



SOCIETY OF ACTUARIES

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A Memo...

Chairperson's Corner

by Colin England

I am the new Pension Section Chairman. Many of you may have met me before, at Enrolled Actuary meetings, at Society meetings or at one of my jobs. I invite the rest of you to introduce yourselves at the EA meeting, the Spring or Annual meeting.

The mission of the Pension Section is to:

- Provide or support educational opportunities to its members
- Support research that will enhance the ability of its members to work with their clients.

It's a simple mission, but a critical one in a constantly changing world. We're responsible for a wide variety of activities that support this mission, from commissioning studies on mortality and termination experience to arranging seminars on topics such as cash balance plans, mergers and acquisitions and the

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Tax Assistance to Qualified Retirement Savings Plans: Deferral or Waiver?

by Robert L. Brown

Editor's Note: This article is reprinted with permission by Absalom Press and Robert L. Brown. It previously ran in the Journal of Actuarial Practice, Vol. 2, No. 1, 1994, and is still relevant today.

Abstract

There exist significant tax incentives for retirement savings plans in Canada and the United States. Qualified employer and employee contributions, within limits, are tax deductible to the employer and nontaxable to the employee. Also, investment income is not taxed until taken. On the other hand, monies received from funds having such tax incentives are taxable in full as income to the recipient when taken. This paper analyzes the two tax advantages of qualified retirement savings plans: the tax deductibility of contributions and the nontaxation of investment income until it has been distributed. The algebraic analysis shows that the deductibility of contributions represents a deferral of tax, but that it does not create any permanent loss of revenue to the government. On the other hand, the algebra indicates that there is a permanent tax subsidy associated with the deferred taxation of investment income.

Canadian and United States laws provide significant tax incentives for individuals to save for retirement through qualified vehicles. There are two tax incentives provided in the United States and Canada:

- 1) Employer contributions to qualified plans are tax deductible to the employer and nontaxable to the employee. For employees and individuals saving for retirement

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Chairperson's Column

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lost art of estimating. We plan sessions for the Spring meeting, picking topics and arranging for speakers. We arrange for several publications, including this newsletter (prepared admirably by Dan Arnold), statistics for actuaries, and the *Pension Forum*.

What we don't do is take stands on the various issues. For example, we're neither for nor against cash balance plans, but we'll spend our time and your money (dues) educating our membership about the design, funding and communications issues that beset cash plans. We'll leave the political issues to the American Academy of Actuaries.

This year the Section Council expects to:

- Expand our efforts to take advantage of the Internet. We're looking into using the Internet to provide you the newsletter more quickly and more



Colin England

We also want to extend membership, in some form, to pension actuaries who are not Society members.

- Increase the number of seminars we prepare to help both students near Fellowship and the rest of us learn more about the important issues that affect us all.

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cheaply. We're experimenting with putting some of our seminars online, where you can learn from them without the cost and bother of traveling. We're also near completion of the initial phase of the actuarial training materials for new actuarial students. When completed, these materials will be accessible through the Web to your new students.

- Encourage all pension actuaries to join the Section. The Section provides education and research that is valuable to all pension actuaries. We want to remove the barriers that keep our fellow Society members specializing in pensions from joining.

Please help us meet these goals. Volunteer to lead a seminar (either one of the five we're preparing or one the Retirement Systems Practice Area is sponsoring). Talk to your fellow pension actuaries about why they should be members. Help us with the effort to move educational efforts to the Internet, by making sure we have your Internet address, and telling us about what your firm has learned in its efforts to use the Internet.

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HELP US BUILD A HYBRID PENSION PLAN BIBLIOGRAPHY

The Society of Actuaries (SOA) is involved in a number of activities that relate to cash balance plans:

- A research report on the actuarial aspects of cash balance plans has been drafted and is in the final stages of review.
- A call for papers soon to be released will address a variety of funding, plan design and labor force incentives.
- A seminar is planned for this summer or fall that will cover recent trends in these plans.

These hybrid plans have unique characteristics that have been analyzed by various actuaries and researchers. We are interested in gathering references and constructing a central library for future research. This request is not limited to recent works. We would like to be able to trace the history of these plans as well. We would also be interested in materials on other varieties of hybrid plans.

If you can identify any material or if your firm can offer any materials it may have produced, please contact Cathy Cimo at the SOA office by e-mail at ccimo@soa.org or phone (847) 706-3587. If you would like a copy of the bibliography to date, it is available on the SOA Web site.