



PENSION SECTION NEWS

NUMBER 39

FEBRUARY 1999

Chairperson's Corner

by Amy S. Timmons

As the new Chair to the Pension Section Council, I wanted to let you know what the main issues and concerns of the Council members are and what we're trying to do about them.

The biggest issue faced by the Pension Section Council is the need to demonstrate to pension actuaries the value of belonging to the Society of Actuaries and, particularly, the Pension Section. We continually have discussions on how best to serve our members given that fewer and fewer Pension actuaries are attaining Fellowship and the lack of credit for the Enrollment exams towards Associateship in the Society. Employers typically place greater importance on Enrollment rather than membership in the Society. Therefore, we are striving to "add value" (as the latest buzzword goes) to your membership in the Society and the Pension Section.

To demonstrate the value of your membership in the Society and the Section, we have set a major goal for

(continued on page 14, column 1)

Summary of 1999 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 1999 limits reflect third quarter CPI increases from 1998 to 1999, and they are rounded down to multiples of \$50, \$500, \$5,000, or \$10,000. The table on page 3 shows the 1999 limits before rounding and a five year summary of rounded IRC qualified plan limits. Low inflation during the past year (1.6%) kept most limits at their 1998 levels. (See Table 1, page 2)

PBGC Guaranteed Benefits

The maximum PBGC guaranteed monthly benefit is adjusted annually based on changes in the Social Security contribution and benefit base. For a single-employer defined benefit plan terminating in 1999, the maximum guaranteed benefit will be \$3,051.14 per month—a 5.9% increase over the 1998 limit of \$2,880.68. 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. Federal income tax factors increased 1.6% from 1998 to 1999, before rounding. (See Table 2, page 4)

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Pension Section News

Letter to the Editor

Capital Market Assumptions

DEAR DAN:

The article by Jane Arnold and Jennifer Donnelly ("Capital Market Assumptions—The Past Performance Future Returns Debate, November 1998 Issue") provides valuable background material on asset assumptions for pension actuaries. However, the article should have alerted readers that the stated assumptions for expected returns may not be appropriate in an asset/liability framework.

As the authors clearly state, "Generally, in our consulting, we forecast using assumptions for *any* [emphasis added] ten years. In most of our work, we do not try to predict the immediate future based on current market behavior." To the extent that assumptions for "any ten years" are inconsistent with current economic conditions, there will not be appropriate connections between assets and liabilities.

The clearest example of the dichotomy between "any ten years" and "the next ten years" can be seen in the expected return for Long-term Government Bonds. The authors suggest that the expected return should be 6.85%. With today's long T-Bond yields in the 5%-5.25% range, it would be very unrealistic to assume a 6.85% return in the next ten years. Such a combination of return and initial yield would imply a significant decline in long yields over the next ten years. For example, a steady

ten-year decline in long T-bond yields from 5.0% to 3.2% would generate a 6.85% return.

For an asset/liability forecast that starts with the liability values from the latest valuation report, assets and liabilities should be connected to each other as well as to starting economic conditions. The FAS 87 discount rate is usually closely tied to current interest rates and it would be totally inconsistent to combine a 6.85% assumption for expected bond returns with liabilities valued in a 5% environment. For the asset/liability context, the expected returns for the next ten years are the most appropriate assumptions.

Sincerely,

Richard Q. Wendt

Richard Q. Wendt, CFA, FSA, is a Principal at Towers Perrin in Philadelphia, PA.

Editorial Correction

The editor would like to make notice of an error that occurred in the November 1998 issue of *Pension Section News*.

Keith P. Ambachtsheer's last name was misspelled with an extra "e" on the end of the last name on page 17 of that issue.

—Pension Section News Staff

Summary of 1999 IRC, PBGC, Federal Income Tax, Social Security, and Medicare Amounts
continued from page 1

TABLE 1

<i>IRC Limit</i>	<i>Unrounded</i>	<i>Rounded IRC Limits</i>				
	<i>1999</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>
401(k) plan elective deferral limit	\$10,357	\$10,000	\$10,000	\$9,500	\$9,500	\$9,240
403(b) plan elective deferral limit	10,357	10,000	10,000	9,500	9,500	9,500
Eligible 457 plan deferral limit	8,228	8,000	8,000	7,500	7,500	7,500
SIMPLE plan elective deferral limit	6,230	6,000	6,000	6,000	N/A	N/A
415 defined benefit maximum annuity	133,164	130,000	130,000	125,000	120,000	120,000
415 special limit for police & firefighters ¹	133,164	130,000	130,000	125,000	66,000	66,000
415 defined contribution maximum annual addition	33,630	30,000	30,000	30,000	30,000	30,000
401(a)(17) and 408(k)(3)(C) compensation limit	168,150	160,000	160,000	160,000	150,000	150,000
414(q)(1)(B) highly compensated employee	83,064	80,000	80,000	80,000	100,000	100,000
414(q)(1)(C) top paid group	83,064	80,000	80,000	80,000	66,000	66,000
408(k)(2)(C) SEP minimum compensation	444	400	400	400	400	400
409(o)(1)(c) tax-credit ESOP distribution period:						
5-year max. balance	739,800	735,000	725,000	710,000	690,000	670,000
1-year extension	147,960	145,000	145,000	140,000	135,000	132,000

¹The Taxpayer Relief Act of 1997 amended section 415(b)(2)(G) 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.

(continued on page 4, column 1)

Summary of 1999 IRC, PBGC, Federal Income Tax, Social Security, and Medicare Amounts
continued from page 3

TABLE 2

<i>Item and Filing Status</i>	<i>1999</i>	<i>1998</i>
Personal Exemption	\$2,750	\$2,700
Standard Deduction		
Single	4,300	4,250
Head of Household	6,350	6,250
Married, Filing Jointly	7,200	7,100
Married, Filing Separately	3,600	3,550
Additionally Standard Deduction (for elderly or blind)		
Unmarried	1,050	1,050
Married	850	850
“Kiddie” Deduction	700	700
Breakpoint between 15% and 28% rates		
Single	25,750	25,350
Head of Household	34,550	33,950
Married, Filing Jointly	43,050	42,350
Married, Filing Separately	21,525	21,175
Breakpoint between 28% and 31% rates		
Single	62,450	61,400
Head of Household	89,150	87,700
Married, Filing Jointly	104,050	102,300
Married, Filing Separately	52,025	51,150
Breakpoint between 31% and 36% rates		
Single	130,250	128,100
Head of Household	144,400	142,000
Married, Filing Jointly	158,550	155,950
Married, Filing Separately	79,275	77,975
Breakpoint between 31% and 36% rates		
Single	283,150	278,450
Head of Household	283,150	278,450
Married, Filing Jointly	283,150	278,450
Married, Filing Separately	141,575	139,225

(continued on page 5, column 1)

Personal exemptions are phased out for taxpayers whose adjusted gross incomes exceed specified amounts (which vary by tax filing status). For 1999, these "threshold amounts" at which phase-out begins and ends are shown in *Table 3*:

TABLE 3

Filing Status	Phase-Out Begins at	Phase-Out Completed After
Unmarried	\$126,600	\$249,100
Head of Household	158,300	280,800
Married, Filing Jointly	189,950	312,450
Married, Filing Separately	94,975	156,225

Total itemized deductions for 1999 are reduced by 3% of a taxpayer's adjusted gross income in excess of \$126,600 (\$63,300 for married, filing separately), an increase from \$124,500 in 1997 (\$62,250 for married, filing separately).

Certain taxpayers are entitled to an earned income tax credit (EIC) equal to the maximum credit amount reduced by

the phase-out amount. The phase-out amount equals the product of the phase-out 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 phase-out amount. (See Table 4 below).

Social Security and Supplemental Security Income Amounts

Social Security benefits payable December 31, 1998, will increase 1.3%—the increase in CPI-W from the third quarter of 1997 to the third quarter of 1998. The average monthly Social Security benefits before and after the December 1998 COLA shown in Table 5 below:

TABLE 4

	1999	1998
EIC maximum credit amount:		
No qualifying children	\$347	\$341
One qualifying child	2,312	2,271
Two or more qualifying children	3,816	3,756
EIC threshold phase-out amount (and percentage):		
No qualifying children (7.65%)	\$5,670	5,570
One qualifying (15.98%)	12,460	12,260
Two or more qualifying children (21.06%)	12,460	12,260

TABLE 5

	After 12/98 1.3% COLA	Before 12/98 1.3% COLA
Average monthly Social Security benefit:		
All retired workers	\$780	\$770
Aged couple, both receiving benefits	1,310	1,293
Widowed mother and two children	1,554	1,534
Aged widow(er)	749	740
Disabled worker, spouse, and children	1,217	1,202
All disabled workers	733	724

(continued on page 6, column 1)

Summary of 1999 IRC, PBGC, Federal Income Tax, Social Security, and Medicare Amounts
continued from page 5

The 1999 taxable wage base, determined from the change in deemed average annual wages from 1995 to 1997, will increase 6.1%. Other 1998 Social Security and Supplemental Security Income value are shown in Table 6 below:

TABLE 6

IRC Limit	1999	1999
Cost-of living increase	1.3%	2.1%
Average annual wage (2nd preceeding year)	27,426.00	25,913.90
Contribution and benefit bases (wage base):		
OASDI	72,600	68,400
HI	No Limit	No limit
“Old law” contribution and benefit base	53,700	50,700
Retirement earnings test exempt amount (annual):		
Under age 65	9,600	9,120
Ages 65 through 69	15,500	14,500
Wages needed for a quarter of coverage	740	700
Maximum monthly Social Securitiy benefit worker retiring in January at age 65	1,373	1,342
Bend-points—PIA formula applied to average indexed monthly earnings (AIME):		
90% of AIME up to		
32% of AIME over first bend-point up to	505	477
15% of AIME over second bend-point	3,043	2,875
Bend-points—maximum family benefit formula applied to worker’s PIA:		
150% of PIA up to		
272% of PIA over first bend-point up to	645	609
134% of PIA over second bend-point up to	931	880
175% of PIA over third bend-point	1,214	1,147
SSI federal payment standard (monthly)		
Individual	500	494
Couple	751	741
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	\$4,501.20	\$4,240.80
HI	No limit	No limit
Total	No limit	No limit

(continued on page 7. column 1)

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

1999 table, published in Revenue Ruling 98-53, is rounded to the nearest \$3,000, but not more than the 1999 OASDI taxable wage base of \$72,600.

TABLE 7 (PART 1 OF 2)

<i>Calendar Year of Birth</i>	<i>Social Security Retirement Age</i>	<i>Calendar Year of Social Security Retirement Age</i>	<i>Covered Compensation</i>		<i>Rounded Covered Compensation</i>	
			<i>1999</i>	<i>1998</i>	<i>1999</i>	<i>1998</i>
1906	65	1971	4,320	4,320	3,000	3,000
1907	65	1972	4,488	4,488	3,000	3,000
1908	65	1973	4,704	4,704	6,000	6,000
1909	65	1974	5,004	5,004	6,000	6,000
1910	65	1975	5,316	5,316	6,000	6,000
1911	65	1976	5,664	5,664	6,000	6,000
1912	65	1977	6,060	6,060	6,000	6,000
1913	65	1978	6,480	6,480	6,000	6,000
1914	65	1979	7,044	7,044	6,000	6,000
1915	65	1980	7,692	7,692	9,000	9,000
1916	65	1981	8,460	8,460	9,000	9,000
1917	65	1982	9,300	9,300	9,000	9,000
1918	65	1983	10,236	10,236	9,000	9,000
1919	65	1984	11,232	11,232	12,000	12,000
1920	65	1985	12,276	12,276	12,000	12,000
1921	65	1986	13,368	13,368	12,000	12,000
1922	65	1987	14,520	14,520	15,000	15,000
1923	65	1988	15,708	15,708	15,000	15,000
1924	65	1989	16,968	16,968	18,000	18,000
1925	65	1990	18,312	18,312	18,000	18,000
1926	65	1991	19,728	19,728	21,000	21,000
1927	65	1992	21,192	21,192	21,000	21,000
1928	65	1993	22,716	22,716	24,000	24,000
1929	65	1994	24,312	24,312	24,000	24,000
1930	65	1995	25,920	25,920	27,000	27,000
1931	65	1996	27,576	27,576	27,000	27,000
1932	65	1997	29,304	29,304	30,000	30,000
1933	65	1998	31,128	31,128	30,000	30,000
1934	65	1999	33,060	32,940	33,000	33,000
1935	65	2000	34,992	34,752	36,000	36,000
1936	65	2001	36,888	36,528	36,000	36,000
1937	65	2002	38,772	38,292	39,000	39,000
1938	66	2004	42,468	41,748	42,000	42,000
1939	66	2005	44,328	43,488	45,000	45,000

(continued on page 8, column 1)

Summary of 1999 IRC, PBGC, Federal Income Tax, Social Security, and Medicare Amounts
continued from page 7

TABLE 7 (PART 2 OF 2)

<i>Calendar Year of Birth</i>	<i>Social Security Retirement Age</i>	<i>Calendar Year of Social Security Retirement Age</i>	<i>Covered Compensation</i>		<i>Rounded Covered Compensation</i>	
			<i>1999</i>	<i>1998</i>	<i>1999</i>	<i>1998</i>
1940	66	2006	46,176	45,216	45,000	45,000
1941	66	2007	47,988	46,908	48,000	48,000
1942	66	2008	49,752	48,552	51,000	48,000
1943	66	2009	51,456	50,136	51,000	51,000
1944	66	2010	53,124	51,684	54,000	51,000
1945	66	2011	54,768	53,208	54,000	54,000
1946	66	2012	56,368	54,684	57,000	54,000
1947	66	2013	57,936	56,136	57,000	57,000
1948	66	2014	59,352	57,432	60,000	57,000
1949	66	2015	60,684	58,644	60,000	60,000
1950	66	2016	61,920	59,760	63,000	60,000
1951	66	2017	63,060	60,780	63,000	60,000
1952	66	2018	64,116	61,716	63,000	63,000
1953	66	2019	65,112	62,592	66,000	63,000
1954	66	2020	66,060	63,420	66,000	63,000
1955	67	2022	67,752	64,872	69,000	66,000
1956	67	2023	68,544	65,554	69,000	66,000
1957	67	2024	69,240	66,120	69,000	66,000
1958	67	2025	69,852	66,612	69,000	66,000
1959	67	2026	70,404	67,044	69,000	66,000
1960	67	2027	70,884	67,404	72,000	68,400
1961	67	2028	71,316	67,716	72,000	68,400
1962	67	2029	71,664	67,944	72,000	68,400
1963	67	2030	71,988	68,148	72,000	68,400
1964	67	2031	72,264	68,304	72,000	68,400
1965	67	2032	72,480	68,400	72,600	68,400
1966 or later	67	2033	72,600	68,400	72,600	68,400

TABLE 8

Medicare Premiums and Deductibles

Medicare premiums, coinsurance, and deductible amounts have changed little since 1998.
(See Table 8)

	1999	1998
<i>Part A-Hospital Insurance</i>		
Inpatient hospital deductible	\$768.00	\$764.00
Coinsurance:		
— Daily coinsurance payment for 61-90 days of inpatient hospital care	192.00	191.00
— Coinsurance for up to 60 lifetime reserve days	384.00	382.00
— Early coinsurance payment for 21 - 100 days in a skilled nursing facility following a hospital stay of at least three days	96.00	95.50
Voluntary premium for persons not eligible for monthly benefits	309.00	309.00
Alternative reduced premium for persons with 30 - 39 credits	170.00	170.00
<i>Part B-Medical Insurance</i>		
Annual deductible	100.00	100.00
Monthly premium	45.50	43.80

Heidi R. Dexter, FSA, is a Principal at William M. Mercer, Inc. in Seattle, WA.

Minutes of the Retirement Systems Research & Professional Education & Development Joint Committee Meeting

July 17, 1998
Donatello Hotel
San Francisco, CA

In Attendance:

CRSR: Larry Pinzur-Chair,
 Zenaida Samaniego, Bill
 Torrie, Henry Winslow

CRSPED: Marilyn Oliver-Miller,
 Mary Adams, Debra Nice,
 Kevin Shand

SOA Staff: Judy Anderson, Barb
 Choyke, Tom Edwalds

I. Administration

A. Kevin Shand will take minutes.

B. Future Meetings

The October meeting will be held at the Marriott Marquis in New York City, NY on Thursday, October 15, 1998. Thursday night the group will get together for dinner.

Minutes of the Retirement Systems Research Committee Meeting *continued from page 9*

The January meeting will be held in New Orleans on either Thursday, January 7, or Friday, January 8, 1999. The Maison Dupuis has been suggested as the meeting place in New Orleans.

II. Chairperson's Report

A. More Feedback on the Retirement and Turnover Study

Larry Pinzur reports that at the Retirement Systems Practice Advancement Committee (RSPAC) meeting on May 7, 1998, it was felt that a separation of the data into small and large plans was needed. It was also decided that a long-term commitment from large and mid-size firms and the insurance companies was required in order to make the experience study an ongoing endeavor. It was recommended that Anna Rappaport should send out a letter to these companies asking for their ongoing commitment.

B. Research Priorities

RSPAC wants to see more input on topics and a schedule of projects to be set up before the end of the fiscal year. In other words, "more communication about potential projects." There were also some suggestions as to other topics that may be worth pursuing.

C. Other Items

Other issues that were discussed included exam redesign (specifically the EA exams) and a documentary regarding ERISA's 20th anniversary (for which we have yet to be asked for any money).

III. Retirement Needs Framework

Barb Choyke reported that there was a lot of support expressed regarding the above and that a large number of grant

applications were submitted to us. The conference is scheduled for Thursday and Friday, December 10 and 11, 1998, in Orlando. The call for papers produced 16 papers that will each be presented for about 15 minutes at the conference. A discussion, summary and a wrap-up will follow each presentation. Our committee will serve as moderators. The papers will be sent out to the attendees in November. Questions as to how prizes will be handled and how these papers will be released to the public has not been resolved.

IV. Macrodemographic Model Feasibility Study

Tom Edwalds reported that more chapters are being submitted but a complete draft has yet to be done. Chapters that are not completed include PIMS and MDM. Hopefully, the models will be finished by the end of September.

V. GATT Mortality Project

Tom Edwalds reported that the basic tables have been finalized. A draft should be completed by the October SOA meeting but we would need to see it at least two weeks before that. Tom anticipates an exposure draft could be released for January, 1999, and that he will forward the multivariate analysis report to us.

VI. Asset Valuation Methods

Larry Pinzur reported that the survey is coming along well even though the response rate to the second wave was not very good. The information is currently being summarized and hopefully a draft can be provided to us in early October so that it can be discussed at the October meeting. The survey will be separated by small and large plans as well as by country. There was some concern expressed regarding a lack of statistical rigour.

VII. Group Annuity Experience Project

Larry Pinzur reported that Gerry Campbell had hoped that the final draft on the 93-94 GA experience can be sent out very soon (within a few weeks).

VIII. Cash Balance Study

Bill Torrie reported that a new draft is available and copies of the RFP were distributed to us. The selection date has now been pushed back to November 30, 1998.

IX. Mortality Projection Project

Marilyn Miller reported that no firms with generational mortality software for forecast analysis have been found. The committee seeks a firm to run valuation forecasts based on model populations. Larry and Zenaida Samaniego will be doing an example of the impact that longevity could have on defined contribution type plans. Henry Winslow will write a summary of Mike Sze's paper for mortality projection and Judy Anderson will do a spreadsheet analysis.

X. Research Grant Applications

The response from the committees was "luke warm" with respect to the Social Security paper. Arnold Shapiro's application had a better reaction. Larry will send out a letter to Arnold asking him to elaborate more on his examples so that the committee can get a better idea as to the proposal.

A Paper to Note

The Vital Connection, an ERIC Publication

by Joseph Applebaum

Given the complementary roles private pensions and Social Security play in providing retirement income to Americans, the ERISA Industry Council, or ERIC, which represents the employee benefit plans of America's largest employers, has an obvious interest in the Social Security reform. In 1996, ERIC enunciated principles to guide Social Security reform. These included: stable rules to encourage the voluntary creation and maintenance of soundly financed employer-sponsored plans; maintenance of individuals' ability to acquire adequate

retirement income; support employers' dynamic needs of employers; and encourage capital formation.

ERIC's recent publication, *The Vital Connection*, analyzes the impact on employer plans of various proposed changes in Social Security. Changes analyzed were coverage, means testing, integration, benefit design, dependent, disability, and survivors benefits, retirement age, and inflation protection. The report concludes that early action on reform will be critical to its success and that administrative issues may prove the most intractable in carrying out a successful reform program. Also, many proposals impose financial costs that have not been examined. Finally, reductions in the Social Security defined benefit

and the creation of Social Security individual savings accounts are likely to change the design of employer-sponsored plans employers and imposition of a means test would undermine their attractiveness.



Editor's Note: *Copies of the papers are available from the SOA library, 847-706-3547. If you have come across an interesting paper that the pension actuarial community should hear about, please contact Cathy Cimo, 847-706-3587 or ccimo@soa.org, to refer your suggestion to the Committee. The SOA's library website address is www.eric.org/vitalconnection.htm*

Minutes of the Retirement Systems Research & Professional Graduation & Development Joint Committee Meeting

October 15, 1998
Marriott Marquis Hotel
New York, NY

Attendance:

CRSR: Larry Pinzur - Chair, Zenaida Samaniego, Bill Torrie, Gerry Campbell

CRSPED: Marilyn Oliver-Miller, Mary Adams, Mike Virga, Kevin Shand, Joseph Applebaum, Neil Parmenter, Arnold Shapiro, Doug Borton

SOA Staff: Judy Anderson, Tom Edwalds

Guests: Ethan Kra

I. Administration

A. Bill Torrie agreed to take the minutes.

B. Future Meetings

January 7 and 8—The January meeting will be held in New Orleans on Friday, January 8, 1999. The Mortality Projection Committee and the Retirement Needs Framework Committee are to meet on January 7.

March 17 and 18—Meetings are to follow the Enrolled Actuaries Meeting in Washington. The Joint Committee will meet on Thursday, March 18, and the Mortality Projection Committee will meet on Wednesday March 17. June 14

and 15—Meetings to follow SOA meeting in Seattle.

II. Chairpersons' Reports

A. Retirement Systems Practice Advancement Committee
Ethan Kra, the Committee's Chairman, reported on the Committee's August 27, 1998 meeting. Ethan discussed the need to develop new materials for professional development. These included (a) changes in the content of the exams to reduce detail and (b) possible new formats for satisfying the Society's education requirements such as seminars and seminars included within Society meetings.

(continued on page 12, column 3)

Articles Needed for the News

Your help and participation are needed and welcomed. All articles will include a byline to give you full credit for your effort. *News* is pleased to publish articles in a second language if a translation is provided by the author. For those of you interested in working on the *News*, several Associate Editors are needed to handle various specialty areas such as meetings, seminars, symposia, continuing education meetings, teleconferences, and cassettes (audio and video) for Enrolled Actuaries, new pension study notes, new research and studies by Society committee, and so on. If you would like to submit an article or be an Associate Editor, please call me at 860-521-8400.

As in the past, full papers will be published in *The Pension Forum* format, but now only on an ad hoc basis.

News is published quarterly as follows:

Publication Date	Submission Deadline
February	January 10
June	May 10
September	August 10
December	November 10

Preferred Format

In order to efficiently handle articles, please use the following format when submitting articles.

Mail both a diskette and a hard copy of your article. We are able to convert most PC-compatible software packages. Headlines are typed upper and lower case. Carriage returns are put in only at the end of paragraphs. The right-hand margin is not justified.

If this is not clear or you must submit in another manner, please call Joe Adduci, 847-706-3548, at the Society of Actuaries for help.

Please send original hard of article and diskette to:

Joe Adduci
Society of Actuaries
475 N. Martingale Road
Suite 800
Schaumburg, IL 60173-2226
e-mail: jadduci@soa.org

Please send a copy of article (hard copy only) to:

Daniel M. Arnold, FSA
Hooker & Holcombe, Inc.
65 LaSalle Road
West Hartford, CT 06107
Thank you for your help.

Dan Arnold, Editor
Phone: 860-521-8400; Fax: 860-521-3742
E-mail: darnold@csi.com

Minutes of the Retirement Systems Research & Professional Graduation & Development Meeting

continued from page 11

Ethan also pointed out the need to develop a list of projects of interest, including an indication of priority and proposed budget requirements. One project mentioned was the potential impact of changes in the Social Security retirement program on private pension plans and the behavior of employers and employees. A subcommittee consisting of Larry Pinzur, Judy Anderson, Joe Applebaum and Neil Parmenter was formed.

During the discussion it was pointed out that there was a need for more communication between the Retirement Systems Practice Advancement Committee and the Committee on Retirement Systems Research. It was noted that (a) research should provide practical results, and (b) a greater emphasis should be placed on education regarding investment issues.

It was suggested that, when appropriate, future research projects should be considered after consulting with non-actuarial associations who may have completed or be interested in similar research.

B. Research Project Oversight Subcommittee

Larry presented a report regarding the Committee's September 28, 1998, conference call. It was noted that while some reallocation of projects between 1998 and 1999 could be managed, in general, this Committee has not been able to fund all of the desired research.

C. Status of Research Grant Requests

1. Social Insurance/Global Issues—As the proposal deals more with finance and investment issues, the Committee has sent a letter declining to give further consideration and proposed that other Society committees be contacted.

(continued on page 13, column 1)

2. On Arnold Shapiro's proposal regarding uses of other branches of mathematics to address actuarial issues, it was agreed to fund this proposal depending on budget constraints. Such constraints might require that the project be deferred to 1999.

3. Asset Valuation Methods, Phase II —Will need to send out call for papers in 1998 to be considered a 1998 commitment for budget purposes.

III. Macrodemographic Model Feasibility Study

Tom Edwalds reported that the Oversight Committee had a conference call to discuss the project. Currently, three chapters on the specific models (SSAS-IM, PIMS and MDM) and two summary chapters on other models and databases remained outstanding. The Oversight Committee has authorized a subcommittee consisting of Tom Edwalds, Judy Anderson and Chris Bone to give final approval when the study is complete.

Judy indicated that a presentation regarding macrodemographic models would be made during the last session of the Society's annual meeting.

The possibility of going on with Phase II of the Study upon the completion of Phase I was discussed.

IV. GATT Mortality Project

Tom Edwalds reported that the Committee's last meeting was held in mid-September and the results of a multivariate analysis were presented. It was noted that while the results based on a single variable were reasonable, the joint variable results seemed counter-intuitive.

The Committee is expected to meet in November and January. A final draft report should be available for discussion by the Committee on Retirement

Systems Research at their March meeting.

V. Mortality Projection Project

Marilyn Oliver reported that the Committee had formed two subgroups to study the various aspects of mortality projection models. Mike Virga agreed to prepare open group valuations using generational mortality tables based on the Civil Service Retirement System. Larry and Zenaida will be preparing examples to demonstrate the impact that increased longevity could have on financial reporting and defined contribution type plans.

VI. Retirement Needs Framework

Marilyn and Judy reported that the Conference planned for December 10 and 11 was proceeding as planned. Brochures announcing the conference



had been mailed and several papers of high quality had been received.

VII. Cash Balance Study

Bill Torrie reported that in response to the Committee's request, several proposals had been received, and the

Committee was reviewing the proposals. The selection of a finalist was expected to be completed by December 18, 1998. With regard to a list of Cash Balance plan sponsors, it was proposed that a list prepared as a result of a Pensions and Investment Age survey be considered.

VIII. Asset Valuation Methods

Larry Pinzur reported that Phase I of the project is winding down and that a final draft of the study paper should be available soon. Phase II will be begin soon. Phase II is a call for papers discussing the effectiveness of smoothing methods.

IX. Group Annuity Experience Project

Gerry Campbell noted that the acquisition of fresh data was becoming increasingly difficult as some of the contributing companies were dropping from the market. He noted, however, that New York Life had just come onboard and that about seven companies are still contributing. Current indications are that while mortality continues to improve, the rate of improvement is slowing.

X. New Topics

Larry indicated the Committee needed two to three additional members. After some discussion, it was agreed to prepare a notice for inclusion in the *Pension Section News*, and to send a letter to all Committee members reminding them of the need to attend meetings and to participate on the Committee.

Chairperson's Corner

continued from page 1

this year to commence with the development of a basic pension course for entry-level actuaries to be produced on CD-ROM. One of the continuing concerns of the Council members has been the amount of time and effort needed to train entry-level actuaries on basic pension terms, valuation methods, and governmental requirements. New actuaries are not learning these things in college or now, with the new exam syllabus, through the actuarial examination process. Every employer is faced with this issue and how best to quickly and efficiently bring these actuaries "up to speed."

Our intention is for the development of this basic pension course on CD-ROM to shorten this learning curve. Through the use of the CD-ROM course, entry-level actuaries can learn pension basics as they come on staff and at their own speed. Employers will not have to devote as much senior actuaries' time in training on pension basics and can focus on teaching the actuary how the employer does business. We feel this will directly benefit our Section members and provide needed training to entry-level actuaries that is not now readily available to any sized firm.

Our second issue is the need to coordinate more closely with the Enrolled Actuaries, the Conference of Consulting Actuaries, American Society of Pension Actuaries, the American Academy of Actuaries, and other organizations that offer seminars and training to pension actuaries. Given that some of these organizations are much more effective at delivering continuing education to pension actuaries, the Council has declined to organize sessions at the annual SOA meeting due to the conflict with the Conference annual meeting. The Council continues to desire consolidated meetings with the other organizations but has been informed that this is an SOA Board of Governors' issue and not within the Council's control. However, where possible, we will be pursuing co-sponsorship of seminars or, at least,

(continued on page 25, column 1)

Retirement Needs Framework

by Anna Rappaport

Pension actuaries are faced daily with the need to consider the implications of an aging society. Social Security and pensions are growing in importance as the percentage of elderly in the U.S. grows with the aging of the Baby Boom. Actuaries are needed to participate and help shape solutions to the emergence of critical issues in our society. The Society of Actuaries' Retirement Systems Practice Area took up the challenge to respond to these issues with the Retirement Needs Framework project.

This project began with a call for papers followed by a conference that was held last December. The organizing group, chaired by Marilyn Oliver, continues to discuss additional research.

The project is focused on understanding post-retirement events and risks, understanding modeling approaches for working with these risks, and searching out data. The organizing group began with identification of post-retirement events and then sought out the best way to move ahead to help actuaries address the financial effect of these events. Post-retirement risks include inflation, death of a spouse, changes in health status, changes in housing needs and changes in interests and avocations.

A call for papers was issued and 15 papers were submitted. The modeling approaches applied included:

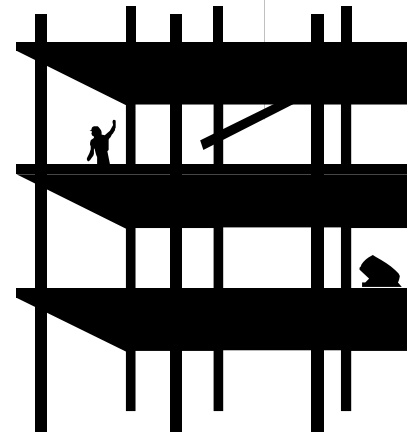
- Markov chain models to estimate transitions between different states of health and time spent in each state. Papers written by Bruce Jones and Eric Stallard used these models.
- Stochastic modeling of alternative investment and withdrawal strategies in order to analyze the

effects on the chance of ruin.

- Comparisons of annuity payouts with different distribution strategies and ancillary benefits.

The papers were presented and discussed at a conference. The papers were grouped into the following six panel topics. Author presentations were followed by prepared comments and open discussion from the floor.

- Identifying Retirement Needs
- Modeling Post-Retirement Needs
- Modeling Post-Retirement Investments



- Examining Preconceived Notions
- Special Issues for Women
- Managing the Risk

Participants at the conference were multi-disciplinary, including actuaries, attorneys, economists and demographers. The conference was extremely important to this wide audience because so much of the research around retirement focuses on the period before retirement rather than on events and risks that occur after retirement and ways to manage them.

Several discussions at the conference covered definitions of retirement and how patterns of retirement are changing. Retirement

was described as a gradual process rather than a one-time event. Bridge jobs, held between career and retirement, were discussed. Statistics on retirement patterns in the United States and Canada were presented, along with

“Outliving one’s assets is a serious issue that is clearly a problem for many elderly.”

some comparative data from other nations. There has been some evidence that the trend to early retirement has reversed. Different theories of what drives the decision to retire were presented and questions for further research were raised. Theories on the basis for the decision to retire differ in their focus on economic needs versus society’s mores and expectations.

Retirement patterns will be a policy issue in the U.S. as Social Security and Medicare changes are debated, and it is present in many other countries as well.

There was quite a lot of focus on the issue of annuitization versus investing a lump sum privately. Two papers provided models to show the implications of different combinations of withdrawal and asset mixes. The analyses showed that the probability of ruin was not greater with more aggressive investments even though the upside potential was larger. John Piggott from the University of New South Wales presented a fascinating discussion of the risks involved in annuities from a variety of perspectives.

There was much discussion around the question of whether annuitization should be mandatory and under what circumstances it should be mandatory. Discussants called for new models that would incorporate traditional invest-

ments, annuity income, and insurance coverage. Outliving one’s assets is a serious issue that is clearly a problem for many elderly.

Care for the frail elderly is a major problem with no solution in place for many families. Elderly women living alone are most likely to need such care on a paid service basis.

Data from the National Long-Term Care survey was presented. Only 7% of long-term care is paid for by private insurance. Individuals and Medicaid are the largest payers. This data provides a great deal of information on the continuum of health status and the status of the population. The data divides the frail population into those who could qualify for benefits under a long-term care insurance policy and those who could not. Only about half of the disabled would qualify.

The Society of Actuaries’ Long TermCare Committee will

be offering a diskette with much of this data on it. The diskette should be available within the next three months.

One of the conference speakers described the direction that assisted living is taking and its increasing importance. Questions were raised around coverage under typical long-term care insurance for stays in an assisted living facility in the future. We did not arrive at good answers for these questions.

Issues were also raised around the role of family members. It was pointed out that overall, men and women still play very different roles in the family,

and that retirement security is influenced by various combinations of care giving and labor force participation. Women are much more likely to be the caregivers. At the same time, women live longer and are much more likely to be alone and poor, or near poor. An analysis of the situation of baby boom women indicated that relatively few of them will have the assets for a secure retirement. This is a surprise to some observers who believed that as more women entered the workforce they would no longer have concerns about retirement security.

Karen Holden’s paper focused on widowhood and the significant decline in the economic status of women observed at time of widowhood. A single person is typically assumed to need about 75% of the income needed by a married couple. However, there are situations where this percentage might be much larger. If moderate

“...Retirement security is influenced by various combinations of care giving and labor force participation.”

levels of care are needed a couple can help each other out, but a single person will probably need to pay for help.

A monograph is being prepared on this project and should be available later in 1999. The future work of the organizing group and continuing research will be reported on in future editions of the *Pension Section News*.

Anna Rappaport, FSA, is past President of the Society of Actuaries (1997-1998) and Principal at William M. Mercer Inc. in Chicago.

Web Discussions

The following section represents the wide range of information available on the SOA website (www.soa.org) available 24 hours a day, 7 days a week. It was located online in the Discussion Forum Section. The messages printed in this newsletter are from actuaries sharing tips and information. The source is noted if an individual identified himself/herself online.

FAS 87/106 Discount Rate at 12/31/98

What discount rates are people using for FAS 87 and FAS 106 year-

end disclosures? What basis are you rates? Has your client's accounting firm

David Zolt

Bonds 10+ yr High Quality 12/31 rate

indexes. See 1/4/99, page A35. Note: Lucent

their discount rate as of 9/30/98. As of

1998 Annual Report, page 60. Note: 10/1/98, page C19,

yr. High Quality 9/30/98 rate was also

Dan Arnold

since April 1997, the *Journal* worst" for the Merrill Lynch bond

approximately 30 bp higher than the

ANNOUNCEMENT

"RETIREMENT 2000"

CALL FOR PAPERS

The Society of Actuaries, in cooperation with other actuarial, employee benefits, government and research organizations, is sponsoring a call for papers to encourage and expose new ideas and fresh insights on issues impacting public policy for retirement and retirement benefits for the next millennium. Population aging is an issue in many countries, both developed and developing. In the meantime, there is a looming potential for policy changes, tax reforms and changes in social security programs. What will retirement mean in the coming years and what will retirement benefits look like? How can public policy adjust to prepare for the changes ahead? What is the interaction of tax policy with retiree benefits and savings? Are some demographic groups being overlooked? What other groups may be overlooked in the future? (e.g., women, minorities, employees of small businesses) How should the design of retiree health and long term care benefits be integrated with retirement income benefits?

The deadline for submitting abstracts is March 1, 1999. We anticipate that the papers will be presented and discussed at a conference in February 2000. If you would like to receive a copy of the complete call for papers, you can download it from the Society of Actuaries' web site at www.soa.org/research/call.html or contact:

Cathy Cimo
Society of Actuaries
475 North Martingale Road, Suite 800
Schaumburg, IL 60173-2226
Attention: Retirement 2000 - Call for Papers
Phone: 847-706-3587
FAX: 847-706-3599
E-mail: ccimo@soa.org

continued from page 15

accountants that reference the data, it is crucial to know the definition

Dick Wendt

plan sponsors are going to use discount 6.25%?

with plan sponsors and other actuaries, thoughts on how one could defend 7%

David Zolt

by Judy Anderson

ension actuaries should make note *Specialty Guide on Asset-* published by the Society of Actuaries the guide may appear to be directed However, the topics covered apply to a includes a special section on Pension ALM for pension plans often policy decisions. Typically it would be

using 6.75%. Apparently on 6.75% and anything higher will need this issue yet with PWC. Deloitte & any questions for one of my clients, and showed them the pension portfolio Merrill Lynch did.

Form

renewal think I should send the Joint Board a time to return it before the deadline.

Thanks

projection valuations with detailed the correlation between asset classes. introduction to a variety of ALM followed by a bibliography for the topic and an assessment of its level of ALM Specialty Guide include:

- Introduction to ALM
- Basics in Financial Economics Relevant to ALM
- Immunization

of the 13 EAs here in our West form. Form 5434-A (Rev. October received back by March 1, 1999, somaybe today! \$25 fee (check or

is missing from this EAs form...He is

Dan Arnold

Arbitrage-Free Interest Rate

- Allocation Derivatives Bank ALM and Value-at-Risk
-
- Benchmarking Pension Plan ALM

Asset-Liability Manage- contact Beverly

Department, (847) 706-3526.

STUDY NOTE

CORNER



Rather than discuss a particular study note in this issue of the *Pension Section News*, we wanted to provide more general information on the variety of pension-related study notes. Listed below is a short selection of current study notes with brief descriptions.

Study notes can be purchased individually through the Society of Actuaries Study Note Coordinator, Aleshia Zionce, at (847) 706-3525. All study notes are listed in the Spring and Fall Associateship and Fellowship Catalogs. If you don't have handy access to the catalogs, the Study Note Coordinator can also provide a study note price list on request.

Hybrid Pension Plan Design

- 362-54-97—*A Technical Analysis of Cash Balance Pension Equity Plans* (\$7.00)

This study note provides a comprehensive introduction to these hybrid plans, how they differ from other plan designs, and some of the U.S. regulatory considerations

- 362-55-97—*The Cash Balance Pension Plan* (\$5.00)

This is an excerpt from an employee benefits text that describes these plans, which keep growing in popularity and variety.

- 362-28-93—*Open Window Retirement Programs* (\$10.00)

This study note introduces early retirement windows and discusses many, if not all, the considerations related to implementing these programs.

Deferred Compensation Design

- 361-72-97 *Retirement Programs*

Pension Plan Investment

by Judy Anderson

Executives: A Primer (\$10.00)

- 361-73-97 *Retirement Programs for Executives: Negotiating Your Retirement Package* (\$8.00)

These notes provide an overview to the design of executive compensation programs from both the employer and the executive's perspectives.

Pension Plan Valuation

- 461-40-96 *GASB Pension Statements 25, 26 and 27* (\$7.00)
- 461-65-98 *Cost Accounting Standards for Pension Plans* (\$7.00)

There is a lot of material on accounting for uninsured private pension plans but very little for the special situations of government employee plans and plans sponsored by government contract holders. These two notes help fill the gap.

- 462-22-96 *Mortality for Pension Plans* (\$10.00)

This study provides a comprehensive discussion of available mortality tables for pension valuations and related considerations.

Pension Investment

- 363-34-98 *Fiduciary Liability Issues for Selection of Investments* (\$7.00)

- 363-37-94 *The Duty of Care of a Pension Fund Trustee* (\$5.00)

These address fiduciary liability from the U.S. perspective in the first note, and the Canadian perspective in the second.

- 363-38-96 *Investment Management of Retirement Plans in Canada* (\$8.00)

This note addresses investment management for funded pension plans offered by both private and public sponsors.

- 363-33-93 *Setting Standards for the Selection and Monitoring of Insurance Companies for Retirement Plans* (\$8.00)

The collapse of Executive Life and a number of other insurance companies pushed us to consider this topic as part of the SOA education program.

International Retirement Security Programs

- 567-45-97 *Termination Indemnities* (\$7.00)
- 567-46-97 *Labor Market Plans* (\$7.00)

These notes provide background on two forms of providing retirement benefits that differ significantly from the usual U.S. and Canadian approach.

Other Pension Issues

- 365-24-96 *Pension Plan Terminations* (\$30.00)

This study note provides a very thorough treatment of U.S. pension plan terminations and the Pension Benefit Guarantee Corporation (PBGC). It has even been used for PBGC employees.

- 462-56-97 *Pension Surplus and Deficit Funding: The Trials and Tribulations of Funding Multi-Employer Plans* (\$7.00)

This note was written for Canadian plans but the considerations raised are applicable in the U.S. as well.

- 564-44-92 *Distribution of Pension Benefits on Divorce: Some Unresolved Actuarial Issues* (\$7.00)

- 564-45-92 *QDRO's: The Defined Benefit Dilemma* (\$5.00)

- 564-42-89 *Division of Pension Rights on Marriage Breakdown* (\$8.00)

These three notes provide insights into the special considerations in the case of divorce. The first two were written with an emphasis on the U.S. context. The third considers the issue from a Canadian perspective. Again, many of the considerations are the same on either side of the border.

Judy Anderson, FSA, is a Staff Fellow at the Society of Actuaries in Schaumburg, IL.

Information on Unusual Provisions in Cash Balance Plans Needed

by William Torrie and Thomas P. Edwalds

The SOA Committee on Retirement Systems Research is sponsoring a study of the actuarial aspects of cash balance plans. The purpose is to provide pension actuaries with comments and analysis on the design and valuation of cash balance retirement plans. This is in response to the fact that a wide variety of cash balance benefit designs have been introduced over the past 13 years. Many qualified defined benefits plans have been amended to convert their benefit formulas to a cash balance format, resulting in new plans that include innovative benefits and features not originally contemplated.

Particular attention will be paid to "embedded options," i.e., plan features that allow participants to make choices regarding their cash balance accounts. Depending on market conditions, these options could have a significant value that might not be recognized when the plan is valued using methods for traditional defined benefit plans.

How pension actuaries can help

The Committee has contracted with the firm of Bolton Offutt Donovan, Inc., to serve as researchers, and provided them a list of prominent sponsors of cash balance plans. The researchers will review the plans and compile a list of features as a basis for the rest of the study. However, it is unlikely that the review will result in the identification of all noteworthy cash balance features.

Therefore, the Committee is asking actuaries to submit examples of any unusual provisions in cash balance plans of which they are aware, whether they already exist in a cash balance plan or are being considered for inclusion. Of course, any information regarding individual plan sponsors will remain strictly confidential.

Some innovative benefits and features added to satisfy the design goals specified by plan sponsors for

new cash balance plans have included: (a) benefit credits that vary by age, service, employment category or other factors; (b) interest credit rates tied to equity indices; (c) minimum interest guarantees; (d) subsidized benefit options; and (e) the acceptance of rollover amounts that are converted to annuities on a subsidized basis.

Scope of study

The study's objective is to provide a fresh and unbiased review of the actuarial aspects of cash balance plans. These include:

1. Compiling a list of plan features



currently found in cash balance plans.

2. Identifying actuarial risks associated with each plan feature.
3. Identifying a set of appropriate actuarial valuation methods to be considered when valuing cash balance plan features.
4. Identifying appropriate funding targets for funded plans.
5. Identifying actuarial aspects of terminating cash balance plans.

The research is expected to culminate in the production of a paper that will introduce general cash balance concepts and address the research objectives outlined above.

Where to send examples

Examples of unusual provisions should be submitted to Tom Edwalds, SOA Research Actuary for Health and Pensions (Phone: 847/706-3578; Fax: 847/706-3599; e-mail: tedwalds@soa.org). All submissions will be forwarded to the researchers for potential inclusion in the study. Again, any information regarding individual

plan sponsors will remain strictly confidential.

Thomas P. Edwalds, FSA, is a research actuary at the Society of Actuaries in Schaumburg, IL. William Torrie, FSA, EA, is a casualty actuary at Pricewaterhouse Coopers LLP and runs the Cash Balance Prospect Oversight Group in Fort Lee, NJ.

News Releases

...Joint Board for the Enrollment of Actuaries

December 22, 1998

This notice provides enrolled actuaries and other interested parties with a reminder of the Joint Board's position, which was adopted some years ago, on a matter where some confusion has arisen in the past. The confusion arises because of a prefix use with the four-digit enrollment number. This number is used by an enrolled actuary for signing a Schedule B after December 31, 1998, but before the earlier of (1) receipt of official notice of reenrollment, and (2) April 1, 1999.

Accordingly, enrolled actuaries are advised that:

1. An enrolled actuary is not permitted to use the new 99- prefix until such time as he/she has been officially notified in writing by the Joint Board of his/her entitlement to do so. See the Instructions for Schedule B.
2. An enrolled actuary who has not yet received official notification from the Joint Board should use the 96- prefix if he/she signs a Schedule B in the first three months of 1999. The IRS Service Center will not reject the 96- prefix for a signature date during this three-month period. The 96- prefix will be rejected for a Schedule B where the signature date is April 1, 1999 or later.

*Paulette Tino, Chairperson
Joint Board for the Enrollment of Actuaries*

January 8, 1999

Patrick W. McDonough, Esq. has been appointed the Executive Director of the Joint Board, succeeding Robert I. Brauer.

Mr. McDonough holds a J.D. degree from Boston College and an LL.M. from Georgetown University. Since 1981, he has been a member of the Office of Director of Practice. In that capacity, he has worked not only with Mr. Brauer, but also with Mr. Brauer's predecessor, Leslie S. Shapiro. As Executive Director of the Joint Board, he will be responsible for the general operation of the Office of the Joint Board, including the handling of disciplinary matters involving enrolled actuaries, prior to their referral to the Joint Board.

The Office of the Joint Board has recently moved to a new location in downtown Washington, D.C. However, Mr. McDonough's address will be:

**Executive Director, Joint Board for the Enrollment of Actuaries
Internal Revenue Service, Attention: C:AP:DOP
1111 Constitution Avenue, N.W.
Washington, D.C. 20224**

His telephone number is (202) 694-1891 and FAX (202) 694-1804.

Darryl M. Carter continues to be in charge of all administrative work of the Joint Board and thus will work closely with Mr. McDonough. Mr. Carter's address and FAX number are the same as above, but his direct telephone number is (202) 694-1854.

...National Academy on an Aging Society

January 12, 1999

SOCIAL SECURITY AND MEDICARE CAN SURVIVE THE ONSLAUGHT OF AGING BABY-BOOMERS

WASHINGTON, D.C.—In a new report, “Demography is Not Destiny,” the National Academy on an Aging Society calls into question predictions that the impending retirement of baby boomers will produce an inevitable national crisis.

In fact, says the report, a wide range of outcomes is possible, depending on the growth rate of the economy, the future health status of the elderly and the resourcefulness of senior citizens and their families in changing their work patterns, savings rate, and other behavior. And although serious financial challenges lie ahead for government programs for the aged—especially Medicare and Social Security—these, too, could actually experience varying degrees of difficulty based on these same factors.

“This report should make policy makers wary of enacting major changes based solely on anxiety about projected increases in the number of elderly people,” said Robert Friedland, Ph.D., director of the Academy. “The word we should be focusing on is ‘challenge,’ not ‘crisis.’ We should analyze how society has adapted to demographic changes in the past as a guide to how we might adapt in the future. But the adjustment will certainly be easier if the challenges ahead are addressed in a rational manner today.”

The report draws on dozens of different sources of data and analysis—ranging from U.S. Census Bureau predictions to reports by academic experts—to make the following additional points:

Demographic change hasn’t always spelled doom. Although the population of elderly in the U.S. is likely to double over the next 35 years, it has already doubled since 1960 “without devastating consequences.” The reason, the report suggests, is that changing individual behavior, a changing economy, and changes in the public policy have all contributed to averting a crisis. For example, during the same period the nation’s real income more than tripled, making America’s population better off even as it aged. If such strong economic growth continues, additional resources will be available to help finance Medicare and Social Security in the future. There is no guarantee, however. “With little economic growth, society faces a significant challenge,” the report states.

Aging in America isn’t what it used to be. Older Americans today are healthier, wealthier, and better educated as a group than older people of any previous generation. These prevailing trends bode well for tomorrow’s elderly population, who may be in far better position than their parents to work longer, stay healthier and live fuller lives well into old age.

Inequalities among the elderly may threaten the chances of an improved future. Despite overall improvements in health, wealth, and level of education of the elderly, some groups, such as older single women, remain very vulnerable. Income and wealth are distributed unequally. “These disparities are likely to persist or grow,” said Friedland, “and must be addressed as changes in public programs are contemplated.”

Demography isn’t an exact science. No one knows for sure just how large the elderly population will be in the future, since trends in life expectancy, immigration, and other factors are difficult to predict. Depending on many of these trends, the U.S. Census Bureau has projected there may be as few as 288 million Americans in 2040 or as many as 458 million—a difference of almost 60 percent.

There is broad misunderstanding about the baby “boom.” The conventional wisdom holds that programs like Social Security are in trouble largely because the baby boom has been followed by a long-term baby bust. But

(continued on page 22, column 1)

News Releases

continued from page 21

that's not so, the report points out. During the 18 years from 1946 to 1964, the peak period of the postwar baby boom, 76 million babies were born in the U.S. But over the past 18 years, from 1980 to 1988, almost as many babies have been born—some 72 million.

Friedland, director of the National Academy on an Aging Society since 1994, wrote the report with Deputy Director Laura Summer in consultation with an expert advisory group. The report was supported by The Commonwealth Fund, a New York City-based national foundation sponsoring independent research on health and social issues.

Copies of the 96-page report are available from the National Academy on an Aging Society, 1030 15th Street, N.W. Suite 250, Washington, DC 20005. Orders can be directed to Denise Pohopin at this address or by telephone at (202) 408-3375 or by e-mail at dpohopin@agingsociety.org. Copies are available to the media free of charge and to the general public for \$18.

The National Academy on an Aging Society is a non-partisan public policy institute that fosters critical thinking about the implications of an aging society.

Minutes of the Retirement Systems Practice Advancement Committee

by Judy Anderson

August 27, 1998

Attending: Ethan Kra, Joe Applebaum, Ken Steiner, Nancy Yake, Carol Zimmerman, Judy Anderson

By Phone: Larry Pinzur, Anna Rappaport, Don Segal, Kevin Shand, Arnold Shapiro

GAP ANALYSIS

The Committee reviewed progress to date on last year's Planning Committee's Retirement Systems Gap Analysis.

1. *Expand Outreach / Career Encouragement*

The Committee felt that this was best handled by the Career Encouragement Committee.

2. *Seminar and Meeting Sessions*

A number of seminar topics were mentioned including a seminar on pension plans and a company's bottom line, expert witness work, and a session on ethics and professionalism. The Committee suggested a full-day seminar on ethics for EA's, presented before the end of the current enrollment cycle, and regular half-day sessions on ethics, perhaps in conjunction with the SOA spring Pension meeting. They also discussed packaging seminars so that companies could put them on for internal use. For seminar tracks at SOA meetings, the Committee suggested one-page flyers along with the notice in the preliminary and final programs.

3. *Investment Education*

The Committee suggested a series of day-long session on investments for pension actuaries at the SOA Spring Pension meeting, or as a stand-alone seminar

4. *Coordination with Other Actuarial Organizations*

The Committee had a brief discussion about the growing concerns about the number of organizations, dues and the proliferation of seminars and meetings. Anna Rappaport volunteered to forward these concerns to the Council of Presidents.

5. *Assistance for Smaller Consulting Firms*

The practice area is working on a

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web site with links and information that would be particularly helpful for the small firm. Ken Steiner will discuss the possible need for education and research with the ABCD.

6. *Bringing Academic Research to the Pension Practitioner*

When the Pension Section and Practice Area sponsor research, a brief summary article of the results should always be published in the *Pension Section News*. In addition, the results of new research can be presented at meeting sessions and with follow-up seminars.

7. *Communicating Research Needs to Academics*

The Committee feels that this is important but also wants to encourage research that may go beyond that with obvious practical implications.

8. *Coordination with the Joint Board for the Enrollment of Actuaries*

The Committee feels that it is important that the Joint Board recognize SOA examinations covering the EA1 Segment A topics.

Symposium on Economic Assumptions for Social Security

The Committee on Social Security—Retirement and Disability Income advised against supporting this project. The Practice Advancement Committee decided not to sponsor this project but would encourage individuals from the Social Security Committee to participate if the project goes forward.

FAS 106 Task Force

This task force should be reconstructed as the Year 2000 Education & Examination Program will create a need for seminars and other continuing education on post-retirement medical programs, particularly since the topic overlaps two areas, health and pension. In addition, the financing impact of increased health costs in year of death

should be researched. A conference call will be scheduled to begin reconstructing the task force.

Professional Development for the Year 2000 E&E Program

The Pension Section will continue to offer meeting sessions at the SOA Spring Pension Meeting that will be relevant to practitioners and could be applied as E&E Professional Development (PD). A subcommittee of the Retirement Systems Professional Education and Development Committee, headed by Kevin Shand, will take responsibility for ensuring a sufficient number and range of offerings for PD. They will review potential topics and suggest the frequency for offering them.

This issue may be of more importance to the Canadian pension candidates as there is currently no single EA equivalent providing half of the PD credit. The subcommittee's report should be done by the end of the year.

Conferences

The Retirement Needs Framework Conference will be held on December 10 and 11 in Orlando. Thirteen papers will be presented and discussed; the AAA will be presenting retiree survey results; and there will be a panel discussion.

A Call for Papers has been drafted for Retirement 2000, looking at how retirement may be changing and how public policy can respond. This seminar is being cosponsored by the American Academy of Actuaries, Conference of Consulting Actuaries, American Society of Pension Actuaries, International Foundation of Employee Benefit Plans and Asociacion Mexicana de Actuarios Consultores, A.C. The Canadian Institute of Actuaries also will be encouraged to act as a co-sponsor. In addition, the Canadian Institute of Actuaries will be sponsoring their own program on this topic.

Pension Section Update

The primary task facing the Pension Section is setting sessions for the SOA Spring Pension Meeting in Seattle.

A request for proposal was sent out for creating a CD-ROM with basic training for new hires. There was little response. A second mailing is being planned. The Practice Advancement Committee suggested that ASPA might have a program in place. In addition, the Section could collect information on existing programs, which could be supplied to firms looking for this kind of training tool.

Canadian Institute of Actuaries (CIA) Update

The Valuation Technique Paper on windup and solvency valuations is completed. The CIA is also working on a set of consolidated standards of practice, which will cross practice areas.

There is a joint task force of regulators and FCIA's looking at how flexible pension plans should be handled. In addition, a position paper on minimum transfer values is being drafted.

Committee on Social Security—Retirement and Disability Income Update

This Committee continues to work on its paper on productivity and Social Security. They will be involved with two sessions at the Seattle Spring Meeting, including one for presenting their paper.

They are also considering a Call for Papers on issues related to Social Security's future and will be working with the Retirement Systems Research Committee on research into the effect of proposed Social Security changes on employer-sponsored plans.

American Academy of Actuaries Update

The Practice Council is considering a practice note on setting economic assumptions to supplement ASOP 27. The Social Insurance Committee is issuing issue briefs on women's issues and another on equity. The Senior Pension Fellow has been very active on Social Security issues. They are also

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Minutes of the Retirement Practice Advancement Committee

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considering having the Senior Pension Fellows speeches on Social Security available to other actuaries who may be invited to speak on the subject. A study on PBGC rates versus actual annuity purchases is continuing. Finally, the Practice Council is addressing a concern about EAs who do not fall under the ABCD.

Macrodemographic Model Feasibility Study

The researcher has made significant progress. Findings will be presented at the SOA Annual meeting in New York in October. The final report will be published as a monograph.

Retirement Systems Research Committee Update

1. *GATT Mortality Study*: The multivariate analysis is not pointing to a

specific model of mortality across a variety of classifications. The Committee is hoping to have a completed draft of the report at its November meeting.

2. *Mortality Projection*: The focus of this research is shifting to the more practical issues of how periodic updates to mortality assumptions, versus a generational table, affect pension plan funding. They are also looking at how mortality improvement affects targets for defined contribution plans.
3. *Cash Balance Plans*: The project will include discussions of new cash balance plan features, valuation issues and consulting issues. The request for proposal will be issued shortly.

4. *Asset Valuation Methods*: The researchers have completed collecting survey data and a preliminary summary of results.
5. *Turnover*: The Research Committee will be pushing to get a new and improved study under way.

Next Meeting

The next meeting will be scheduled in January or February.

Continuing Education Update

by Barbara S. Choyke

Happy 1999! Many of you are probably happy to put 1998 behind you and look forward to starting the year refreshed. If you are an Enrolled Actuary and have not completed your continuing education requirement for the 1996-1998 cycle, you can still earn credits in the first quarter of 1999.

Seminars and on-line programs that are available for pension actuaries are: Hybrid Plans (available on CD-ROM, on-line and on audio tape), Lost Art of Estimation (tentatively scheduled as a seminar in late March and possibly available on-line at our Virtual Campus later this year) IRS Voluntary Compliance teleconference (video tapes available) and audio tapes with accompanying questionnaires from the 1998 annual meeting. Several additional seminars are being planned for later in the year, as well as courses available through the Society of Actuaries Virtual

Campus. For information on these programs and the Virtual Campus, please check the Society's web site (www.soa.org).

The Spring and Annual Program Committee and the Retirement Systems Practice Area have been working hard at planning the educational programs for 1999. While not complete, I've outlined those programs and sessions on page 29 so you can include them in your educational calendars. Of the two spring meetings, Seattle, June 16-18, has been designated the Health and Pension meeting. For those of you who are Enrolled Actuaries, please think about the record-keeping piece of the EA continuing education process early.

Hundreds of calls were logged in at the Society of Actuaries' office during December from EAs needing to fulfill their 36 credits by year-end. Create a folder for seminar and meeting materials and label it "EA Credit 1999-2001."



On the inside cover list the date, location, program title, and sponsor, as well as the number of credits available from the program you attend. This will help sort out what you have accomplished each year.

If you are interested in speaking at any of the sessions listed on page 27 or if you have any questions or comments about Society of Actuaries educational programs, please contact me at the Society office (847/ 706-3546) or e-mail me at bchoyke@soa.org.

Barbara Choyke, CAE, is Director of Continuing Education at the Society of Actuaries in Schaumburg, IL.

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Chairperson's Corner by Amy Timmons

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distribution of announcements for such seminars to the other organizations.

Pension actuaries are unlike life insurance or casualty actuaries in that the Society of Actuaries typically plays a secondary role to Enrollment requirements. For technical, up-to-date information, most pension actuaries attend the Enrolled Actuaries' meeting. For training on management issues or client relations, many pension actuaries look to the Conference of Consulting Actuaries. Competing meetings and redundant topics provide little value to our membership.

Therefore, the Council's response has been to try new approaches to continuing education within the Society's spring meeting. Last year, at the Hawaii spring meeting, we offered a seminar within the meeting on mergers and acquisitions. The seminar was structured to cover all aspects of mergers and acquisitions and included experienced professional and a continuous theme, each session building on the prior session. This approach was well received by the pension actuaries in attendance at the meeting. This year, at the Seattle spring meeting, we will continue this concept with a series of sessions on plan design—a seminar within a seminar if you will.

We have also tried to add particular sessions to the spring meeting to address the loss of practical pension knowledge. At the 1998 spring meeting, one of the sessions offered was "The Lost Art of Estimation." This session was a refresher course on those "rules of thumb" every senior actuary uses



when placed on the spot in a board meeting or with a client to "just give a guess" on what the impact will be of a plan or assumption change. This session was a sell-out with a standing-room only crowd (if you can believe that!). Obviously, this is information that is not being taught to newer actuaries and that there is a definite need for. Therefore, we will be expanding this session into a one-day seminar for those of you who

couldn't make it to Hawaii.

The Pension Section Council wants to add value to your membership, represent your interests to the Society, and address the needs of pension actuaries. Our focus in the next year will be to continue moving from simply talking about the problems to actually

doing something to resolve them. Hopefully, we can succeed!

Amy S. Timmons, FSA, is consulting actuary at The Segal Company in Englewood, CO and Chairperson of the Pension Section.

Minutes From The Pension Section Council Meeting in Boston, Monday, October 5, 1998

Attendees: Daniel Arnold, Bruce Cadenhead, Colin England, Adrien LaBombarde, Lindsay Malkiewich, Martha Moeller, Sylvia Pozezanac, Lee Trad, Amy Viener, Carolyn Zimmerman and Judy Anderson and Lois Chinnock (SOA staff)

1. **Welcome**

2. **Additional Items for Agenda Seminars**

3. **Approval of Minutes, July 13, 1998 meeting**

The minutes of the July 13, 1998 meeting were approved.

4. **Election of Officers**

The following officers were elected:
Chair - Amy Timmons

Vice-Chair - Colin England
Treasurer - Lindsay Malkiewich
Secretary - Sylvia Pozezanac

5. **Membership Survey Results**

A brief overview of the membership survey results was given. Adrien LaBombarde will write an article summarizing survey responses for the *Pension Section Newsletter*. Responses will also be posted on the SOA

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Pension Section Meeting

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Website. Adrien LaBombarde and Lois Chinnock are to look into this.

A suggestion was made that a list of pension study notes also be published in the *Pension Section Newsletter*. Concerns were expressed that this would be a long list. Judy Anderson will compile a list.

6. Retirement Systems Practice Advancement Committee - Report

This group includes the Chair of the Pension Section Council and liaisons from the AAA and CIA. The Chair of each Retirement Systems Committee is automatically a member.

Carol Zimmerman attended the meeting. Some of the high points discussed were: gap analysis, new skills needed and the need for seminars/classes regarding the new exam structure. Kevin Shand is coordinating these new classes; a question was posed as to whether someone on the Pension Section Council would be interested in getting involved.

Seminars—A question was posed as to whether the Pension Section would be interested in sponsoring a seminar. The Section would not have to bear the financial risk. A discussion ensued regarding holding these on a teleconference. A comment was made that a one-day seminar costs as much as the three-day Spring meeting so 50 people attending would break even. A further comment was made that seminars could be more cost effective if they were easily repeated: CD-ROM, video, detailed notes.

Joint Board Exams—The EA exams are being restructured; the SOA exams are also being changed. Currently, the SOA offsets EAIB (cost methods). The SOA would like the Joint Board to offset EAIA (theory of interest/life contingencies) but it may be difficult to convince the Joint Board. The SOA will continue sponsoring EA exams even though they give no SOA credits. A question was posed as to what would help to convince the Joint Board to give the offset: proposed response, a letter from employers.

7. Retirement Systems Practice Area Update

Neil Parmenter would like section support for the SOA annual meeting in the Fall of 1999 in San Francisco—SOA 50th anniversary. He needs help developing the program and getting speakers. A comment was made that some time ago, the Pension Section had decided not to get involved in the Fall SOA annual meeting. The Section will volunteer to repeat some of the Spring 1999 Meeting sessions.

8. 1999 Spring Meeting - Sessions Topics

The 1999 Spring Meeting will be held in Seattle June 16 to 18. There will be three tracks. The Pension Section must plan for/organize 16 to 18 sessions.

Practice Area suggestions:

1. GATT mortality study - Lindsay Malkiewich to draft description
2. ASB update - Lindsay Malkiewich
3. Asset valuation method - Lee Trad & Judy Anderson
4. Social Security (2 sessions) - Judy Anderson
5. Retirement Needs Framework (2 sessions) - Colin England

Seminar

6. Plan design (6 sessions) - Bruce Cadenhead & Martha Moeller
 - I. Introduction
 - a. Changing Environment
 - b. Retirement Needs
 - c. Competition
 - d. DC vs. DB vs. CB
 - II. Actuarial and legal considerations
 - III. Employer perspectives
 - IV. Employee perspectives
 - V. Case Study
 - VI. Compare/Contrast
 - a. U.S.
 - b. Canada
 - c. Other(s)

Other General Sessions

Update of Regulations - Adrien LaBombarde

Changes in Benefits Accounting Rules: US, Canada, IAS - Lee Trad

Ethics - Lee Trad

Surplus Management: i) case studies, ii) US vs. Canada - Carol Zimmerman

Information Resources for Pension Actuary - Adrien LaBombarde & Judy Anderson

Section 415 issues - Amy Viener

Special-interest dinners - It was suggested that this did not really work in Hawaii and therefore a question was posed as to whether we wanted to hold one at the 1999 Spring Meeting. It was decided that no such dinner would be held by the Pension Section.

Reception - At the Hawaii meeting, a reception was held on Tuesday night jointly with the Health Section. If we wanted to again hold a reception at the Spring 1999 Meeting, the choices would be:

- Luncheon - Thursday
- Breakfast - Thursday or Friday
- Reception - Thursday

It was decided that the Pension Section would hold a 4 pm to 6 pm activity on Thursday or a luncheon on Thursday.

9. Publications - Pension Section Newsletter, Forum, 50th anniversary SOA

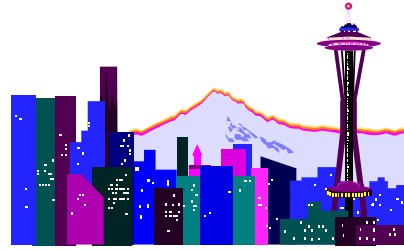
Daniel Arnold gave a brief overview of publication guidelines. The Section publishes the *Newsletter and Forum*. Also, we publish annually the highlights of the PBGC trustee reports featuring actuarial assumptions. The next issue of the newsletter will have a Study Note Corner and the last page is always education. There are also Associate Editors for special issues in Spanish and French.

The newsletter basically publishes the material that is sent in by individuals,

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Continuing Education Update

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Seattle Spring Meeting Wednesday, June 16, 1999

10:30 am - 12:00 noon	What Does Mortality "GATT" To Do with It? Individual Retirement Experience Opportunities for the International Actuary	Core Core No Credit
1:30 pm - 3:00 pm	Pension Reform in Eurasia* (Eastern Europe and Asia) Retirement Plans for Today's Workforce The Changing World of Pension Accounting	No Credit Noncore Noncore
3:30 pm - 5:00 pm	Legal and Actuarial Considerations in Modifying a Retirement Program Individual Retirement Planning The Actuarial Standards Board (ASB)	Core/Noncore Noncore Noncore

Thursday, June 17, 1999

8:30 am - 10:00 noon	Plan Design Issues: The Employer Perspective Is the Social Security Debate Focused on the Right Issues?	Noncore Noncore
10:30 am - 12:00 noon	Plan Design Issues: The Employee Perspective Technical Concerns: Method to Your Madness (Which Asset Method Is for You?)	Noncore Core
1:30 pm - 3:00 pm	Pension Rulings and Regulation Update Evaluating Issues in Privatizing Social Security Retirement Plan Design: Case Studies	Core Noncore Core/Noncore
8:30 pm - 9:30 pm	Joint Health/Pension Section Reception	N/A

Friday, June 18, 1999

8:30 am - 10:00 am	Standards, Standards, and More Standards Managing Pension Surplus (or Lack Thereof) Privatizing Social Security? —A Discussion	Core/Noncore Noncore Noncore
10:30 am - 12:00 noon	Pension Information Sources Maximum Benefit Limitations Adapting FAS 106 Assumptions as Medicare + Choice Unfolds Why Men Die Younger: Causes of Mortality Differences by Gender	Noncore Core No Credit Core

Pension Section Meeting

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provided such material is sent in by an actuary. Nothing special is being done from the Pension Section Council regarding the SOA's 50th anniversary. Daniel Arnold was informed of the upcoming articles regarding the membership survey results and the list of Pension study notes. The next issue of the Newsletter is the October one, and while the following one will be the December issue.

10. 1999 Spring Meeting - Drafting session descriptions

11. Treasurer's Report

The Section's financial statements were presented by Martha Moeller. The estimated year-end 1998 results indicate a cash fund balance of \$51,000. However, certain elements will likely change and the year-end balance could actually be 60,000 to \$65,000.

12. Pension Boot Camp - (CD-ROM)

This will be a program to train entry level actuaries. The final program will likely be a CD-ROM. Three people requested material regarding the request for proposal. At least one proposal has been received.

13. Research/funding

Current projects for which the Section has/will provide funding: Canadian mortality (\$3,320), multivariate mortality study (\$10,000) and retirement needs framework (\$2,500).

14. New business

The next meeting of the Pension Section Council will be Monday, January 11, 1999, in New York. The following meeting will be March 14, 1999, in Washington.

15. Adjournment

Respectfully submitted,

Sylvia Pozezanac, FSA

Pension Section Meeting in Boston



"Old and New" Pension Section Council members meeting in Boston to plan upcoming Section activities.

Standing Left to Right—Lee Trad, Lindsay Malkiewich, Carolyn Zimmerman (1997-98 Chairperson), Adrien LaBombarde.

Seated Left to Right—Amy Viener, Martha Moeller, and Colin England.

Not Pictured—Bruce Cadenhead & Sylvia Pozezanac.



Martha Moeller, (right) presents a gift of appreciation to Carolyn Zimmerman, 1997-98 Pension Section Chairperson.