PENSION SECTION NEWS

NUMBER 35 JANUARY 1998

Chairperson's Corner

Carol E. Zimmerman

First, let me extend a hearty "thank you" to the members of the Pension Section Council who have just completed their terms. Dick Joss, Joan Weiss, and especially James Kenney, our departing chairperson, have each contributed a great deal of time and effort to the Pension Section Council and they will be missed.

We also welcome our new members, Lindsay Malkiewich, Lee Trad, and Colin England. Congratulations on being elected to the Pension Section Council!

I especially appreciated Jim Kenney's challenge to the Pension Section Council—what can we do to increase the value of the Pension Section to our members? During the coming year we, as your council, will be taking up that challenge and looking for new ways to help pension actuaries.

I am excited about some of the ideas that came out of our brainstorming sessions. Some of these include developing a training "bootcamp" for entry-level actuaries, continued improvement in the content of SOA Spring Meetings, and focus on sponsoring

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LIMRA Study

A Guide to Helping Employees Preserve Their Pension Benefits

Each year millions of employees change jobs, leave the workforce, or retire and become eligible for a lump-sum payment from their employer's retirement plan. These employees have the task of deciding whether or not to take a lump-sum payment and, if they do take it, where to invest it. For many of these employees, this money is the largest financial asset they own and may be their only private source of retirement income— income that must last the rest of their lives. Many will need assistance in understanding their options and selecting the best option for their circumstances. Their ultimate goal should be preservation of their retirement benefits in order to ensure a secure retirement for themselves and their families.

LIMRA conducted a study of employees retiring, changing jobs, or leaving the workforce and eligible for a lump-sum payment from their pension plans. The study's purpose was to assist pension companies with developing products and services that will help employees preserve their pension benefits.

The study included information on 1,763 employees eligible for a lump-sum payment from their employer's retirement plan: 684 employees who had retired in the past three years, and 1,079 employees who had changed jobs or left the workforce in the past three years.

Size and Growth of the Market

Persons eligible for a lump-sump payment from their employer-sponsored retirement plan include those who are:

- Retiring
- Disabled
- Changing jobs or leaving the workforce
- Losing their jobs due to layoffs or corporate downsizing
- Participating in a pension plan that is being terminated

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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.

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Chairperson's Corner

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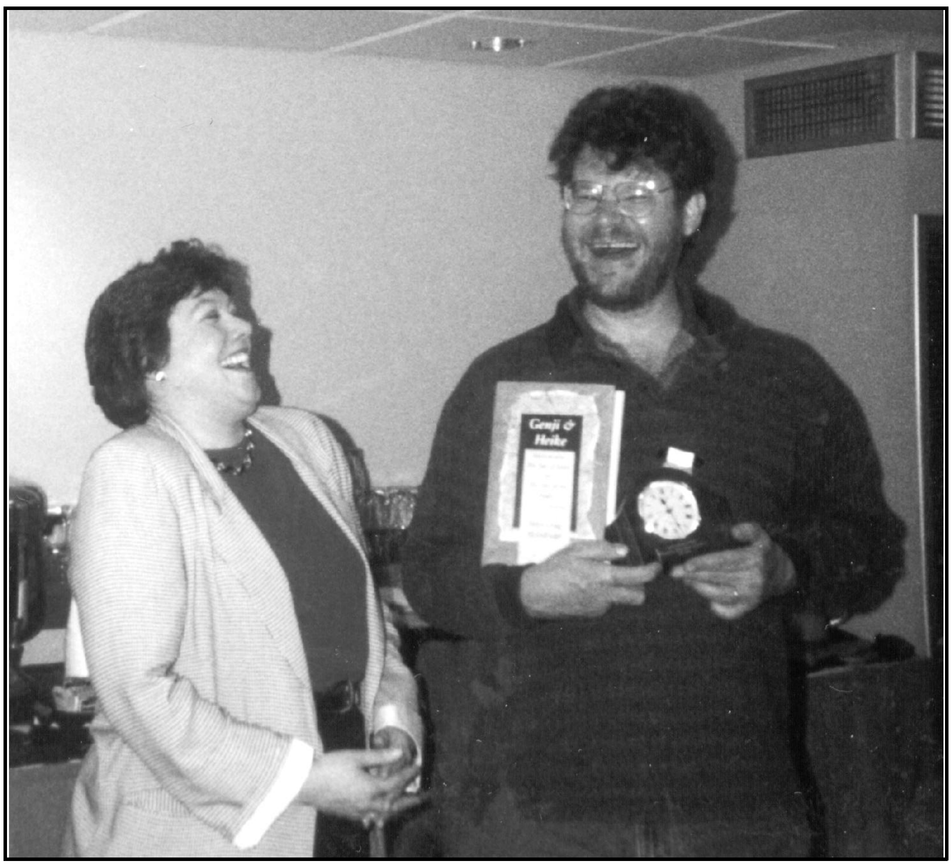
research projects of direct interest and practical use to our members.

Although some of these ideas obviously take more time to develop than others, we are already off to a good start. The program for the Spring Meeting in June 1998 promises to be one of the best ever. If the location of the meeting (Maui!) is not enough of an attraction, the pension program will include a complete seminar on mergers and acquisitions. This seminar-within-a-meeting is designed so that you can either attend the entire seminar from start to finish or mix and match sessions from the seminar with other sessions.

Over the next year, I look forward to the challenge of improving the value of the Pension Section Council to you, our members. What services would you like to see, and what do you think we can do to improve the profession? Are there any research projects that you think would be valuable to you? We encourage you to write to *Pension Section News* and share your ideas or, if you prefer, you can contact me directly at carolyn.zimmerman@ey.com.

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



My rewards! James Kenney, retiring Pension Section chairperson, receives gifts from the Section from incoming chairperson Carolyn Zimmerman.

Summary of 1998 IRC, PBGC, Federal Income Tax, Social Security, and Medicare Amounts

by Heidi R. Dexter

IRC Qualified Retirement Plan Limits

IRS annually adjusts qualified plan limits for increases in the cost of living. The 1998 limits reflect third quarter CPI increases from 1997 to 1998, and they are rounded down to multiples of $50, $500, $5,000, or $10,000. Table 1 shows a five-year summary of IRC qualified plan limits. In addition to 1998 cost-of-living increases, the table reflects changes made by the Taxpayer Relief Act of 1997:

- Section 415(b)(2)(G) was amended to provide that the maximum annuity payable to qualified police and firefighters is not reduced for commencement before Social Security normal retirement age for plan years beginning after December 31, 1996; and
- Section 4980A tax on excess distributions was repealed for distributions made after December 31, 1996 (the Small Business Job Protection Act of 1996 had previously suspended the section 4980A excess distribution tax for distributions between January 1, 1997 and December 31, 1999).

PBGC Guaranteed Benefits The maximum PBGC guaranteed monthly benefit for a single-employer defined-benefit plan terminating in 1998 will be $2,880.68 per month—a 4.3% increase over the 1997 limit of $2,761,36. This amount is adjusted if benefit payments start before age 65 or benefits are paid in a form other than a single-life annuity.

Federal Income Tax Factors

Federal income tax factors are adjusted annually based on year-to-year changes in the average cost of living (CPI-U) for the 12 months from September through the following August. The IRS announcement of inflation-adjusted tax factors for 1998, expected in December 1997, was not available at the deadline for this article. Table 2 on page 4 present estimated 1998 values calculated using the procedure described in IRS Revenue Procedures announcing prior years' inflation-adjusted amounts. According to our calculations, federal income tax factors will increase 2.2% from 1997 to 1998, before rounding.

Personal exemptions are phased out for taxpayers whose adjusted gross incomes exceed specified amounts (which vary by tax filing status). The estimated 1998 "threshold amounts" at which phaseout begins and ends are shown in Table 3.

Total itemized deductions for 1998 are reduced by 3% of a taxpayers adjusted gross income in excess of $124,500 ($62,250 for married, filing separately), an increase from $121,200 in 1997 ($60,600 for married, filing separately).

Certain taxpayers are entitled to an earned income tax credit (EIC) equal to the maximum credit amount reduced by the phaseout amount. The phaseout amount equals the produce of the phaseout percentage (based on the number of qualifying children) multiplied by the excess, if any, of the taxpayer's modified adjusted gross income or earned income, whichever is greater, over the threshold phaseout amount (Table 4).

Social Security and Supplemental Security Income Amounts

Social Security benefits payable December 31, 1997 will increase 2.1—the increase in CPI-W from the third quarter of 1996 to the third quarter of 1997.

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TABLE 1

IRC Limit	1998	1997	1996	1995	1994
401(k) plan elective deferral limit	$10,000	$9,500	$9,500	$9,240	$9,240
403(b) plan elective deferral limit	10,000	9,500	9,500	9,500	9,500
Eligible 457 plan deferral limit	8,000	7,500	7,500	7,500	7,500
SIMPLE plan elective deferral limit	6,000	6,000	N/A	N/A	N/A
415 defined benefit maximum annuity	130,000	125,000	120,000	120,000	118,800
415 special limit for police & firefighters	130,000	125,000	66,000	66,000	66,000
415 defined contribution maximum annual addition	30,000	30,000	30,000	30,000	30,000
401(a)(17) and 408(k)(3)(C) compensation limit	160,000	160,000	150,000	150,000	150,000
414(q)(1)(B) highly compensated employee	80,000	80,000	100,000	100,000	99,000
414(q)(1)(C) top paid group	80,000	80,000	66,000	66,000	66,000
408(k)(2)(C) SEP minimum compensation	400	400	400	400	396
4980A(c)(1) excess distribution threshold	N/A	N/A	155,000	150,000	150,000
409(o)(1)(c) tax-credit ESOP distribution period:					
5-year max. balance	725,000	710,000	690,000	670,000	660,000
1-year extension	145,000	140,000	135,000	132,000	132,000

Summary of 1998 IRC …

continued from page 3

The 1997 taxable wage base, determined from the change in deemed average annual wages from 1995 to 1996, will increase 4.6% (Table 5).

The average monthly Social Security benefits before and after the December 1997 COLA are shown in Table 6.

Covered Compensation

Covered compensation determines permitted and imputed disparity limits for qualified retirement plans. In lieu of using the actual covered compensation amount, qualified plans may determine permitted or imputed disparity using a rounded covered compensation table published annually by IRS. The 1998 table, published in Revenue Ruling 97–45, is rounded to the nearest $3,000, but not more than the 1998 OASDI taxable wage base of $68,400 (Table 7).

Covered compensation does not change after Social Security normal retirement age. Table 8 shows historical covered compensation amounts for years of birth 1906 through 1932; Social Security normal retirement age is 65 for these years of birth.

Medicare Premiums and Deductibles

Medicare premiums, coinsurance, and deductible amounts have changed little since 1997 (Table 9).

Heidi R. Dexter, FSA, is a managing consultant at A. Foster Higgins & Co., Inc. in Seattle, Washington.

TABLE 2

Item and Filing Status	Estimated 1998	1997
Personal Exemption	$2,700	$2,650
Standard Deduction		
Single	4,250	4,250
Head of Household	6,250	6,050
Married, Filing Jointly	7,100	6,900
Married, Filing Separately	3,550	3,450
Additional Standard Deduction (for elderly or blind)		
Unmarried	1,050	1,000
Married	850	800
"Kiddie" Deduction	700	650
Breakpoint between 15% and 28% Rates		
Single	25,350	24,650
Head of Household	33,950	33,050
Married, Filing Jointly	42,350	41,200
Married, Filing Separately	21,175	20,600
Breakpoint between 28% and 31% Rates		
Single	61,400	59,750
Head of Household	87,700	85,350
Married, Filing Jointly	102,300	99,600
Married, Filing Separately	51,150	49,800
Breakpoint between 31% and 36% Rates		
Single	128,100	124,650
Head of Household	142,000	138,200
Married, Filing Jointly	155,950	151,750
Married, Filing Separately	77,975	75,875
Breakpoint between 36% and 39.6% Rates		
Single	278,450	271,050
Head of Household	278,450	271,050
Married, Filing Jointly	278,450	271,050
Married, Filing Separately	139,225	135,525

TABLE 3

Filing Status	Phaseout Begins at	Phaseout Completed after
Unmarried	$124,500	$247,000
Head of Household	155,650	278,150
Married, Filing Jointly	186,800	309,300
Married, Filing Separately	93,400	154,650

TABLE 4

	Estimated 1998	1997
EIC Maximum Credit Amount		
No qualifying children	$ 341	$ 332
One qualifying child	2,271	2,210
Two or more qualifying children	3,756	3,656
EIC Threshold Phaseout Amount (and percentage)		
No qualifying children (7.65%)	5,570	5,430
One qualifying child (15.98%)	12,260	11,930
Two or more qualifying children (21.06%)	12,260	11,930

TABLE 5

	1998	1997
Cost-of-living increase	2.1%	2.9%
Average annual wage (2nd preceding year)	$25,913.90	$24,705.66
Contribution and benefit bases (Wage base):		
OASDI	68,400	65,400
HI	No limit	No limit
"Old law" contribution and benefit base	50,700	48,600
Retirement earnings test exempt amount (Annual):		
Under age 65	9,120	8,640
Ages 65 through 69	14,500	13,500
Wages needed for a quarter of coverage	700	670
Maximum monthly social security benefit worker retiring in January at age 65	1,342	1,326
Bend-points: PIA formula applied to average indexed monthly earnings (AIME)		
90% of AIME up to	477	455
32% of AIME over first bend-point up to	2,875	2,741
15% of AIME over second bend-point		
Bend-points: Maximum family benefit formula applied to worker's PIA		
150% of PIA up to	609	581
272% of PIA over first bend-point up to	880	839
134% of PIA over second bend-point up to	1,147	1,094
175% of PIA over third bend-point		
SSI federal payment standard (monthly)		
Individual	494	484
Couple	741	726
SSI resources limit		
Individual	2,000	2,000
Couple	3,000	3,000
FICA tax rates		
OASDI employer and employee	6.20%	6.20%
HI employer and employee	1.45%	1.45%
OASDI self-employed	12.40%	12.40%
HI self-employed	2.90%	2.90%
Maximum employee payroll tax		
OASDI	$4,240.80	$4,054.80
HI	No limit	No limit
Total	No limit	No limit

TABLE 6

	After 12/97 2.1% COLA	Before 12/97 2.1% COLA
Average Monthly Social Security Benefit		
All retired workers	$ 765	$ 749
Aged couple, both receiving benefits	1,288	1,261
Widowed mother and two children	1,522	1,491
Aged widow(er)	731	716
Disabled worker, spouse, and children	1,198	1,173
All disabled workers	722	707

TABLE 7

Calendar Year of Birth	Social Security Retirement Age	Calendar Year of SS Retirement Age	Covered Compensation		Rounded Covered Compensation	
			1998	1997	1998	1997
1933	65	1998	$31,128	$31,032	$30,000	$30,000
1934	65	1999	32,940	32,772	33,000	33,000
1935	65	2000	34,752	34,500	36,000	36,000
1936	65	2001	36,528	36,180	36,000	36,000
1937	65	2002	38,292	37,860	39,000	39,000
1938	66	2004	41,748	41,148	42,000	42,000
1939	66	2005	43,488	42,792	42,000	42,000
1940	66	2006	45,216	44,448	45,000	45,000
1941	66	2007	46,908	46,056	48,000	45,000
1942	66	2008	48,552	47,616	48,000	48,000
1943	66	2009	50,136	49,104	51,000	48,000
1944	66	2010	51,684	50,568	51,000	51,000
1945	66	2011	53,208	52,008	54,000	51,000
1946	66	2012	54,684	53,400	54,000	54,000
1947	66	2013	56,136	54,768	57,000	54,000
1948	66	2014	57,432	55,980	57,000	57,000
1949	66	2015	58,644	57,108	60,000	57,000
1950	66	2016	59,760	58,128	60,000	57,000
1951	66	2017	60,780	59,064	60,000	60,000
1952	66	2018	61,716	59,916	63,000	60,000
1953	66	2019	62,592	60,708	63,000	60,000
1954	66	2020	63,420	61,440	63,000	60,000
1955	67	2022	64,872	62,724	66,000	63,000
1956	67	2023	65,544	63,312	66,000	63,000
1957	67	2024	66,120	63,804	66,000	63,000
1958	67	2025	66,612	64,212	66,000	65,400
1959	67	2026	67,044	64,560	66,000	65,400
1960	67	2027	67,404	64,836	68,400	65,400
1961	67	2028	67,716	65,064	68,400	65,400
1962	67	2029	67,944	65,196	68,400	65,400
1963	67	2030	68,148	65,316	68,400	65,400
1964	67	2031	68,304	65,400	68,400	65,400
1965 or later	67	2032	68,400	65,400	68,400	65,400

TABLE 8

Calendar Year of Birth	Covered Compensation	Calendar Year of Birth	Covered Compensation
1906	$4,320	1920	$12,276
1907	4,488	1921	13,368
1908	4,704	1922	14,520
1909	5,004	1923	15,708
1910	5,316	1924	16,968
1911	5,664	1925	18,312
1912	6,060	1926	19,728
1913	6,480	1927	21,192
1914	7,044	1928	22,716
1915	7,692	1929	24,312
1916	8,460	1930	25,920
1917	9,300	1931	27,576
1918	10,236	1932	29,304
1919	11,232		

TABLE 9

	1998	1997
Part A—Hospital Insurance		
Inpatient hospital deductible	$764.00	$760.00
Coinsurance:		
• Daily coinsurance payment for 61–90 days of inpatient hospital care	191.00	190.00
• Coinsurance for up to 60 lifetime reserve days	382.00	380.00
• Daily coinsurnace payment for 21–100 days in a skilled nursing facility following a hospital stay of at least three days	95.50	95.00
Part B—Medical Insurance		
Annual deductible	100.00	100.00
Monthly premium	43.80	43.80

1998 Enrolled Actuaries Meeting

March 22–25, 1998
Washington, D.C.

The American Academy of Actuaries and the Conference of Consulting Actuaries will host the 23rd annual Enrolled Actuaries Meeting, March 22–25, 1998 at the Sheraton Washington Hotel in Washington, D.C.

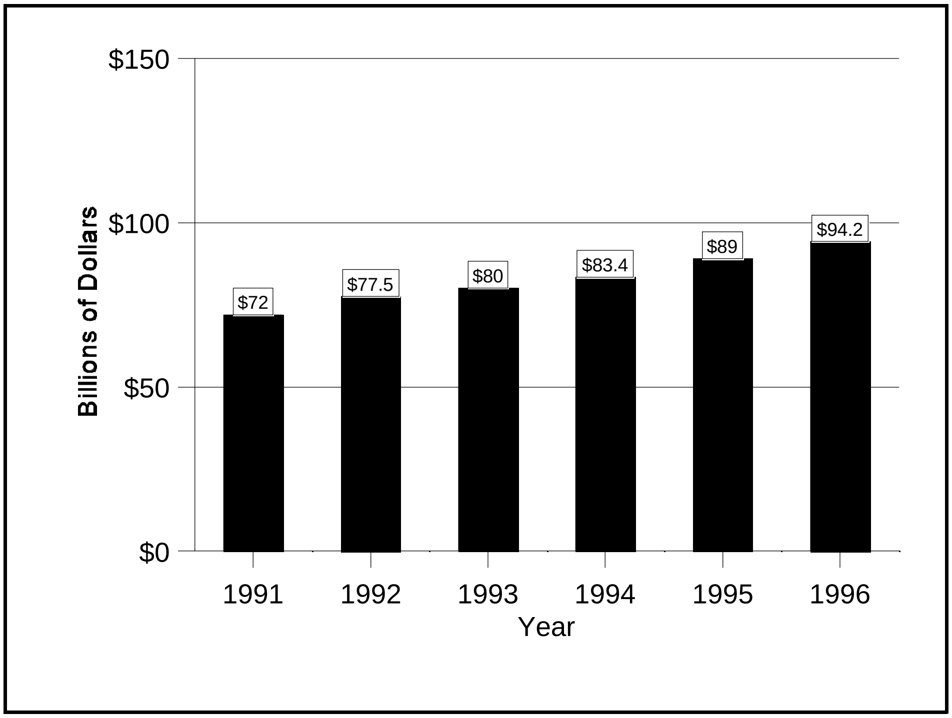
The EA Meeting continues to be a popular choice for Enrolled Actuaries and other pension professionals looking to satisfy their continuing professional education (CPE) requirements. This meeting intends to remain a premier meeting for EAs by continually reviewing and updating the sessions and offering topical and timely information. This year the meeting will feature 78 sessions, including new sessions on topics such as the Taxpayer Relief Act of 1997 and the future of Social Security.

The EA Meeting Committee is confident the sessions offered will keep you up-to-date as a pension professional.

This is the third year of the educational cycle for Enrolled Actuaries. Attending the EA Meeting enables EAs to satisfy a good portion of the CPE requirements. Registration brochures were sent in late November to all attendees of any of the last three years' EA Meetings. If you did not receive these registration materials, contact the Conference of Consulting Actuaries, 1110 West Lake Cook Rd., Suite 235, Buffalo Grove, Illinois, 60089 or fax them at (847) 419–9091.

Please start planning to attend now! Also, be sure to note in the brochure the extra incentives for early registration.

FIGURE 1
Estimated Lump-Sum Payments from Qualified Pension Plan Assets



LIMRA Study
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- Beneficiaries of a deceased participant in a pension plan.

No accurate measures of the number of these persons exist. Only estimates are available and they vary considerably. In 1996 employer-sponsored pension plans made benefit payments of $336 billion—an increase of 6% from 1995 and 31% from 1991 (Figure 1). Of that amount, an estimated 28% [1] or $94 billion was in lump-sum payments. This amount does not include more than $20 billion that plan participants choose to leave in their plans [2]. A major study conducted by the U.S. Department of Labor found that from January 1993 to September 1994, 940,430 workers aged 40 and older received a lump-sum payment [3]. Subsequent analysis indicates that this study underestimates the number of people receiving a payment and that it does not include those who were offered a payment but who left the money in the plan. It does show that a large number of workers representing billions of dollars have the task of deciding what to do with this money.

The number of employees faced with this decision as well as the amount of money involved not only is large but also is increasing rapidly. Three factors contributing to this rapid increase are:

- The growth of defined-contribution plans, particularly 401(k) plans
- The growth of participant account balances in defined-contribution plans
- The increasing number of persons reaching retirement age early in the next century.

Need for Assistance

Selecting the right option for their circumstances will be one of the most important financial decisions these employees must make. Persons eligible for a lump-sum payment may have a choice of as many as six options. Their choices will include at least one or more of the following options:

- Take the money in one lump-sum cash payment
- Leave the money in the previous employer's plan
- Transfer the money to the new employer's plan
- Transfer the money directly to an IRA
- Take a cash payment and transfer it to an IRA within 60 days
- Take the money in installments or purchase an immediate annuity.

Each option has advantages and disadvantages (see Exhibit 1 on page 11). The options have differing effects on household income, tax liabilities, and preserving pension benefits. Not all options create the same estate value or survivor benefits for beneficiaries. Some options create maximum current income but not estate value. Other options create no current income but preserve estate value and spacial benefits.

Employees are strongly discouraged from taking a cash distribution. If they do, they will have a 20% withholding tax deducted from the payment and may incur a 10% penalty. The employee has 60 days to place this money into an IRA or qualified pension plan to avoid income and penalty taxes. However, the employee will not receive the 20% refund until income taxes are filed for that year, and to avoid the taxes and penalty on the amount withheld, the individual must put, within the same 60 days, the equivalent of the 20% withheld into an IRA or qualified pension plan [4]. The 10% penalty is not imposed if the employee died, became disabled, reached age 59½, or reached age 55 in the year his or her employment was terminated. If the employee has a loan from the plan, it will have to be repaid.

Size of Payment

The average lump-sum payment offered to a job changer is $22,230, with more than half offered $10,000 or more. This payment represents approximately 6% of household assets. For retirees, the average lump-sum payment offered is $119,200 with more than half offered $55,000—this payment represents 23% of their household assets. In addition, nearly 15% of retirees have lump-sum payments valued at $250,000 or more and one in three retirees have values exceeding $100,000.

When eligible for a lump-sum payment, the most popular option selected is to transfer the money to an IRA—two in five employees choose this option. Approximately one in five employees leave the money in the employer's pension plan. Also popular among retirees is taking the money in installments or as a series of annuity payments. A cash payment is popular among job changers. Of those taking a cash payment, 45

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LIMRA Study
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people saved some or all of the money (see Table 1).

Where Do They Invest or Save the Money?

Of those transferring the money to an IRA or taking a cash payment, the majority invested the money in mutual funds. Other savings and investment products include money market funds, savings accounts, annuities, stocks, and bonds (Table 2). The competition for these investment dollars is high. No one company has a dominant market share. The five companies with the largest market share have a combined market share of less than 25% (Table 3).

Those placing the money in an IRA show no clear preference for the type of company chosen to service the account. Banks and credit unions are the most popular among retirees, with 27% opening their IRA with this type of institution. Mutual fund companies are more popular with job changers—one in three job changers placed their IRA with a mutual fund company (Table 4).

Leaving the money in the employer-provided pension plan is the easiest option for an employee to choose and one of the reasons that they do so. Other reasons include:

- The plan offers good service
- They want to avoid taxes and penalties
- The plan has good investment performance
- They liked the investment choices
- They would have a larger amount of money.

Sources of Assistance

The employer plays a critical role of providing information to employees on their options. More than 90% of employees thought they received adequate information from their employer. In addition, among the most useful sources for information, three of the four mentioned by employees involved the employer. This information includes employer-written materials, employer seminars, and face-to-face meetings with the employer's staff. The other most useful source of information mentioned frequently is commercially available written material from bookstores.

TABLE 1
What Employees Did with the Offer of Lump-Sum Payment
(Percentage of Respondents)

Options Selected	Retiree	Job Changer
Transfer money to an IRA	41%	39%
Leave the money in the pension plan	21	24
Take a cash payment	16	28
Take the money in installments	21	1
Transfer money to new employer's pension plan	1	8
Total	100%	100%

TABLE 2
Where Did They Invest Most of Their Money?
(Percentage of Respondents)

Investment/Savings Product	Retiree	Job Changer
Mutual fund	46%	52%
Savings of money market	7	16
Certificate of deposit	14	8
Stocks and bonds	15	8
Annuity	10	8
Other	8	8
Total	100%	100%

TABLE 3
Companies with the Largest Market Share

Company	Market Share
Retirees	
Merrill Lynch	5%
Dean Witter	5
American Express/IDS	4
Fidelty	4
Smith Barney	3
Total	21%
Job Changers	
Fidelity	6%
Schwab	4
Dean Witter	3
Merrill Lynch	3
Prudential	3
Total	20%

Most do not seek the advice of a professional. They rely on either their own analysis or the help of family and friends. When they turn to a professional, they choose a financial planner, independent investment advisor, or full-service stockbroker (Table 5).

Conclusion

Pension companies and employers are only in the early stages of understanding the needs of employees eligible for a lump-sum payment from their pension plan and designing products and services to help these employees. They can play a vital role in assisting employees in preserving their retirement benefits. Pension companies need to be

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more proactive in providing plan sponsors with necessary tools. One example is a service plan in which the company assumes many of the administrative procedures performed by the employer. This service offers the employer the pension company's expertise in advising employers and cost savings. It offers employees access to a full-time retirement specialist who works daily with employees in similar situations. In addition, the employer can tailor the services to meet the special needs of its employees (see Exhibit 2 on page 12).

TABLE 4
Type of Company Servicing the Rollover IRA
(Percentage of Respondents)

Type of Company	Retiree	Job Changer
Bank or credit union	27%	26%
Mutual fund company	25	33
Full-service stockbroker	24	21
Insurance company	11	13
Discount stockbroker	6	4
Respondent not sure	7	2
Total	100%	100%

TABLE 5
Where Do They Turn for Advice?
(Percentage of Respondents)

Advisor	Retiree	Job Changer
Family or friends	24%	37%
No one	19	22
Financial planner	14	7
Independent investment	8	7
advisor	8	5
Full-service stockbroker	5	2
Accountant	22	20
Other		
Total	100%	100%

END NOTES

1. Woods, John R., "Pension Benefits Among the Aged: Conflicting Measures, Unequal Distributions," *Social Security Bulletin*, Volume 59, No. 3, Fall 1996.
2. LIMRA estimates approximately 23% of persons eligible for a lump-sum distribution leave this money in the employer's plan.
3. *Retirement Benefits of American Workers: New Findings from the September 1994 Current Population Survey*, U.S. Department of Labor Pension and Welfare Benefits Administration Office of Research and Economic Analysis, September 1995.
4. Participants in 457 plans are not allowed to transfer their distribution to an IRA and cash distributions are only allowed after retirement.
5. Stable value investments—a type of investment that is only offered within pension plans. Stable value investments—also commonly referred to a guaranteed interest contracts (GICs)—are a popular investment option for participants in defined-contribution plans. A stable value investment option offers a return of money invested at a predetermined interest rate.

For more information regarding this report, contact Lucian Lombardi, assistant vice president, LIMRA International, at (860) 285–7845.

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 or be a member of the Conference to be considered for the prize. The winning paper will be selected by an employee benefit subcommittee of 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.

LIMRA Study
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EXHIBIT 1
Each Option Has Advantages and Disadvantages

Option	Advantages	Disadvantages
Take the money in one cash payment	• Provides immediate access to some of the money to meet immediate financial needs or unexpected expenses • Provides estate value • Greater flexibility in use of money	• Entire amount subject to 20% tax withholding • Must pay federal, state, and local income taxes • Possible penalty for early withdrawal • Loss of tax-deferred growth • Loans must be repaid immediately • May make inappropriate investments • May not have adequate retirement savings
Leave money in plan	• Simple to implement • No mandatory 20% tax withholding • Avoids 10% early withdrawal penalty • Money grows tax-deferred • Can transfer the money to another plan or rollover IRA at a later date • Can maintain same investment options • Loans can be maintained • Choice of stable value [5] option typically available • Has estate value	• Limited investment options • Less flexibility • May incur record keeping charges • Access to money may be restricted
Transfer the money to a new employer's plan	• No mandatory 20% tax withholding • Avoids 10% early withdrawal penalty • Money grows tax-deferred • Choice of stable value option typically available • Has estate value • Loans may be transferred	• Limited investment options • Less flexibility • Access to money may be restricted • Must select new investment options • May have to repay loans
Transfer money to a rollover IRA	• No mandatory 20% tax withholding • Avoids 10% early withdrawal penalty • Money grows tax-deferred • Can transfer the money to another plan at a later date • Wider selection of investment options • Has estate value	• Loans must be repaid immediately • Must select new investment options • No stable value option available • May make inappropriate investments • May need an account that can handle employer stock
Purchase an immediate annuity	• No mandatory 20% tax withholding • Avoids 10% early withdrawal penalty • Offers guaranteed income for life • Taxes spread over a number of years • Provides immediate access to some of the money to meet immediate financial needs or unexpected expenses	• Loans must be repaid immediately • Payments are subject to income taxes • Limited or no flexibility on investment options • Limited or no estate value • No liquidity
Take the money in installments	• Avoids 10% early withdrawal penalty • Taxes spread over a number of years • Provides immediate access to some of the money to meet immediate financial needs or unexpected expenses • Has estate value	• Must structure correctly to avoid early withdrawal penalty • Income taxes on payments

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EXHIBIT 2
Example of a Servicing Plan that Companies Can Offer to Employers

1. Servicing company provides a toll-free number to the employee—it could be the same number that the employee uses to call for other participant services.
2. Servicing company provides a special toll-free number for employees and beneficiaries.
3. Employer gives employees an instruction sheet directing them to the toll-free number.
4. The toll-free number offers the employee the assistance of a retirement specialist to explain the process, help the employee complete the necessary forms, and answer questions.
5. Servicing company mails necessary forms and supporting communication material.
6. The company may also answer questions about the investment options available to the employees and provide material or assistance on selecting investment options.
7. Employees are notified of the time limits and what will happen if they make no election.
8. The company provides a compliance monitoring system that tracks when the notice of employees' rights, the spousal consent form, and tax-withholding notice are mailed.
9. The company can answer questions on how to handle outstanding loans.
10. For vested amounts less than $5,000, the company can follow the special procedures it develops with the employer.

Study Note Corner

Securing Supplemental Retirement Arrangements (Course P–361C Study Note)

by C. Ian Genno

The incidence of Supplemental Retirement Arrangements (SRAs) in Canada has grown dramatically over the last two decades. This has been spurred by several factors, including:

- Minimal movement, since the 1970s, in the maximum pension limit which the Income Tax Act imposes on benefits paid from Registered Pension Plans (RPPs); in the absence of some form of arrangement to provide supplemental pension benefits, this would result in many executives, senior middle management employees, and highly paid professionals receiving inadequate pension at retirement.
- Increasing mobility in the workforce, resulting (among other things) in a need to provide greater pension benefits to executives hired mid-career than the Income Tax Act limits permit.
- An increase in the frequency of mergers, takeovers, and bankruptcies, resulting in some companies reneging on unfunded supplemental pension promises to certain employees.

In many organizations, SRAs have become a significant long-term element to the total compensation package for executives and other highly paid employees. And the security of the benefits promises by these SRAs has become a more prominent issue.

This study note deals with how security can be provided for members of SRAs in Canada—in other words, what mechanisms can be used to ensure that, under appropriate circumstances, SRA members will receive the supplemental pension benefits which they have been promised.

To order Study Notes, please contact Aleshia Zionce, Study Note Coordinator, at 847–706–3525. The price for Study Note 361–74–97 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.

Measuring the Rate of Retirement in an Interval Beginning with an Eligibility Change Point

by William H. Blake, Jr.

The exposure theory that I studied some 30 years ago was similar to that described in Chapter 6 of Dick London's *Survival Models and Their Estimation*, the SOA's current textbook on the subject—the ratio of the observed number of deaths to the scheduled exposure in an age interval is a estimate of the rate of mortality and the ratio to the exact exposure is an estimate of the central death rate, which then can be converted to an estimate of the mortality rate. In most instances, the estimate of q_x assumes that terminations are distributed over the interval of age. The purpose of this article is to call attention to the heaping of retirements that can occur following a point at which eligibility requirements change and to illustrate that the traditional estimators generally overstate the rate of retirement in the unit interval beginning at such a point.

Heaping at Initial Eligibility

The example I have chosen is taken from the retirement experience of a particular plan for a recent calendar year. The plan provides that an employee must have attained age 55 and completed 10 years of vesting service in order to retire prior to the normal retirement age of 65. Retirements occur on the first day of a calendar month. For the year in question, 80 employees elected to retire at age 55 from among 187 who were eligible at some time during the year. Table 1 on page 14 shows the distribution of retirements by month of eligibility. Note that 32% occurred in the first month and 52% occurred by the third month of eligibility.

Because retirements occur at 12 discrete points during the year, it is easy to calculate the rate based on the number exiting each month relative to the number then eligible. In our example, 115 participants reached their first month of eligibility during the year and of these 26 retired, so the first eligibility month retirement rate for the observation year is 0.226. The complement of the retirement rate is the survival rate and the product of these for the 12 months is the complement of the retirement rate at age 55 for those eligible during the year, 0.637 in this case. London calls this the product limit estimator and describes its properties in Section 7.6 of his book. In particular, the estimator is unbiased and does not depend on the distribution of retirements over the interval.

For the scheduled exposure method, we increase the number entering each month of age by the number that would have entered except for the fact that they retired in an earlier month. The number entering the first month remains unchanged. For the second month, 25 of the 26 retirements that occurred in the first month remain under age 56 and so are added to the 100 employees active in the second month of eligibility sometime during the observation year. Continuing thus, we find a total of 1,323 employee-months of scheduled exposure at age 55 during the observation year. This yields an estimated rate of retirement of 0.726, noticeably higher than the 0.637 that is our unbiased estimate.

For the exact exposure method, we use the number entering each month of age without adjustment. Relating the 80 retirements to the 890 employee-months of exposure at age 55 yields 1.079 as an estimate of the central retirement rate. The estimated rate of retirement is 0.701 if the central rate is converted assuming a linear distribution for l_x over the age interval and 0.660 if the central rate is converted assuming an exponential distribution. Both of these are higher than 0.637, but the exponential estimate is closer. Starting with the linear estimate but making an ad hoc adjustment for the average month of retirement yields an estimate of 0.619.

Anniversary to Anniversary Measures

Using the calendar year as the observation period means that the experience at an age, 55 in our example, consists of the latter part of a year of age for one cohort and the first part of a year of age for a second cohort. The scheduled exposure estimate, at least, should be better if we measure experience with respect to a single cohort between the 55th birthday and the 56th birthday for the respective members, because the exposure calculated on this basis is less sensitive to the distribution of retirements over the age interval.

Table 2 on page 15 shows the retirement experience for the 120 employees covered by the plan under discussion who turned age 55 in the calendar year of observation until they reached age 56 in the following year. Forty-seven retired, including 25 in the first month of eligibility. The product limit estimate for the retirement rate is 0.394. The scheduled exposure estimate is 0.400. All of the lives that enter the year of age are exposed for a full year except for one death in the fourth month and four employees who had less than 10 years of service at age 55. The exact exposure estimate of m_x yields several different estimates of q_x, depending on what is assumed for the distribution of l_x over the age interval.

Heaping at Other Points

The plan under discussion provides a flat dollar benefit for each year of service up to a maximum of 30 years. Benefits commencing prior to age 62 are reduced for early retirement. Therefore, we might expect to find a concentration of retirements immediately following either age 62 or 30 years of service.

To test for heaping, I tabulated the number of retirements from active employment over a four-year period by completed years and months of age and by completed years and months of credited service as of the benefit commencement date. The service distribution had no noticeable heaping of retirements by month at 30 years or any other point.

continued on page 16, column 1

TABLE 1
Estimated Probability of Retiring at Age 55
Based on Experience for One Plan during One Calendar Year

	Month of Eligibility Measured from the Later of Age 55 and 10 Years of Service												
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**Total**
Distribution of Retirements													
No. of Retirements	26	7	9	10	6	5	5	2	3	2	1	4	80
Cumulative Percentage	0.325	0.413	0.525	0.650	0.725	0.788	0.850	0.875	0.913	0.938	0.950	1.000	
Avg. Month of Retirement													4.050
Product Limit Estimate													
No. Entering Month	115	100	96	83	80	70	68	62	58	57	54	47	890
No. Retiring in Month	26	7	9	10	6	5	5	2	3	2	1	4	80
Proportion Retiring in Month	0.226	0.070	0.094	0.120	0.075	0.071	0.074	0.032	0.052	0.035	0.019	0.085	
Cumulative Survival Probabillity	0.774	0.720	0.652	0.574	0.531	0.493	0.457	0.442	0.419	0.404	0.397	0.363	
Probability of Retirement													1 – 0.363 = 0.637
Schedule Exposure Estimate													
No. Scheduled to Enter Month	115	125	127	120	123	117	115	109	102	98	90	82	1,323
No. Retiring in Month	26	7	9	10	6	5	5	2	3	2	1	4	80
Probability of Retirement													12 × 80/1,323 = 0.726
Exact Exposure Estimates													
No. Entering Month	115	100	96	83	80	70	68	62	58	57	54	47	890
No. Retiring in Month	26	7	9	10	6	5	5	2	3	2	1	4	80
Central Rate of Retirement													12 × 80/890 = 1.079
Probability of Retirement Assuming:													
Linear Distribution for l_x													1.079/(1 + 1.079/2) = 0.701
Exponential Distribution for l_x													1 – exp (–1.079) = 0.660
Adjusting for Avg. Month of Retirement													1.079/(1 + 1.079 × (1 – 4.050/13)) = 0.619

TABLE 2
Estimated Probability of Retiring at Age 55
Based on Experience for One Plan Between Birthdays in Succeeding Calendar Years

	Month of Eligibility Measured from the Later of Age 55 and 10 Years of Service												
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**Total**
Distribution of Retirements													
No. of Retirements	25	7	7	3	0	1	0	0	2	2	0	0	47
Cumulative Percentage	0.532	0.681	0.830	0.894	0.894	0.915	0.915	0.915	0.957	1.000	1.000	1.000	
Avg. Month of Retirement													2.468
Product Limit Estimate													
No. Entering Month	120	95	88	79	76	76	74	74	73	71	68	68	962
No. Retiring in Month	25	7	7	3	0	1	0	0	2	2	0	0	47
Proportion Retiring in Month	0.208	0.074	0.080	0.038	0.000	0.013	0.000	0.000	0.027	0.028	0.000	0.000	
Cumulative Survival Probabillity	0.792	0.73	0.675	0.649	0.649	0.641	0.641	0.641	0.623	0.606	0.606	0.606	
Probability of Retirement													1 – .606 = 0.394
Schedule Exposure Estimate													
No. Scheduled to Enter Month	120	120	120	118	118	118	117	117	116	116	115	115	1,410
No. Retiring in Month	25	7	7	3	0	1	0	0	2	2	0	0	47
Probability of Retirement													12 × 47/1,410 = 0.400
Exact Exposure Estimates													
No. Entering Month	120	95	88	79	76	76	74	74	73	71	68	68	962
No. Retiring in Month	25	7	7	3	0	1	0	0	2	2	0	0	47
Central Rate of Retirement													12 × 47/962 = 0.586
Probability of Retirement Assuming:													
Linear Distribution for l_x													0.586/(1 + 0.586/2) = 0.453
Exponential Distribution for l_x													1 – exp (0.586) = 0.444
Adjusting for Avg. Month of Retirement													0.586/(1 + 0.586 × (1 – 2.468/13)) = 0.397

Measuring the Rate of Retirement
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The distribution at age 55 was similar to what we have already seen in Table 1. Above age 55, there was some concentration of retirements in the early months of age. At age 60 and above, the observations were too scattered to show any pattern. Combining all ages over 55, 12% of retirements occurred in the first month of age, 34% occurred in the first three months of age, and 62% occurred in the first six months of age. Of course, the number of retirements in the earlier months of age would be greater than the number in the later months if the force of retirement is constant over the interval.

I also tabulated retirements for a plan that allows early retirement after 30 years of credited service regardless of age. During the same four-year period, 48% of the retirements at 30 years occurred in the first month of eligibility, 66% in the first three months and 78% in the first six months.

Summary

An employee must satisfy certain requirements set forth in the plan in order to retire or to qualify for enhanced benefits. This can lead to a concentration of retirements at or immediately after age and/or service combinations at which eligibility requirements change. The heaping within the interval of age or service may invalidate the assumptions underlying some of the commonly used exposure formulas. Constructing rates based on months measured from each eligibility change point provides an unbiased estimate of the retirement rate. Using scheduled exposure appears to work better if the observation period extends from anniversary to anniversary than if it is defined in terms of calendar years. Using exact exposure requires an assumption for the distribution of retirements over the interval that is reasonably related to the experience.

William H. Blake Jr., FSA, is an actuary at Watson Wyatt & Company in Washington, D.C.

Randolph's Bonanza Bigger than Expected

by M.D. Drysdale

Editor's Note: *The following article originally appeared in* The Herald of Randolph *(Vermont) on August 21, 1997 and is reprinted here with permission.*

The Vermont State Retirement Board, meeting today, is expected to vote to reimburse the town of Randolph $431,145 for years of overpayments into the state retirement system.

The repayment is even more than Randolph officials hoped in May, when the Retirement Board agreed in principle that Randolph was owed the money.

At that time, estimates were that Randolph would receive $232,000 to $400,000. The passage of another fiscal year and some other findings brought the amount owed even higher, according to Town Manager Gwen Hallsmith.

"They topped our highest estimate," she declared. It was Hallsmith who discovered the systematic overpayments. Hiring an actuary on behalf of the town, she was able to convince skeptical state officials that Randolph was owed substantial payment.

The payments will come in the form of credits of $44,000 a year for 20 years. That totals $880,000, a figure which includes interest for the subsequent years.

In addition, Randolph will see a huge difference in the rate it pays in the future for being part of the state retirement plan. Last year, Hallsmith said, Randolph had to pay a whopping 14.5% of payroll into the retirement plan. Next year the town will pay only 8.2%.

With the first of the $44,000 credits, retirement payments will be only about $10,000 to $15,000, compared to the $111,728 that was paid last year, she estimated.

Bethel, Too

In Bethel, Town Manager Del Cloud said an actuary has just completed a study of that town's retirement payments over the years.

Bethel has been charged even a higher rate—15.34%—than Randolph, and the state has acknowledged that it too should get some money back.

Bethel's total retirement payments were about $30,000 last year. That annual rate should be cut almost in half if Bethel is allowed to use the state's rate of 8.2%.

Now that he's got the numbers, he is ready to "broach the subject" with the Retirement Board, Cloud said. "It shouldn't take too long. Randolph has established the methodology."

30-Year History

The state has been requiring Randolph and Bethel to pay a separate rate for retirement benefits ever since the two towns joined the retirement system in 1968. Only three towns are part of the state system.

Research by Hallsmith, however, indicated that since 1975 the state had performed no separate actuarial studies that would justify the towns paying a higher rate.

The state was at first reluctant to admit a mistake had been made, but after Randolph hired both an attorney and an actuary, the treasurer's office began to see the light.

Employee to Benefit

In a related matter Tuesday night, selectmen voted health benefits to the former town employee whose plight brought the entire retirement snafu to light.

Larry Haraden took early retirement last year from the town crew because of a health problem, relying on assurances from the state retirement policy that he would receive health insurance that would take care of some serious health problems, Hallsmith explained.

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Randolph's Bonanza
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After Haraden retired, however, the retirement system informed Hallsmith that municipal employees did not have— and never had—retirement health insurance under the plan.

This was a benefit available only to the state workers. However, the brochures distributed to municipal employees had not made clear that they had fewer benefits.

In investigating this problem, Town Manager Hallsmith found that Randolph's payments were higher than the state's and that there was no way to justify the higher payments.

On her recommendation, selectmen agreed to pay Haraden health insurance that will supplement his Medicare coverage. Through the "Freedom Plan" of Blue Cross/Blue Shield, the coverage will be $133 a month. Selectmen also agreed to reimburse Haraden for the months that he has paid the insurance on his own.

They declined, however, to pay the health insurance for Haraden's wife.

Editorial Comment

Stubborn, Smart

This follow-up editorial comment appeared in the August 28, 1997 issue of The Herald of Randolph *(Vermont) and is reprinted here with permission.*

It is hard to explain just how remarkable it is that the State Retirement Board has agreed to return $431,000 to the town of Randolph.

The agreement forged last week with the Board will actually result in savings of close to $100,000 a year over the next 20 years. That's $2 million saved in local tax money. That's not chicken feed.

It took the alert eye and formidable determination of Town Manager Gwen Hallsmith, plus good support from the Select Board, to pry the money loose. Not that the Retirement Board and State Treasurer Jim Douglas were reluctant to do the right thing—when the right thing was pointed out to them. It's just that the thicket of legal, actuarial, and accounting issues was so tangled that it took terrific detective work to point out the right path and discover who was right and who was wrong.

The lead detective in the case was Hallsmith, and she pursued it with an unyielding vigor which first annoyed others in the process, an annoyance which resolved into reluctant admiration when it became clear that she was right.

The first telltale clue in the case came when the manager discovered that health benefits, though they are promised in the state's retirement plan, were not available to the municipalities which were also enrolled. Then Hallsmith noticed other ways in which the towns were being treated differently. Randolph and Bethel, for instance, were paying a much higher rate into the retirement fund—14% and 15% of payroll—than was the state itself.

She asked why.

The Retirement Board had reasons enough. A bureaucracy always has reasons. The reasons were entangled in 30 years of financial history, actuarial tables, and old agreements. The reasons sounded plausible, but the manager went behind the explanations, found the old documents, found the old payment records. She kept calling the Retirement Board, exploring their position and presenting officials with the results of her investigation.

Eventually, she came to a conclusion: the state's reasons were bogus. Randolph had been getting charged extra for no supportable reason at all.

The Retirement Board, naturally enough, didn't agree. Officials were nervous enough, however, to suggest that if Randolph dropped the case, it could get a lower rate on retirement from here on out. Hallsmith was not interested in dropping the case.

The Select Board agreed, and it hired an attorney, and then an actuary. Between them, they delved farther into the complicated historical records. Eventually, they proved beyond a doubt that a great deal more money had been collected from Randolph during the last 20 years than should have been. Presented with this clear information, the Retirement Board and Treasurer Douglas were gracious. They agreed to refund the $431,000 (with interest) in $44,000 payments over 20 years. They also agreed to reduce Randolph's retirement payments from 14.5% of payroll to 8.2% of payroll.

Signing the agreement last week was simple and amicable. But nothing was simple about this situation at the outset. Presented with the complexity of the retirement issues, very few people would have been stubborn enough and smart enough to persevere until it was cleared up. Randolph is lucky that one of those few people was its town manager.

The "Actuary's" Response

by Tracy Braun

The "actuary" referred to in "Randolph's Bonanza Bigger than Expected" is Tracy Braun of National Pension Service, Inc., in Burlington, Vermont. Below are her comments on the article.

When the town manager of a small Vermont town first contacted me regarding their participation in the State Retirement System, I assumed that my role would be to review the actuarial funding method and explain, in layman's terms, how the cost was allocated to the town. What emerged was a very interesting journey into thirty years of history and a remarkable resolution for this local community.

The situation first came to light when the town manager discovered that municipal employees, unlike covered state employees, were not entitled to health insurance coverage after retirement. Investigating this issue, the town manager realized that the town was also treated differently with respect to the contribution rate it paid toward the Retirement System. Its contribution rate was substantially higher than the contribution rate paid for other state employees, even though the retirement benefits offered under the Plan were the same.

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Randolph's Bonanza
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In fact there were different contribution rates for other municipalities that were members of the system, some paying more than the State's rate and some paying less.

The town in question had elected to become a member of the State Retirement in 1968, and historically the town's contribution rate had always been higher than the state's rate. The town manager felt that the tiny town should not have been charged a higher rate, and our firm was hired to review the plan and ascertain if the contribution rates were indeed justifiable. In order to do this, we needed to start our investigation back in 1968 when the town originally joined the system, a formidable task in resurrecting records over 30 years. Due to the incredible persistence of the town manager, old records, old agreements, old payroll figures for the years in question were unearthed from the dusty cellar of the town office building, and the following story emerged.

At the time that the municipality joined the System in 1968, a separate valuation was performed for the town's employees. The Retirement System's actuarial funding method provided for a normal cost contribution rate and an accrued liability contribution rate. The normal contribution rate was defined as the contribution attributable to fund the benefits for new employees and the future benefits of current employees. Based on correspondence from the State's actuary, the town would pay the same normal contribution rate as the State; however a separate accrued liability contribution rate would apply based on the accrued liability of the town's eligible employees, when they joined the system. The total accrued liability at that time was $35,339, which translated to an accrued liability contribution rate of 2.32% of payroll. Based on the town's actual accrued liability payments, it appeared that this original liability amount had been paid in full by 1980; however the town continued to be assessed an accrued liability payment for all ensuing years at a rate higher than the state's accrued liability payment rate. Based on the limited information we had, it seemed that the town had overpaid the System by an amount in excess of $900,000, assuming all benefit improvements had been reflected in the normal contribution rate.

In reviewing the treatment of other municipalities in the System, we found inconsistent allocation of contribution rates. For example, one town who paid its total accrued liability amount upon joining the System was never assessed an accrued liability rate in any of the ensuing years, and only paid the State's normal contribution rate. Another town paid an even higher rate than our client.

The next step was meetings with the State Retirement Board to present our findings and to seek additional information from the State's current actuary. The current actuary had just been retained by the state to value the System. Fortunately this actuarial firm was also the same firm that valued the State System from the time the town entered the system until 1975. Much research was done by the State and its actuary to ascertain why the rates were set as they were and what actually transpired after the town joined the systems. What emerged was the fact that separate actuarial valuations for the town were performed from the time the town entered the system until 1975, and the accrued liability and the corresponding accrued liability rates were specific to the town's experience. In 1975, the state retained a different actuarial firm. There was no information to indicate that separate accrued liability rates were calculated past this point. The liability rate for the town appeared to have been adjusted in ensuing years in the same ratio as the State's accrued liability fluctuated.

In view of this and the resulting impact on the town's contributions, several alternatives were considered to more appropriately reflect the town's liability under the System. Since the town's accrued liability was not separately calculated after 1975, the most reasonable approach seemed to be to assume that the town should have then paid the same accrued contribution liability rate as the State, from that point forward, plus the amount of the "excess liability" it owed as of 1975. With the information available, it was possible to ascertain a reasonable estimate of the town's "excess liability" ($18,173) in 1975. With considerable research by the town and the State, the historic salaries and accrued liability rate were provided and the historic "what if" calculation was done. The result was that the amount calculated as a credit to the town was $431,738. It was agreed that this amount would be credited to the town as an annual credit of $44,738 against contributions payable by the town for 1998 through the year 2018. In addition, the town would be paying the same normal contribution and accrued liability rate as the State. With the annual credit and the reduction in the contribution rate, the town's annual contribution in the coming fiscal year reduced by 75%. Needless to say, the astute and persistent town manager was the hero of the day!

From this actuary's perspective this was a very interesting case—we took on the role of a detective—trying to piece together a rather intriguing puzzle. While the town manager and her attorney certainly felt that there was something askew in the contribution rate, the role of the actuary, on both sides, was critical in analyzing the historic information, unraveling the mystery and providing alternatives to solve the problem. The most important aspect of this process was explaining the problem and the solution to both the town selectmen and to the Retirement Board in ways that were understandable to the nonactuary. In my opinion, that is one of our most important roles, and one that is critical in expanding the areas in which our profession can assist the public and private sector.

Tracy Braun is an actuary at the National Pension Service, Inc., in Burlington, Vermont.

Conflict of Interest Notifications Aid Client's Fiduciary Obligations

by Theodore Konshak

The provisions of a defined-benefit pension plan promise the payment of a monthly income to its 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 ERISA, the enrolled actuary is engaged by the administrator of the pension plan on behalf of all plan participants. 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 may also serve as a consultant providing advice to the employer of those plan participants. Isn't this, however, a potential conflict of interest? On one hand, the actuary is engaged on behalf of all plan participants. On the other hand, the actuary is hired to provide consulting advice to the employer of those plan participants.

The traditional response to charges of conflict of interest has been the theory of duality. At certain times, the actuary wears the hat of the enrolled actuary engaged on behalf of all plan participants. At other times, the actuary wears the hat of the consulting actuary providing advice to the employer of those plan participants. According to this theory of duality, a conflict of interest does not exist because the roles of enrolled actuary and consulting actuary are not simultaneous and concurrent roles but separate and distinct.

Under this theory of multiple personalities, the actuary is speaking and listening in one voice. Hypothetically, if the enrolled actuary is currently in possession of the body, the consulting actuary is submerged. A conflict of interest, on the other hand, is a variation on the theme of an angel and devil each speaking in separate ears. You hear the voices of both the enrolled actuary and consulting actuary discussing the merits of various alternatives. An actuary operating under a conflict of interest seeks compromise. An actuary operating under the theory of duality would not compromise legally imposed duties and obligations as an enrolled actuary.

> ***"Because of the separation, large actuarial organizations appear to be operating within the definition of duality. However, if a large actuarial organization subordinates one role to the other, these roles will have not been separated."***

In applying the theory of duality to actuaries, are we talking about an individual or an organization? It would depend on the size of the firm and the pension plans it services. For a small firm servicing pension plans with only a few participants, it may be a single person. In larger firms servicing pension plans of larger size, the tasks of the enrolled actuary and the consultant can be separated within the actuarial organization itself. One or more persons in that organization will be responsible for performing the tasks of the enrolled actuary engaged on behalf of all plan participants. One or more persons in that organization will be primarily responsible for providing consulting advice to the employer of those plan participants. The actuarial valuation results on the Schedule B (Form 5500) could be physically signed and certified by the leader of either group.

Because of the separation, large actuarial organizations appear to be operating within the definition of duality. However, if a large actuarial organization subordinates one role to the other, these roles will have not been separated. These roles will be liked by the hierarchy of the actuarial organization. The consultant can be the boss. The enrolled actuary can be the subordinate. The enrolled actuary held responsible for managing a conflict of interest in such a situation must do so within the confines of hierarchial subordination.

Precept 8 of the SOA's Code of Professional Conduct requires disclosure of both actual and *potential* conflict of interest, providing actuarial services only if the actuary's ability to act fairly is unimpaired, and performing those services only after obtaining the expressed agreement of all direct users of those services. The theory of duality acknowledges the potential for conflict of interest. You are describing your response to that potential conflict of interest. The notification requirements of Precept 8 would therefore apply. They do not first apply when that potential conflict of interest becomes a reality; they first apply when the potential for a conflict of interest exists. You must obtain that expressed agreement at the time actuarial services were marketed (that is, before performing those actuarial services). Your ability to impartially determine the minimum pension plan deposit must also never be impaired.

The enrolled actuary is engaged on behalf of all plan participants by the administrator of the pension plan. The administrator is a fiduciary and must discharge his or her duties solely in the interest of the plan participants. As the fiduciary responsible for engaging the enrolled actuary, the administrator should determine if the duties and obligations of the enrolled actuary are being

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Confict of Interest
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impaired by conflict of interest. Administrators would need more than a verbal theory to satisfy these fiduciary obligations.

There is a potential conflict of interest. The expressed agreement of the administrator must be obtained under the requirements of Precept 8 before the actuarial services under ERISA can be performed. If actuaries satisfy the requirements of Precept 8, administrators would more fully understand the need to get something better than a verbal theory and would have the means of obtaining it, withholding their expressed agreement.

Conflict of interest notifications provided at the time actuarial services are marketed would assist the diligent administrator in discharging his or her fiduciary duties. Would such a notification be beneficial or detrimental for the actuarial organization soliciting that assignment? That is the question asked in deciding whether to comply with Precept 8 or not.

An actuary operating under a conflict of interest seeks compromise. An actuary operating under the Code of Professional Conduct would not compromise the professional duties and obligations of his or her position.

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

Turnover and Retirement Rates Study Available

Advance copies of a recently completed Turnover and Retirement Rates Study are now available from the SOA's book department for $20. To order, call 847–706–3526.

Minutes of the Retirement Plans Experience Committee Meetings

July 24, September 24, and November 12, 1997

Dear Readers: Avid readers of the minutes of the Retirement Plans Experience Committee (REPC) will note a discontinuity between those of the July 24 and September 24 meetings. A word of explanation may be in order.

At the July 24 meeting, it became clear that one member of the committee had views that diverged substantially from those of the majority of the committee. The member felt so strongly about his views that he contacted the leadership of the American Academy of Actuaries and the Conference of Consulting Actuaries, as well as the Society of Actuaries, to express his concerns about the direction of the committee. In light of that activity, I canceled the scheduled August meeting so that the issue could be resolved before the committee met again.

The concerns of the member were discussed with him at length during a conference call in August chaired by Pat Scahill. Pat discussed these issues and the results of the conference call at the September 24 meeting and the minutes summarize that discussion. Pat confirmed that the SOA believes that the normal committee and exposure draft process provides ample time for comments by all concerned, so there is no need for official review of the material by any organization outside the SOA.

We have lost several months resolving this issue but are now back on track. We have decided not to issue an interim report so we can focus on the final product. We have also adopted a less ambitious schedule than in July but are confident that the final product will be available well before the Secretary of the Treasury has to make a decision on a new mortality table.

As always, anyone should feel free to contact me at my *Directory* address with any comments or questions.

Edwin C. Hustead, FSA
Chairperson

July 24, 1997

In Attendance: The following members attended in person or via telecon-ference: Edwin C. Hustead, Chair; Michael R. Virga, Vice-Chair; Vincent Amoroso, Kevin S. Binder, John F. Kalnberg, Lindsay J. Malkiewich, Barthus J. Prien, Diane M. Storm, William S. Wright, and Thomas P. Edwalds (SOA staff). Observers were Larry Pinzur and Dave Gustafson.

Absent: Greg S. Schlappich.

Mortality Tables and/or Factors for Final Report

The subcommittee (Ed, John, and Mike) presented their recommended approach to mortality tables and factors. A decision on the recommendation was tabled to the next meeting. Mike will develop additional information on use of the RM factors.

Draft of Initial Report

The committee reviewed the draft report prepared by Vince and his subcommittee. A number of clarification and organization changes were discussed and modifications proposed for the next draft.

There was extensive discussion about whether the initial report should include any implicit or explicit reference to differences between the current study data and prior mortality studies and reports such as the UP-94 table. The committee agreed that the initial report should not contain any such reference. Vince vigorously dissented from this agreement. The committee agreed that comparisons might be appropriate for the final report.

As background, Ed and Lindsay summarized the basis for the UP-94 table. A complete description of the UP-94 table and comparison to the GAM-94 tables is contained in *TSA XLVII* (1995). It was noted that the

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Minutes of the RPEC Meetings
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SOA stipulated that the UP-94 should be the same as the GAM-94 Basic table if the UP-94 committee found that the two sets of experience were similar enough to use the same table. The GAM-94 table is based primarily on group annuity experience after age 66. The UP-94 committee compared the uninsured and insured experience and agreed that the GAM-94 table was appropriate for the uninsured experience.

Another substantive change was in the table 2 series. It was agreed to replace the actual-to-expected ratios with relative mortality of each subgroup to the total. A table 2.c. will be added showing experience by amount category.

The following committee members agreed to revise the sections: Chapter 1, Kevin; Chapter 2 through Table 1.d., Diane; the balance of Chapter 2, John; Chapter 3, Kevin.

The drafters will send copies to Tom by August 15. Tom was to collate the changes and send the revised draft to all committee members by August 20.

Production of Table

A committee headed by Kevin was to prepare proposed steps to produce the six basic mortality tables.

The committee agreed to accelerate the production of the tables and final report to provide a draft final report to the Committee on Retirement Systems Research by March 1, 1998. This will permit the SOA to consider the final report with a view to submitting an exposure draft to the membership in late 1998. The committee will meet monthly in an effort to meet the March deadline.

The following items were to be considered at the next meeting of the RPEC to be held in Chicago on August 27:

- The subcommittee recommendations on mortality tables and/or factors
- The second draft of the initial report
- The procedures for production of the six basic tables.

The September meeting will be held in Washington, D.C. at 10:00 on September 24.

Respectfully Submitted,
Edwin G. Hustead
Chair, Retirement Plans Experience Committee

September 24, 1997

In Attendance: Vince Amoroso, Tom Edwalds (SOA staff), Ed Hustead, John Kalnberg, and Mike Virga. Lindsay Malkiewich and Bart Prien participated via telephone. Observers were Judy Anderson (SOA staff); Dave Gustafson, Jim Holland, Ethan Kra, Larry Pinzur, and Pat Scahill.

Absent: Greg Schlappich, Diane Storm, and Kevin Binder.

The minutes of the July 24 meeting were accepted as read.

History of 94-GAR and UP-94 Tables

Lindsay and Mike gave a summary of the process of preparing the 94-GAR and UP-94 tables. Lindsay discussed the need for a new reserving table, the characteristics of a table that will be used as a reserve standard, the data used, the derivation of the margins applied to the tables, and the thought behind the required use of a projection scale. Mike talked about the special requirements of the UP-94 table, the decision to base it on the same data being used for the 94-GAR table, and the reasoning behind the optional use of a projection scale.

Much of the discussion focused on two points. What caused the 94-GAR table to be produced? How was it presented? It was produced because of a perceived need. There was no specific request from the NAIC. The table was presented as "recommended as suitable for a new Group Annuity Reserve Valuation Standard." The SOA, as a research organization, could not make a stronger statement. When it was completed, the Academy took it and worked with the NAIC to get it adopted as a standard.

Mike pointed out that there is no flexibility in the use of the 94-GAR table whereas the UP-94 leaves the decision of how to use the projection scale up to the individual actuary.

SOA Goals for Study

Pat Scahill, the outgoing chairperson of the SOA Committee on Retirement Systems Practice Advancement, spoke on what the SOA's goals were for the product of the committee. She said the committee has three priorities for this project:

- To prepare the best research product possible
- To provide a service to members— in this case pension members
- To fulfill our commitment to the data contributors.

Because of the volume of data that we have received, we are in a position to produce the best mortality table ever. The hope is that if these things are done, it will then be difficult for regulators to ignore.

The procedure is for the RPEC to prepare the research and exposure draft. This will then be reviewed by the Committee on Retirement Systems Research. After it has been approved, it is then forwarded to the Practice Advancement Committee for its approval. The Practice Committee then submits it to the Board of Governors for its approval. After the comments are received, the RPEC reacts to them and the final statement proceeds through the same approval process.

There is no official review of this material by any organization outside the SOA until the exposure draft is published.

Charter of the Committee

Ed brought up the need to review the charter of the committee. Is the committee producing a traditional experience study or a table to be used for regulatory purposes? If it is to be a table for regulatory purposes, the committee will need to consider the inclusion of margins, the use of a generational table, and a comparison to other tables. We will also need to carefully define how to apply the different proposed adjustment

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factors to the table. After some discussion, it was agreed that the committee would prepare a mortality table that could be used for regulatory purposes.

Interim Report

It was agreed that work on the interim report would be stopped. The committee will concentrate on preparing a final report to be used as the exposure draft. Whatever has been done on the interim report would be used for the final report.

Subcommittee on Table Structure Report

Mike reviewed the work of this subcommittee that was presented at the July meeting. The committee then voted to accept the subcommittee's recommendations. Specifically, that adjustment factors should be used to calculate the difference in mortality from the basic tables. These factors, also called RM factors, will be calculated for Collar, six SIC codes, and annuity size.

Production of Tables

Mike briefly reviewed the work that has been done so far in this area. Nothing specific has been decided. There will be recommendations made at the next meeting.

Subcommittee Assignments

Ed discussed the need to have two standing subcommittees. One will deal with the technical issues, the other will work on drafting the report. Kevin's subcommittee will become the technical issue group. Ed will work on the report subcommittee and recruit other members.

Proposed Schedule

The committee agreed to meet every other month for the next year. With this schedule the committee should be able to release an exposure draft in early 1999.

Respectfully Submitted,
John Kalnberg

November 12, 1997
Washington, D.C.

In Attendance: Vince Amoroso; Ed Hustead, Chair; Mike Virga, Diane Storm, Kevin Binder; Tom Edwalds, SOA staff. Lindsay Malkiewich, Julie Pope, Bart Prien, and Greg Schlappich joined by phone at 1:00. Observers were Judy Anderson and Ethan Kra.

Absent: John Kalnberg.

Technical Subcommittee

Kevin Binder presented the report of the technical subcommittee. Other members are Mike Virga, Tom Edwalds, John Kalnberg, and Diane Storm.

The liability adjustment method presented in the subcommittee minutes of October 9, 1997 was accepted pending further discussion with actuaries knowledgeable in the area of statistical methods for estimating survival functions. Bruce Jones, Marge Rosenberg, and Stu Klugman were mentioned as possible resources. The subcommittee and Vince Amoroso will have a conference call with these actuaries. If there is general agreement on the method, then the subcommittee will proceed with development of the basic tables for presentation at the next meeting.

The retirees and beneficiaries will be combined into a healthy annuitant table. There will be separate tables for active and disabled annuitants. The tables will be ungraduated and not projected. Graduation and projection are the next steps after committee approval of the basic tables.

The subcommittee has requested data necessary to propose a blending method to combine the active and healthy annuitants into a combined table. The proposed blending method and proposed projection factors will be presented at the next meeting.

The subcommittee will work with Judy Anderson to determine if and how methods from the Klein and Moschberger text on survival analysis can be adapted to the development of the mortality tables.

Drafting Subcommittee

Ed Hustead presented the proposed outline of the report. Other members of the subcommittee are Lindsay Malkiewich, Diane Storm, and Greg Schlappich. Sections 1 through 5 were reviewed and will be revised. Sections 6 and later will be discussed at the next meeting.

The subcommittee will proceed to a draft of the first two sections.

Outreach

The committee continues to make every effort to keep all interested parties fully advised of the proceedings. Minutes are published in the *Pension Section News*, and Ed Hustead and Mike Virga report on progress at each meeting of the Retirement Systems Research Committee. Ed Hustead and Tom Edwalds participated in a presentation at the SOA Annual Meeting in October. Ed Hustead will report on the proceedings at the December 3 meeting of the Pension Practice Council.

Next Meeting

The next meeting will be from 12:00 noon to 5:00 p.m. at Deerfield Beach, Florida on January 8, 1998. A conference call will be held from 4:00 to 5:00 p.m. The tentative agenda is:

- A technical subcommittee report
- A review of legislative history of RPA by Vince Amoroso
- The application of disability tables to current liability
- The projection scales and margins including the question of a generational table
- The drafting subcommittee report.

The following meeting is tentatively set for March 25 at noon in Washington, D.C. This is the last day of the Enrolled Actuaries meeting.

Respectfully Submitted,
Edwin C. Hustead, FSA
Chairperson

The Critic's Corner

by Joel I. Rich

Welcome to a new column reviewing tapes from various and sundry actuarial meetings. Seeing that I'm a bit schizophrenic, I have no problem being a one-man Siskel and Ebert, rating the tapes and summarizing interesting (at least to me) insights. Neither the author nor the publication takes any responsibility for any of the views expressed in this column. The column, in fact, will only be written when the author is channeling long-dead actuaries.

Our first installment is a review of several sessions from the 1997 Enrolled Actuaries Meeting.

Session 6–3: Postretirement Welfare Benefits

An interesting introductory session.

The IRS "informally" frowns on use of the aggregate cost method for 401(h) funding.

Don't forget about excluding highly compensated employees from 501(c)(9) for funding purposes.

Some organizations have been putting 401(k) matches into a money purchase plan in order to use these amounts as a basis for a 401(h) [25%] deduction. This is okay, but remember that you can't have in-service withdrawals from this money purchase plan and that the match is subject to qualified J&S rules.

The 401(h) limit is a cumulative one based on how long the 401(h) has been in existence. Some believe you need to deposit at least $1 to get the clock started, but this is not necessarily a universal option.

Trust-owned life insurance—remember it accelerates the deduction, but it's a discounted deduction, so whether it makes sense or not will depend on the investment return inside versus outside the plan and the tax rate now and in the future.

The IRS has apparently approved the plan in which the 401(h) maximum limit is based on the normal cost piece of the pension cost versus the normal cost piece of the retiree medical. The speaker was not sure that the IRS really looked at this carefully.

Section 3–6: 403(b) Plans—Compliance Issues

Some good discussions on current issues.

Under the Small Business Jobs Protection Act, you are now allowed more than one election per year of salary deduction for tax-sheltered annuities. They also point out that the definition of compensation for the maximum exclusion allowance was changed.

Under the TVC program, there have been 75 applications for corrections and 11 were closed. They dealt with multiple elections, MEA calculations, or 415 limit violations and have had penalties in the 10% range compared to the 40% allowed. In all cases, the fixes have been prospective; in other words, they didn't require disgorgement of assets in these case. However, in 402(g) cases where the elective deferrals have been in excess of those allowed, they have followed the VCR program rule of distributing the excesses and interest on them, but usually no additional sanctions.

Speakers also mentioned that if you have a 403(b) plan with a match going into a cash balance plan, the TSA may, in fact, be considered an ERISA plan, even though it only has employee money going in.

General Session: Questions for the IRS and the Treasury

Run-of-the-mill gray book, etc., issues. Two items of interest were (1) the IRS will not approve a 414(k) plan, and (2) if there are excess assets transferred to a 414(k) account, it will impose excise taxes and may even disqualify it.

On a window plan, the IRS position is that if the window benefit is greater than the normal retirement benefit, the window benefit becomes the accrued benefit even after the window closes.

Session 1–5: Paying Expenses from ERISA Trusts

A good discussion of the Department of Labor's position with regard to settlor versus fiduciary expenses.

The various DOL pronouncements were reviewed. In general, the DOL tends to be conservative. You need to check the plan language to see if you can even pay expenses from the trust. They also felt that plan amendments or trust documents should not be paid for from the trust unless they are required by the trust for legal reasons (for example, law change requires a plan amendment).

One other interesting comment was about charging individual participants for services. Their general position was that you cannot charge individual participants for services, but these costs should be allocated amongst all participants. This was clearly true where participants were exercising an ERISA right (for example, QDROs), but not as clear for other options which were not right (for example, could you charge an employee who wants to take out a plan loan).

Joel I. Rich, FSA, is Senior Vice President at The Segal Company in New York, New York.

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

October 29, 1997
Washington, D.C.

In Attendance: Joe Applebaum (Chair), Chris Bone, Rob Brown, Bernard Dussault, Robert Katz, Krzystof Ostaszewski, Bruce Schobel, Marc Twinney, and Judy Anderson (SOA staff).

1. The need for new Committee members was emphasized. They do not necessarily need to be experts. Other expert and nonexpert representation from Canada, government, and the private sector would be welcomed.

2. **Impact of Mortality Improvement on Social Security in North America**
   a. Phase one of this project is completed (gathering and analyzing historical data and mortality trends experienced by the three North American social security systems: Canada, Mexico and the U.S.).
   b. Phase two (a seminar) is being held on October 30, 1997. We hope to get some consensus on anticipated improvement with some measure of the impact completed by February for the AAAS. It is unlikely that this initial assessment will be done stochastically; however, there should be some identification of reasonable ranges.

3. **Update on Projects**
   a. ***Update on Social Security Advisory Council.*** The report is not being pursued because much of the analysis is already being done.
   b. ***Modeling Methods***. A call for papers may be initiated.
   c. ***Cohort Rates of Return.*** Not yet completed. Krzystof may get graduate students to work on it with him.
   d. ***Retirement Age***. The theme is the effect of an increase in "normal" retirement age for Social Security and private plans. Marc Twinney and Chris Bone will work on this project.
      This project would need longitudinal data. The Social Security Administration has samples each year of new retirement earnings up to W.B. CPP's microsimulation model should, in a year or two, have private plan and tax modules. The Health and Retirement Study data, from the University of Michigan, may also be a useful resource.

4. **Hawaii Meeting Sessions.** There will be a session in Hawaii on defining equity for social insurance plans. The Committee is supporting the session and will provide at least one speaker. It will also assist with programs in Maui on mortality improvement in Social Security in North America.

5. **IFAA.** The International Foundation of Actuarial Associations is forming a Social Security subcommittee. The committee will suggest names for a North American delegate.

6. **Paper on the Essence of Social Security Programs**. The Committee will be drafting a paper that illustrates and emphasizes the differences between Social Security and a privately sponsored pension plan. In particular, the paper will point out the differences in requirements and effects for a national (closed), compulsory plan versus voluntary plans that comprise only a small piece of an economy. The paper will be designed primarily as an educational piece for actuaries. Rob Brown and Joe Applebaum will work on the initial draft, which will be discussed at the next meeting.

7. **Research Suggestion.** The Committee received a suggestion to conduct a research project on the impact of the privatization on Social Security and the economy. It believed the project was beyond the resources and capabilities of the Committee. It is more in line with economists' work. Joe will direct the member making the suggestion to a relevant paper by Martin Holmer, an economist.

8. **Committee Structure and Activities.** The Committee has not been too successful at completing smaller team projects. There is also difficulty in funding large projects. The Committee would like to shift somewhat more towards an education perspective. Judy Anderson will distribute information on submitting papers to the *North American Actuarial Journal*.

9. **Next Meeting**. The next committee meeting will be held near the end of February.

Respectfully submitted,
Judy F. Anderson, FSA
Education Actuary

Minutes of the Pension Section Council Meeting

June 29, 1997
Denver, Colorado

In Attendance: James Kenney (Chairperson), Joan Boughton, Dick Joss, Martha Moeller, Amy Timmons, Joan Weiss, Carol Zimmerman, and Judy Anderson and Lois Chinnock (SOA staff).

1. **MINUTES.** Minutes from the March 16 meeting were approved with one minor correction.

2. **TREASURER'S REPORT**. Martha Moeller expects a net decrease in the Section's balance during fiscal 1997, with an expected ending balance of $105,000.

   Approximately 30 people attended the Total Retirement Planning seminar, resulting in an overall net cost to the Section of between $3,000 and $4,000 for the seminar. The Section approved the payment of expenses incurred by a guest speaker at the Palm Springs meeting.

   Dues will remain at $15 for the next fiscal year despite the increased administrative charges from the Society of Actuaries (see below); we will reexamine this next year relative to the cost of new projects.

3. **RESEARCH.** The criteria for approval of research projects were discussed, with a general agreement that the main criterion would be the ability of the Section's membership to use the results of a given project.

   Judy Anderson and Lois Chinnock reported on the status of various research projects currently under way. These included:

   a. ***Macrodemographic Study*.** No progress since last report. A meeting is scheduled to discuss timing with researcher.
   b. ***Turnover Study***. A draft of the final report was submitted and is in final review. Judy is pleased with the results and suggested that periodic future updates may be warranted.
   c. ***GATT Mortality Study***. May be issued in preliminary form in 1997 with final report in 1998.
   d. ***Canadian Mortality Study***. On hold, may not be completed. No Pension Section funds have been invested in this project to date, but Section support has been promised if the project is completed.
   e. ***Asset Valuation Study***. Questionnaires have been distributed to the membership.

   The council reviewed funding requests for the following:

   a. For a study of the international impact of mortality on retirement systems, a proposed budget of $75,000 was denied.
   b. A request for a grant for Ph.D. study was denied.

   In other matters, a desire was expressed for a study that would examine retirement adequacy and the effect of divorce/changes in family structure and working patterns on replacement ratios. Lois reported that the Pension Research Council expressed once again their appreciation for the Pension Section's support of their recent symposium with Olivia Mitchell as the featured speaker.

4. **SECTION CHAIRPERSONS MEETING**. Carol Zimmerman reported on the meeting held in Montreal, June 18. Section responses were as follows:

   a. The Society of Actuaries is increasing the annual administrative charge for each Section from $2 to $3 per Section member. The Council expressed concern about the continuing increase in these charges and requested that the Society provide information on the use of these funds.
   b. The Council is concerned about the lack of coordination among the various committees involved in the retirement area; we agreed that the Council will send a representative (generally the Chairperson) to the meetings of the Retirement Advancement Committee, which has oversight responsibilities. The Council requested an overview of the retirement systems committee structure at the next meeting.
   c. Also, a staff person (currently Judy Anderson) has been charged with coordinating the various retirement committees.
   d. Jim Kenney is willing to coordinate with the Continuing Education Coordinating Committee via telephone.

5. **EXPANSION OF PENSION SECTION COUNCIL SERVICES**. Ideas were discussed for additional ways to increase value of the Pension Section to its members. Preliminary ideas included:

   a. Adding a feature article to the newsletter on current developments in the pension area and/or an "Ask the Actuary" column that would respond to questions submitted by readers, perhaps paying for an actuary's time to research and write this and/or approaching large firms for permission to distribute published material
   b. Asking large firms whether they would be willing to release published material for inclusion in the newsletter
   c. Training for entry-level actuaries—semiannual "boot camp"
   d. More involvement in any future changes to the exam structure.

   Regarding this last item, Judy Anderson requested input from practitioners on the content and structure of the new Course 8, Professional Development.

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6. **SOCIETY OF ACTUARIES MEETINGS.** The Retirement Practice Advancement Committee has agreed to take responsibility for designing sessions and recruiting speakers for the Annual Meeting, beginning with the 1998 meeting. They have also requested slots for two sessions at the 1998 Spring Meeting to present (1) stochastic pension valuations and (2) an international perspective on retirement income protection. The Council continues to work toward the goal of coordinating the Annual Meeting with meetings offered by ASPA and the CCA.

7. **PUBLICATIONS**. The Council decided to make *Pension Section News* and *The Pension Forum* available on the Society of Actuaries' web page as soon as they are ready for mailing to our membership.

The next meeting was to be held in Chicago on Monday, September 29.

Respectfully submitted,
Judy F. Anderson, FSA
Education Actuary

Minutes of the Pension Section Council Meeting

September 29, 1997
Chicago, Illinois

The Pension Section Council met in Chicago on September 29, 1997. In addition to the Section Council, several SOA staff members attended, as well as Anna Rappaport, SOA President-Elect and Ethan Kra, SOA Board member. Following is a summary of what was discussed.

WELCOME NEW MEMBERS. The newly elected members, Colin England, Lee Trad, and Lindsay Malkiewich, were congratulated and welcomed.

APPROVAL OF JUNE 29, 1997 MINUTES. The minutes were approved as drafted.

OUTGOING CHAIRPERSON'S REMARKS. As outgoing chairperson, James Kenney expressed his views on how he feels the Pension Section could better serve its members. For example, rather than funding several research projects that most of the members will never use, he suggested choosing one big project and focusing our resources on that. As an example, he suggested a CD-ROM that would teach new ASAs various topics.

He expressed his thanks to the other Pension Section members for their help and friendship. Carol Zimmerman, as new Pension Section Chairperson, presented James with a token of appreciation and thanked James for all he has done. Carol also expressed gratitude to Dick Joss and Joan Weiss, the other outgoing members.

ELECTION OF OFFICERS. Carol Zimmerman will serve as chairperson. Amy Timmons will serve as vice-chair. Martha Moeller and Amy Viener will continue in their roles as treasurer and secretary, respectively.

SOA PRESENTATION. Anna Rappaport, Judy Anderson and Bill Kepraios gave an informative presentation on how the SOA is structured, a summary of its revenue and expenses, and the roles/responsibilities of the various committees and councils.

1997 ANNUAL MEETING. Dick Joss reported that the Pension Section portion of the meeting was fully recruited and looked to be an interesting meeting. Attendees would be able to tour the PBGC, hear how pension laws are made (from ERIC and APPWP representatives) and attend many other sessions. The meeting will be held in Washington, D.C. October 26–29.

1998 SPRING MEETING. Aloha! The SOA is going to Hawaii next June (June 22–24).

In an effort to make this meeting "different" from past meetings, the council decided to have three tracks instead of a bunch of unrelated topics. A summary follows:

- *Consulting track*. Will include sessions on understanding/managing clients, trends in design/outsourcing, workforce structuring, communications/presentation skills and listening skills, how to leverage yourself/mentoring, etc.
- *Technical track*. Will include sessions on gain/loss analysis, turnover study, experience studies, funding methods, estimation techniques, PBGC premium audits, late breaking developments, etc.
- *Mergers/acquisition track*. Over the course of three days, attendees will follow a hypothetical organization that's going through a merger. Sessions will cover everything from due diligence review to redesigning benefits programs and IRS requirements.

SEMINARS. The Total Retirement Planning Seminar held in Atlanta last June was not as successful as we hoped. Attendance was very low, and the net result was a loss of about $6,000.

RESEARCH STUDIES

- Dick Joss reported that the turnover study is almost ready to be published.
- James Kenney reported that the macrodemographic study is still in progress and moving very slowly.
- Judy Anderson reported that the Society is the initial planning stages of the retirement needs frameworks project and is looking for feedback.

PUBLICATIONS. Judy also reported that the Society is doing a survey on assumptions. Letters have been sent to

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several large firms. Dick Joss will be assisting Judy in this endeavor.

Treasurer's Report. Martha Moeller presented the latest financial information and reported that as of the end of July, the Pension Section had $96,286 in available funds.

Membership. Lois Chinnock reported that there are about 2,000 Society members who list themselves as pension actuaries, but are not members of the Pension Section. Many live overseas, and the Council speculated those people would be unlikely to join in the future. However, the Council agreed that the U.S. and Canadian SOA members should be encouraged to join the Pension Section. Postcards will be sent to these people around the time next year's dues invoice is sent.

Next Meeting. The next meeting will be held January 9 in Atlanta, Georgia.

A Call for Papers

Actuaries are invited to submit papers for possible publication in the *Journal of Actuarial Practice*, an international refereed journal. Papers may be on *any* subject related to actuarial science or insurance; they do not have to contain original ideas. Preference will be given to those papers intended to educate actuaries on the methodologies, techniques, or ideas used (or can be used) in current actuarial practice. The journal also accepts technical papers, commentaries, and book reviews. However, all articles must have some relevance to actuarial practice.

Please send an abstract of the paper by Friday, May 1, 1998 and five (5) copies of the completed paper by Friday, June 19, 1998 to:

Colin M. Ramsay, Editor
Journal of Actuarial Practice
P.O. Box 22098
Lincoln, NE 68542–2098 USA
Phone and Fax: (402) 421–8149
e-mail: ABSALOM1@IX.NET COM.COM

Letters to the Editor

"Conflict of Interest and the Theory of Duality"

Dear Dan:

In the article in your September 1997 issue, "Conflict of Interest and the Theory of Duality," the author states: "Actuaries who cheat insurers (government or otherwise) are lower than dirt." I am very distressed to see such a statement by a member of our profession.

We take great pride in our profession in maintaining a strong program of professionalism as evidenced by "Guides to Professional Conduct, Qualification Standards, Standards of practice and Disciplinary Procedures."

Unfortunately, the requirements under which actuaries operate are not always clear, and, at times, regulations can be delayed or ambiguous, leaving judgment choices for professionals. The Actuarial Board of Counseling and Discipline (ABCD) article cited such an example. Lest anyone think that things are always clear, we have only to remember the environment after the Tax Reform Act of 1986. People who complied with Section 89 of the Internal Revenue Code on a timely basis were the losers. Congress, after the effective date, figured out this was ill-considered legislation and repealed it. Pension regulations were late; there were several cases where there were temporary delays and a number of cases where the final regulations reflected backtracking on regulations that many had asserted were unreasonable. The winners were those who were aggressive in compliance. The choices along the way were difficult. Given the regulatory climate, I am reluctant to be judgmental in an environment that is often confusing and difficult.

I am proud that the profession has a strong professionalism program, including the ABCD and the Actuarial Standards Board, as well as the guidance which has been issued. I encourage actuaries to contribute to the program and to be sure that they understand the guidance offered.

Anna M. Rappaport, FSA
President of the Society of Actuaries
c/o William M. Mercer Inc.
Chicago, Illinois

"Letters to the Editor"

Dear Dan:

Two letters to the editor in the September 1997 issue of *Pension Section News* pose some interesting questions about my statement on the "Future of Social Security in This Generation and the Next" in the June 1997 issue.

Colin E. Southcote-Want lays down the genial "challenge" that somebody should "address whether or not the government can pay back the $2.9 trillion without raising taxes." By this figure, I presume that he means the so-called "unfunded benefit obligations under the open-group basis." This is the excess of the present value of outgo (benefit payments and administrative expenses) for the next 75 years over the sum of (1) the present value of tax income (payroll taxes and the assigned portion of the income taxes on benefits) for the next 75 years and (2) the funds on hand on the valuation date. Such unfunded benefit obligations were, according to the intermediate-cost estimate, $3.1 trillion as of September 30, 1996 (as against his figure of $2.9 trillion). According to the low-cost estimate, there was no unfunded benefit obligations, while naturally, under the high-cost estimate, the figure was much larger.

The key question is, using the intermediate-cost estimate, how will the $3.1 trillion be paid off? The answer simply is to make appropriate changes in the benefit and/or the financing provisions. The package of changes that I suggested in my article would do so.

Paul Jackson "needles" me in a jocular fashion by accusing my statement of being "too full of mysticism."

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Letters to the Editor
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Certainly, that was not my intention, so I will attempt to explain what I was talking about, taking up each of his points in turn:

- As to whether OASDI really has a long-range financing problem, I believe that this is very likely, but not an absolute certainty. Accordingly, I favor legislative action now, but with the changes generally going into effect about 15 years from now, and then gradually.
- As to how much changes in the CPI overstate real price inflation, I do not pose as an expert. I am certain that this is the case, but how much so I leave to others to determine. I was merely attempting to say that this element has a very significant effect.
- I cannot agree that solving any financial problem of OASDI by a combination of benefit cost reductions and financing increases, as has traditionally been done, is "not facing the facts." Perhaps others would want to face the facts and attempt to solve the problem in other ways, such as eliminating the program or drastically changing its nature.
- As to my suggestion of a compulsory individual savings plan built on top of a reformed OASDI program, I did *not* (as Mr. Jackson states) propose "having the government manage our savings and investments." I clearly said that such a plan should be administered "at each individual's choice" by "a government-regulated private organization (just as mutual funds are regulated by the SEC). Further, I cannot agree that government has not done an outstanding job with OASDI; after all, about 44 million people get monthly checks on time each month and almost always in an accurate amount, at an overall administrative cost for the program of only 0.8% of contribution income.

Robert J. Myers, FSA
Professor Emeritus, Temple University
Silver Spring, Maryland

"Chairperson's Corner"

Dear Dan:

James A. Kenney's statement in the "Chairperson's Corner" in the September 1997 issue, "Now, the Spring Meetings are as good as any other meeting for pension actuaries" is so absurd it's difficult to know whether to laugh or cry. Let's compare recent SOA Spring Meetings with recent EA and ASPA meetings:

- ***Session per time slot***: SOA, usually one; EA and ASPA, six to 12.
- ***Level of difficulty***: SOA, most sessions at beginning level providing little material for experienced actuaries; EA and ASPA, many sessions at all levels of difficulty.
- ***Timeliness***: SOA, session topics picked about nine months before meetings with little allowance for late-breaking developments; EA and ASPA, extensive coverage of late-breaking developments, including entire sessions devoted to laws passed within three months of meetings.
- ***Location:*** SOA, meetings often held at expensive resort locations with little access to regulators; EA and ASPA, meetings held in Washington, with excellent access to regulators.

If the SOA expects to attract significant numbers of actuaries (other than those who can get their companies to spring for a trip to Maui) to their meetings, they have to get serious about providing real educational opportunities. Steps in this direction might include:

- Holding the Spring Meeting in the same location every year, preferably at a Central Time Zone city with easy air access, such as Chicago or St. Louis
- Scheduling at least one session at the beginning, intermediate, and advanced levels of difficulty in each time slot
- Holding the session schedule open until, at most, three months before the meeting.

If the Society can't take steps such as these, it should simply stop pretending to provide continuing education to pension actuaries and leave the field to those with proven competence in this area.

Eric J. Klieber, FSA
Consulting Actuary
Buck Consultants
Cleveland, Ohio

Continuing Education Update

by Barbara S. Choyke

As you suspected, the 1998 Program Committees have been working feverishly to produce an even better lineup of sessions for the 1998 meetings. The **Spring Meetings** are being held back-to-back at the Grand Wailea Resort in Maui. Life insurance topics are scheduled for the week of June 15-17 with Pension and Health scheduled for the week of June 22-24. Sessions start on Monday at 8:00 a.m. and end at 4:30 p.m. with a luau reception planned for 5:30 p.m. Tuesday sessions run from 8:00 a.m. through 11:30 a.m. with the afternoon reserved for networking activities. Sessions resume on Wednesday at 8:00 a.m. and conclude at 3:30 p.m. A detailed brochure of the sessions and networking activities is being mailed early February. The list below is the summary of sessions that are pension related at the Spring meeting:

Monday, June 22, 1998

8:00–9:30 a.m.	General Session			
10:00–11:30 a.m.	Social Security: Is an Equitable Design Possible?		NC	90 min.
	Retirement Plan Consulting Challenges in the Pacific Rim	NC	90 min.	
	Mergers & Acquisitions: Overview		NC	90 min.
	Technical Concerns: Methods to Your Madness …	C	90 min.	
1:00–2:30 p.m.	Technical Concerns: Increasing Longevity in North America	C	90 min.	
	Mergers & Acquisitions: Premerger Activity	NC	90 min.	
	The Effective Consultant: How Are Your Lines of Communication?	NC	90 min.	
3:00–4:30 p.m.	The Effective Consultant: Those (Plan) Designs, They Are a'Changing		C	90 min.
	Technical Concerns: What's Your Experience with Experience?	C	90 min.	
	Pension Needs in the 21st Century—Big Changes Are in Store …	NC	90 min.	

Tuesday, June 23, 1998

8:00–9:30 a.m.	Mergers & Acquisitions: Benefit Redesign, Part 1		NC	90 min.
	Technical Concerns: PBGC Premium Audits		C	90 min.
	Managing Professionalism in a Consulting Firm		NC	90 min.
10:00–11:30 a.m.	Tactical Asset Allocation for Pension Plans		NC	90 min.
	Technical Concerns: Does Your Stomach Turn Over …	C	90 min.	

Wednesday, June 24, 1998

8:00–9:30 a.m.	Mergers & Acquisitions: Implementation and Employee Communication		C	90 min.
	The Effective Consultant: May the Restructuring Force Be with You	NC	90 min.	
	Technical Concerns: Hit Me with Your Best Shot …	C	90 min.	
10:00–11:30 a.m.	Managing the People Who Manage the Money		NC	90 min.
	Technical Concerns: Late-Breaking Pension Developments	C	90 min.	
	Failure to Plan Is Planning to Fail … Strategic Planning Process	NC	90 min.	
	Mergers & Acquisitions: Financial Ramifications	C	90 min.	
1:00–2:30 p.m.	The Effective Consultant: Can You Manage This? …	NC	90 min.	
	Stochastic Pension Valuations—Can We Do Better?		NC	90 min.
	Mergers & Acquisitions: Required Filings & Summary	C	45 min.	
			NC	45 min.

There are three seminars within the meeting specifically designed for the pension actuary. Those topics areas are: Technical Concerns, The Effective Consultant, and Mergers and Acquisitions. You may attend one or all of the sessions that comprise these tracks.

There are still some speaking spots available for the pension sessions at the Spring Meetings. Please call Amy Timmons at 303–714–9940 (e-mail, atimmons@segalco.com) to volunteer.

The 1998 **Annual Meeting** Program Committee has begun the planning process as well. The Annual Meeting will be held October 18-21 at the Marriott Marquis in New York City. If you have topics you would like to see on the program or would like to present at the Annual Meeting, please contact Neil Parmenter at his directory address or contact Sheri Abel at the SOA (sabel@soa.org) phone 847 706-3536.

We are looking for pension **seminar topics** and of course would appreciate any suggestions and recommendations in that regard. You can contact me (bchoyke@soa.org) or fax suggestions for topics and speakers (847–706-3599).

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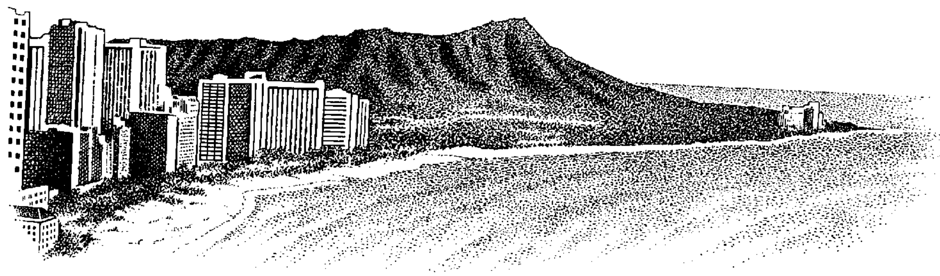
Hope to See You In Hawaii!



The program for the 1998 Spring Meeting promises to be an exciting one. Recognizing the likelihood that more senior-level consultants will be attending this meeting than some of the past SOA meetings, the Pension Section Council has planned a program with more advanced-level topics.

The highlight of the program is a complete seminar on mergers and acquisitions. This seminar will cover these transactions from soup to nuts—starting with an overview of issues to cover with your client and up-front considerations, then moving to more in-depth reviews of:

- Pre-merger activity
- Benefit redesign
- Implementation and employee communication
- Financial ramifications
- Required filings and summary.

This seminar will be coordinated with the regular time slots scheduled for other sessions, so those interested can attend the entire seminar from start to finish—or just those portions of particular interest.

In addition to the seminar, there will be other sessions addressing various consulting topics as well as some of the basics (after all, this is the third year of the enrollment cycle and some members will need those core credits!)

Be sure to look for the preliminary program, which should arrive in your mailbox in late February. Hope to see you there!

Continuing Education Update

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For those of you still in need of **Enrolled Actuaries credit**, watch for our flier highlighting available audiotapes with questionnaires, videotapes and round table discussions. Remember, you need 36 hours over a three-year period (1996, 1997, 1998) with half of those hours in core areas. Sherri Fiore (sfiore@soa.org) 847 706-3537 or Barb Choyke 847 706-3546 can assist.

For further information on sessions at the meetings or seminars, please see our web site at www.soa.org.

Forecasting Retirement Needs and Retirement Wealth Conference

The Forecasting Retirement Needs and Retirement Wealth Conference will be hosted by the Pension Research Council at The Wharton School of the University of Pennsylvania on April 27 and 28, 1998.

For further information, contact:

Dr. Olivia S. Mitchell
Pension Research Council
The Wharton School
3641 Locust Walk, Room 304
Philadelphia, PA 19104–6218