taking over as chairperson of the Committee on Retirement Systems Research. Lindsay Malkiewich will be leaving the committee because of his election to the Pension Section Council.

Suggestions for new members should be submitted to Larry Pinzur or Marilyn Oliver.

The next meeting will be held on Friday, January 9, 1998, in Deerfield Beach, Florida. This meeting will follow the meeting of the Retirement Plans Experience Committee on January 8 and precede the meeting of the Mortality Projection working group.

Committee members will be surveyed for the following meetings. Improved attendance is a primary goal.

Mortality Projection Working Group

Two subgroups of this working group will be coordinating with the research project on "The Impact of Mortality Improvement on Social Security in Canada, Mexico and the U.S." This project includes a conference attended by mortality experts, to be held October 30 in Washington D.C. These subgroups are looking at the history of mortality improvement and at the design of projection scales.

Another subgroup of the working group is also addressing the impact of mortality improvement assumptions on pension valuations. They will be asking assistance from consulting firms to run pension projections assessing the impact of projection scales, generational scales, and periodic ad hoc shifts in mortality on valuation results.

Survey of Assumptions and Needs of Pension Actuaries

During a session at the Palm Desert SOA meeting, participants requested that the SOA gather information on current actuarial assumptions. The Pension Section Council has also suggested this. A preference was also expressed to publicize current survey results rather than creating a new survey. Key actuaries at the large consulting firms have been contacted about their possible participation.

This led to a discussion about the needs of pension actuaries, particularly those working in small firms. Before embarking on a large-scale project, the committees would like feedback from the membership. Large firms were represented at a recent focus group. Small firms were recently surveyed. Judy Anderson will distribute the results of these projects as they become available. If the committees need additional feedback, a survey to be distributed at the EA meeting and SOA Spring Meeting was suggested.

GATT Mortality Project

Minutes of the meetings held in 1997 were distributed. The original goal was to produce a draft report by March 1, 1998, but this has been deferred to September 1. The intent is to publish a mortality experience study as well as a proposed table.

The Committee's report will provide differences in reporting by industry amount of annuity and wage status.

Discussions continue about projection scales.

continued on page 25, column 1

RSPED Committee Minutes
continued from page 23

Asset Valuation Method Study

A total of 4,000 surveys were mailed to members of the Pension Section. Forms were returned representing 7,700 defined-benefit plans. The U.S. response covered approximately 7.5% of all defined-benefit plans in the U.S.

Large consulting firms were contacted and encouraged to submit input to the study. This raised some question of bias in the results. Also, approximately 500 Canadian actuaries and 1,000 U.S. actuaries indicate a pension specialty but are not members of the Pension Section. An additional survey of these actuaries is being considered.

The Project Oversight Group will address issues regarding statistical significance and the extent to which the survey responses are representative. It may be helpful to publish results based on current available data, request comments, and then follow up with a restudy in a few years.

Turnover Study

The current draft report was distributed. Considerable revisions have been made to the initial draft. The POG has unanimously supported release of this draft. If the committees have any objections to its release, their comments must be directed to Tom Edwalds before November 3, 1997.

The study is not intended for use as a valuation table; hence, graduation is unnecessary. Pending the comments from committee members, raw results should be published in a future *TSA Reports*. The report will include extensive cautions that decrement ratios, not decrement rates, are given. A number of committee members have expressed concerns that the study will be used without paying proper attention to all the caveats.

Letters will be sent to all major actuarial firms asking them to begin collecting data now for future studies.

Macrodemographic Model

This project is crawling forward. Revised drafts of the first three chapters have been received as well as a first draft of a fourth chapter.

In total, six models will be analyzed in detail.

Respectfully Submitted,
Judy F. Anderson, FSA
Staff Fellow

Continuing Education Update

by Barbara S. Choyke

By now you should have received your itemized account of SOA database EA credits on file. Still need CE? The Program Committee for the 1998 Annual Meeting met at the Marriott Marquis in New York, February 26 and 27. Listed below are the sessions specifically targeted for pension actuaries, particularly those that award enrolled actuaries credit.

Monday, October 19, 1998

10:30–12:00 noon	Current Pension Products and Pricing Developments	NC
2:00–3:30 p.m.	Pension Rulings and Regulations Update	C/NC

Tuesday, October 20, 1998

8:30–10:00 a.m.	The Changing Look of Retirement Plans	C/NC
10:30–12:00 noon	Legal & Actuarial Considerations in Modifying a Retirement Plan	C
2:30–4:00 p.m.	Plan Design Issues—The Corporate Perspective	C/NC
	Derivatives in Pension Plans	NC

Wednesday, October 21, 1998

8:00–9:30 a.m.	Plan Design Issues—The Employee Perspective	NC
10:00–11:30 a.m.	Retirement Plan Designs—Case Study	NC
	Technical Writing	NC
1:00–2:30 p.m.	Computer Models for Retirement Policy Analysis	NC
	An Actuary Reads the Newspaper—What's Between the Lines	No Credit
	Credit Disability Tables for Pricing and Valuation	Uncertain

If you'd like to speak at any of the sessions, contact Neil Parmenter at his *Directory* address.

Barbara S. Choyke is Director of Continuing Education at the Society of Actuaries in Schaumburg, Illinois.

Enrollment Examinations

by Carl Shalit

The Joint Board for the Enrollment of Actuaries has asked its Advisory Committee on Actuarial Examinations (of which I am the coordinator) to undertake a review of the current enrollment examinations. This request came about as a result of discussions at the public session held in conjunction with the January 7, 1997 meeting of the Advisory Committee.

While the Joint Board believes that the current examinations properly determine if candidates for enrollment have the required actuarial knowledge, it recognizes that the changes in pension law since 1984 (the last time the exams were revised other than annual syllabus updates) are numerous and, therefore, the amount of material being tested in each exam may not be appropriate for the currently allocated time. Also, because of the changing environment, we may now have a situation in which some obsolete or nonapplicable topics are being tested while other germane topics are not being adequately tested. There are also changes taking place in the general education process in the U.S. and within the actuarial profession which, perhaps, should be recognized in the examinations.

An initial discussion draft has been prepared by the Advisory Committee which is being made available to the general actuarial community. After an introduction and brief background, the discussion draft consists of the following titled sections:

- ***History.*** A brief history of the Joint Board and the Advisory Committee and the existing legislative and regulatory situation under which they operate.
- ***The Examination Preparation Process.*** A description of the process through which the current enrollment examinations are developed and administered.
- ***Are the Exams Accomplishing What They Are Supposed To?*** A brief section discussing whether a combination of exams and experience is the best way to determine if a candidate has sufficient knowledge of enrollment.
- ***Are the Exams Structured Properly Including the Topics and the Split Among the Exams?*** A discussion of the topics currently on the exams with identification of possible deletions and additions.
- ***Open-Book Examination(s).*** A discussion on the possibility of open-book exams.
- ***Elimination of Commutation Functions Requirements.*** A discussion on whether knowledge of commutation functions is required by an enrolled actuary.
- ***Varying Point Value of Questions.*** A discussion on weighting questions based on apparent difficulty or expected time to answer.
- ***Other Topics.*** Brief discussions on several points peripheral to the main topic of the paper.

If possible, the Advisory Committee would like to make its recommendations to the Joint Board prior to the scheduled public session around the end of June 1998.

We welcome the thoughts and opinions not only of those involved in the examination process but also of those in the actuarial community at large, including those in academia. Any restructuring of the enrollment examinations affects not only the Joint Board and the two co-sponsoring societies (the American Society of Pension Actuaries and the Society of Actuaries) but all actuaries. We therefore believe that, in general, our deliberations should be public and the public should have the ability to comment as we proceed.

Copies of the discussion draft can be obtained by contacting me by fax at (781) 341–4215 or by e-mail at cshalit@juno.com. I urge all who are interested to obtain a copy and comment. Comments may be sent directly to me at my *Directory* address.

Carl Shalit, FSA, is with Carl Shalit & Associates, Inc., in Stoughton, Massachusetts.

Thanks, Dan!

In appreciation for 36 issues (and counting) of hard work on *Pension Section News*, Pension Section Council Chairperson Carolyn Zimmerman presents Dan Arnold with a football weekend to his alma mater, the University of Michigan. Thanks, Dan, for all your effort and a job well-done!