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Chairperson's Corner

by Anne M. Button

Soon you receive the Council's postcard announcing our new strategic project to *Re-envision Retirement*. Anyone who works with pension plans has seen more defined benefit plans freeze in the last few years. The reasons why this is happening today are many, and probably include the "perfect storm" of falling interest rates and falling equity markets, the failure of funding requirements to keep plans solvent, the decline of major industries leading to well-publicized difficulties and plan failures, and changing perspectives on shareholder risk. No wonder that, today, many managers believe that the only viable option available to them is to opt for a defined contribution plan as the only retirement plan.

The Pension Section Council met in January 2005 and set as one of its goals to "save the defined benefit plan." But, over last year, we discovered we needed to step back and look at the bigger picture. We need to design a system from the ground up, based on the new retirement fundamentals of the 21st century: what does retirement mean when people are expected to live healthy lives well into their eighties and could easily begin another career in their fifties? How long-term is any plan, or any company? What risks can shareholders take? Maybe, we realized, it's not that defined contribution plans are better, but maybe a new century demands a new type of retirement system.

To answer that challenge we have embarked on this important project and hope to proactively tap into actuaries' demographic and financial skills, in active collaboration with other experts (e.g., economists, demographers, sociologists) to:

- Understand the needs and competing interests of individuals, shareholders/business and society regarding retirement.
- Understand the changing demographic and economic climate and how that is driving changes in retirement.
- Through this understanding, and our knowledge of risk and risk pooling, design a practical, sustainable and versatile retirement income model to meet evolving conditions and help secure future retirement.

We believe we can be successful in this project, and with that success we will see:

- New retirement risk sharing models are developed that utilize actuarial principles of risk pooling and risk sharing.
- Society looks to actuaries as key players, with others, to design better retirement risk-sharing systems for the 21st century.
- Individuals and employers look to actuaries to help design next generation retirement risk-sharing systems, recognizing that moving all risk to individuals (income, medical and long-term care) is not, by itself, a solution.

The work has already begun. The Pension Section Council has taken steps in identifying the conditions underlying the system, stakeholders in a retirement program, risks associated with each stakeholder, as well as what we need to know in order to develop a system that will accommodate individuals at different life stages. Separately we had launched the “Re-Envisioning Retirement for the 21st Century” call for papers (symposium scheduled for May) to get some fresh ideas into the system. Our next step is to organize a symposium in September where we invite the experts in the different intersecting fields to work actively to respond to key questions such as who should bear the risk, how should risks be pooled, what systematic risks do we need to watch out for, how do you balance individual risks, and what’s missing from the market? We’re excited about the prospect of leading pension actuaries into the 21st century, and we hope you are too. *If you have any questions or comments regarding this endeavor or would like to volunteer, please email us at retirement2020@soa.org.*

While we have committed to this large project, we are also committed to meeting your ongoing needs. Our work to give you the tools you need to do your job today will not cease. Just a few examples of recent work includes:

- The Enterprise Risk Management and Pension Finance Seminar embedded in the 2005 SOA Annual Meeting received very good feedback and we took the best-reviewed session from the meeting and made it available as a webcast in March. In addition, we’ve held several webcasts on hot topics, including GASB 45 and public understanding of retirement risk, and plan for many more in 2006.
- We’re partnering with the Conference of Consulting Actuaries to provide more options in the spring meeting, featuring seven embedded seminars on diverse topics such as frozen plans, investments and the future of pensions. Our goal is to give you opportunity for in-depth learning as well as to earn Enrolled Actuary Credits.
- We’ve launched the stock option exercise experience study to gather real data about option exercise. Once

completed, and we’re over a year from having preliminary results, you’ll have the data you need to do a better job with FAS 123 valuations. This will also give you an edge over your competitors in this work.

And last, but not least, our research efforts keep moving forward. We have: selected a research team from the Harvard Law School to conduct the literature review “Defined Benefit versus Defined Contribution: Inherent and Stakeholder Value;” issued an open request for proposals for projects that would “result in new information, data, or methods useful to practicing retirement plan actuaries;” issued a request for a proposal “Reversion Taxes—Quantifying their Impact on Pension Plan Funding;” as well as issued a request for a proposal regarding “Modeling Long Term Medical Trends for Valuation.”

There is a popular saying that is often attributed to an ancient Chinese curse that goes “may you live in interesting times.” Your section council is ready to meet the challenge of these interesting times. Are you with us?

Please e-mail me at anbutton@deloitte.com with any comments you have about any work of the Council. ♦



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