SOCIETY OF ACTUARIES

PENSION SECTION NEWS

January 2008, Issue No. 66

IN THIS ISSUE

LINKS

Pension Section Council

20 / 20 Web site

Contact the Editor

Calendar of Events

EVENTS

CHAIRPERSON'S CORNER

Martine Sohier, FSA, FCIA

We've all heard about large North American employers taking the defined contribution route over the last few years. When I look at the employers that still have defined benefit plans, I hope, as a pension actuary, that these employers will continue to think and see the world differently. But why would they?

We all know that we have not seen the end of the wave of employers moving to defined contribution plans. There are still some large organizations that have the intention of taking the defined contribution path. But, the end of the defined benefit era may be what it takes to bring the pendulum back eventually, or to push it to somewhere else – to a system that might be better able to respond to the evolving needs of today's and tomorrow's workers.

An employer's rationale for choosing the defined contribution path is obviously to eliminate cost volatility and complexity of administration. When asked about the objectives involved in deciding to adopt a new defined contribution plan, employers all respond very clearly: "The answer is simple. We want to get out of the defined benefit world. All our competitors are adopting defined contribution plans. Young employees do not care about defined benefit plans. They want control of their defined contribution account!" These employer considerations are rather short-term. There is minimal thinking going on about the reality of 10 to 15 years down the road when some of these employees will approach retirement. At that point, the decision makers will no longer be around anyway, maybe retired and living worry-free with their defined benefit pension...

I found a recent situation interesting. An employer who had just decided to implement a defined contribution plan for new hires was using the old now-closed-to-new-entrants defined benefit plan to manage a workforce reduction. This employer assumed that the new defined contribution plan would not impede similar future workforce management initiatives pertaining to the DC plan members, and would have no impact on historical retirement age patterns. The answer to encouraging a long-term orderly exit of DC plan members is to tell employees to save lots!!! The answer to managing next week's downsizing of a DC-only workforce is??? Well, retirement may not be that far off! This presents planning issues for both employers and employees.

As actuaries, what can we do to help create solutions to solve these retirement issues? In a defined contribution environment, we know that increased contribution rates will help achieve (but can't guarantee) better replacement ratios. Should we promote gradual and/or partial annuitization? What about the use of additional target replacement ratio funding? How can we encourage the formation of groups to pool risks?

What types of groups? Using some of these means could make defined contribution plans more effective in the delivery of retirement income.

When thinking about the future of pension plans and the larger retirement system, who knows if labor shortages will create pressure to encourage the introduction of some new form of program or give employees the power to negotiate individual retirement packages tailored to their specific needs?

We can't predict the future. In the meantime, let's focus on *Retirement 20/20* and work to find the solution we need to respond to the pension challenges that the future is sure to bring.

Changes to the Council

I would like to welcome Sheldon Gamzon, Ann Gineo, Marcus Robertson, and Annette Strand as new Pension Section Council members and to thank outgoing members Josh Bank, Tammy Dixon, and David Kass for their important contributions to our section. Congratulations also to our 2008 chair, Sandi Kruszenski! Finally, I want to thank all of those who continue to contribute to the success of Section and SOA activities through their volunteer involvement.

Comments on how the Pension Section Council can improve the delivery of pension information are always welcome. Please e-mail Sandi Kruszenski at *sandbrd@comcast.net*.

Martine Sohier, FSA, FCIA, was 2007 chair of the Pension Section Council. She is a senior consultant with Watson Wyatt Worldwide in Toronto, Ontario and can be reached at *martine.sohier@watsonwyatt.com*.

Next Article >>

| Print This Article

Countdown to Share Comments on CPD Requirement Begins!

Hurry! Don't miss your chance to share your comments with the SOA Board on the CPD Requirement Exposure Draft. The comment period, launched in November 2007, will close on February 22, 2008.

Click here for more information.

Save the Date: June 4-6, 2008

The Joint CCA/SOA Employee Benefits Spring Meeting will take place in Tampa, FL. Stay tuned to *www.soa.org*, Meetings & Events for more information.