

Rationalizing the Security and Ultimate Delivery of Promised Private Retirement Plan Benefits: The Missing Asset

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Abstract

The tension created by the opposing interests of plan sponsors versus employees and society (for example, the Pension Benefit Guaranty Corporation), managers versus the debt rating organizations, and investors versus customers cannot be resolved without requiring an expansion of the promissory instruments held by private retirement plans. Actuaries need to return to their unbiased roots to help their publics understand present values of future promises and how those values vary depending upon the source of the promise. Actuaries should also be more forthright about the principle that the person who carries the risk should receive the rewards of carrying that risk and the true nature of investments held by retirement funds.

The paper asserts that funding is the natural result of managing liability. The paper argues that (1) thinly capitalized entities should not be involved in the business of insurance and/or annuities, (2) all investments are promissory notes based on the anticipated values of future earnings, (3) the single most important promissory note is missing from the portfolio of every North American private retirement plan, and (4) retirement plan security should not limit the rights of employees and employers to bargain over pay and benefits. The ramifications of these arguments are discussed.

The paper looks to successes in other industries for examples. It also draws comparisons between public and private plans in the United States and Canada and identifies what funding can and cannot achieve, including some of the issues related to the defined contributions–defined benefits controversy.

The paper emphasizes the importance of rules that recognize the broad spectrum of retirement plan design around the world and the related importance of using that information to improve security and delivery of benefits in North America. The paper suggests that North Americans should recognize which elements of their retirement plan systems are universal versus those that are culturally bound.