



SOCIETY OF ACTUARIES

Pension Section News

Summary of 2003 IRC, PBGC, Federal Income Tax, Social Security and Medicare Amounts

by Heidi Rackley

Summary

This article summarizes 2003 cost-of-living adjustments related to employee benefit plans, including: (i) Internal Revenue Code (IRC) limits applicable to qualified retirement plans, transportation fringe benefits, adoption assistance programs, medical savings accounts and long-term care plans, (ii) PBGC guaranteed benefits, (iii) federal income tax factors, (iv) Social Security and Supplemental Security Income, (v) Medicare and (vi) covered compensation.

IRC qualified retirement plan limits

Recent low inflation—the increase in third quarter CPI-U from 2001 to 2002 was only 1.6 percent—combined with the IRC's rounding rules (limits are rounded down to multiples of \$50, \$500 or \$5,000) kept most 2003 qualified plan limits at their 2002 values. The exceptions are limits set to increase by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). EGTRRA changed many retirement plan dollar limits for 2002, added others and changed the future indexing rules for many limits. (Unless extended by future legislation, the EGTRRA changes will sunset after 2010.) The Job Creation and Worker Assistance Act of 2002 further changed the 409(o)(1)(C) tax-credit ESOP distribution period limits and 408(k)(2)(C)

SEP minimum compensation limit. The table on page 4 shows the rounded and unrounded 2003 limits (IRS published the rounded limits in Notice 2002-71) and the prior three year's limits.

Other employee-benefit-related IRC limits

Qualified transportation fringe benefit limits, qualified adoption assistance program limits and medical savings account (MSA) limits for 2003 reflect the 1.6 percent increase in the average CPI-U for the 12 months ending August 31 and are rounded to multiples of \$5, \$10 or \$50. (The Transportation Equity Act for the 21st Century amended IRC Section 132(f), qualified transportation fringe benefit limits, and EGTRRA amended IRC Section 137, qualified adoption assistance program limits, both effective for tax years beginning after 2001.) Qualified long-term care premium and per diem limits reflect the 4.7 percent increase in the medical care component of CPI-U from August 2001 to August 2002 and are rounded to the nearest multiple of \$10. The table on page 5 shows the rounded 2003 limits, published by IRS in Rev. Proc. 2002-70 and the prior four year's limits.

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Pension News

Issue Number 51 • February 2003

Published by the Pension Section Council of the Society of Actuaries
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Schaumburg, IL 60173-2226

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This newsletter is free to section members. A subscription is \$15.00 for nonmembers. Current-year issues are available from the Communications Department. Back issues of section newsletters have been placed in the SOA library and on the SOA Web site: (www.soa.org). Photocopies of back issues may be requested for a nominal fee.

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Printed in the United States of America.

Articles Needed for the News

Your help and participation is 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 committees, etc. If you would like to submit an article or be an associate editor, please call Dan Arnold, editor, 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 follow:

| Publication Date | Submission Deadline |
|------------------|---------------------|
| June | April 21, 2003 |
| September | July 21, 2003 |
| December | October 21, 2002 |

Preferred Format

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

Please e-mail your articles as attachments in either MSWord (.doc) or Simple Text (.txt) files. We are able to convert most PC-compatible software packages. Headlines are typed upper and lower case. Please use a 10 point Times New Roman font for the body text. Carriage returns are put in only at the end of paragraphs. The right-hand margin is not justified.

If you must submit articles in another manner, please call Bryeanne Summers, 847.706.3573, at the Society of Actuaries for help.

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Chairperson's Corner

by Marilyn Miller Oliver

I'd like to encourage pension actuaries to attend the June SOA meeting in Vancouver. Why attend?—because:

1. The sessions in the retirement area will be timely and applicable to daily practice

There will be a number of sessions related to the current equity market including sessions addressing consulting, assumption-setting and PBGC issues. Other sessions will address actuarial consulting issues as seen from the plan sponsor's perspective, effective communication with plan participants, E&O issues, and sponsor risk-management and fiduciary issues. For those practicing in the public sector, there will be a session on the new GASB exposure draft on post-retirement benefits and a session specifically addressing public-sector retirement issues in a down economy. The speakers are senior actuarial consultants with a wide breath of experience.

2. There will be sessions on new topics affecting pension actuaries

There will be presentations of papers on financial economics—an area that is coming more to the attention of pension actuaries and may have a significant impact on our practice in the future.

In the plan design area, there will be a session on the results of a survey of workers and retirees regarding retirement plan design and a session on phased retirement.

3. You will be the beneficiary of synergies with other special interest sections sponsoring the meeting—namely the Health, Long-Term Care, and Investment Sections.

Relevant sessions include those on health care cost trends, prescription drug issues, defined contribution health plans, group long term care product development, and the impact of current equity markets on pension plans.

4. There will be speakers from the IRS and PBGC discussing current issues

5. There will be opportunities for discussions with other professionals with similar and related interests

The Pension, Health, Small Consulting Firm, and Long-term Care Sections are sponsoring receptions.

Hope to see you in Vancouver. ☘



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You will be the beneficiary of synergies with other special interest sections sponsoring the meeting.

IRC qualified retirement plan limits

| IRC Limit | Post-EGTRRA | | | Pre-EGTRRA | |
|--|-------------------|-----------------|----------|------------|---------|
| | 2003 Unrounded | 2003 Rounded | 2002 | 2001 | 2000 |
| 401(k) and 403(b) plan elective deferral limit ¹ | \$12,000 | \$12,000 | \$11,000 | \$10,500 | 10,500 |
| Eligible 457 plan deferral limit ¹ | 12,000 | 12,000 | 11,000 | 8,500 | 8,000 |
| 414(v)(2)(B)(i) catch-up contribution limit (plans other than SIMPLE plans) ¹ | 2,000 | 2,000 | 1,000 | N/A | N/A |
| 408(p)(2)(E) SIMPLE plan elective deferral limit ¹ | 8,000 | 8,000 | 7,000 | 6,500 | 6,000 |
| 414(v)(2)(B)(ii) SIMPLE plan catch-up contribution limit ¹ | 1,000 | 1,000 | 500 | N/A | N/A |
| 408(k)(2)(C) SEP minimum compensation | 457 | 450 | 450 | 450 | 450 |
| 219(b)(1)(A) IRA maximum deductible amount ¹ | 3,000 | 3,000 | 3,000 | 2,000 | 2,000 |
| 219(b)(1)(B) IRA catch-up contribution amount ¹ | 500 | 500 | 500 | N/A | N/A |
| 415(b) defined benefit maximum annuity | 162,544 | 160,000 | 160,000 | 140,000 | 135,000 |
| 415(c) defined contribution maximum annual addition | 40,636 | 40,000 | 40,000 | 35,000 | 30,000 |
| 401(a)(17) and 408(k)(3)(C) compensation limit | 203,160 | 200,000 | 200,000 | 170,000 | 170,000 |
| 401(a)(17) compensation limit for eligible participants in certain governmental plans in effect July 1, 1993 | 300,160 | 300,000 | 295,000 | 285,000 | 275,000 |
| 414(q)(1)(B) highly compensated employee and 414(q)(1)(C) top-paid group | 91,808 | 90,000 | 90,000 | 85,000 | 85,000 |
| 416(j)(1)(A)(i) officer compensation for top-heavy plan key employee definition | 132,067 | 130,000 | 130,000 | 70,000 | 67,500 |
| 1.61-21(f)(5) control employee for fringe benefit valuation purposes | | | | | |
| Officer compensation | 81,770 | 80,000 | 80,000 | 75,000 | 75,000 |
| Employee compensation | 163,540 | 160,000 | 160,000 | 155,000 | 150,000 |
| 409(o)(1)(C) tax-credit ESOP distribution period | | | | | |
| 5-year maximum balance | 812,720 | 810,000 | 800,000 | 780,000 | 755,000 |
| 1-year extension | 162,544 | 160,000 | 160,000 | 155,000 | 150,000 |

¹ 2003 limit is set by statute

Rounded IRC limits

| IRC Limit | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|-------------|-------------|-------------|-------------|-------------|
| 132(f) tax-free qualified transportation fringe benefit | | | | | |
| Parking | \$190 | \$185 | \$180 | \$175 | \$175 |
| Transit passes or commuter highway vehicle transportation | 100 | 100 | 65 | 65 | 65 |
| 137 qualified adoption assistance program | | | | | |
| Exclusion for child with special needs | 10,160 | 10,000 | 6,000 | 6,000 | 6,000 |
| Aggregate limit for all taxable years (child without special needs) | 10,160 | 10,000 | 5,000 | 5,000 | 5,000 |
| Phase-out begins at adjusted gross income of | 152,390 | 150,000 | 75,000 | 75,000 | 75,000 |
| 220(c)(2) MSA high deductible health plan — self-only coverage | | | | | |
| Minimum annual deductible | 1,700 | 1,650 | 1,600 | 1,550 | 1,550 |
| Maximum annual deductible | 2,500 | 2,500 | 2,400 | 2,350 | 2,300 |
| Maximum out-of-pocket limit | 3,350 | 3,300 | 3,200 | 3,100 | 3,050 |
| 220(c)(2) MSA high deductible health plan — family coverage | | | | | |
| Minimum annual deductible | 3,350 | 3,300 | 3,200 | 3,100 | 3,050 |
| Maximum annual deductible | 5,050 | 4,950 | 4,800 | 4,650 | 4,600 |
| Maximum out-of-pocket limit | 6,150 | 6,050 | 5,850 | 5,700 | 5,600 |
| 213(d) qualified long-term care premium limits | | | | | |
| Age 40 or younger | 250 | 240 | 230 | 220 | 210 |
| 41 — 50 | 470 | 450 | 430 | 410 | 400 |
| 51 — 60 | 940 | 900 | 860 | 820 | 800 |
| 61 — 70 | 2,510 | 2,390 | 2,290 | 2,200 | 2,120 |
| Over 70 | 3,130 | 2,990 | 2,860 | 2,750 | 2,660 |
| 7702B(d)(4) qualified long-term care contract per diem limit | 220 | 210 | 200 | 190 | 190 |

(continued on page 6)

PBGC guaranteed benefits

The maximum PBGC guaranteed monthly benefit is adjusted annually on the basis of changes in the Social Security “old law” contribution and benefit base. For a single-employer defined benefit plan terminating in 2003, the maximum guaranteed benefit will be \$3,664.77 per month — a 2.4 percent increase over the 2002 limit of \$3,579.55. This amount is adjusted if benefit payments start before age 65 or if benefits are paid in a form other than a single-life annuity. Some of the guaranteed amount may be paid from the plan’s assets, and participants may receive more if the plan is better funded or the PBGC can recover other amounts from the plan sponsor.

Federal income tax – phase-in of EGTRRA changes

EGTRRA reduced marginal tax rates across the board and created a new 10 percent tax bracket, carved out of the lower portion of the 15 percent tax bracket. EGTRRA tax provisions will be phased in over several years, including gradual reduction and ultimate repeal of the estate tax (starting in 2002) and the limits on itemized deductions and personal exemptions (beginning in 2006). Marriage penalty relief begins in 2005. The table on page 6 summarizes the effective dates of key EGTRRA changes. Unless extended by future legislation, the EGTRRA changes will sunset after 2010.

| Provision | Pre-EGTRRA | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|--|------------|--|--|------|-------|------|------------------------------------|---|------------------------------------|---|----------|
| Tax rates | 39.6% | 39.1% | 38.6% | | 37.6% | | | | 35.0% | | |
| | 36.0% | 35.5% | 35.0% | | 34.0% | | | | 33.0% | | |
| | 31.0% | 30.5% | 30.0% | | 29.0% | | | | 28.0% | | |
| | 28.0% | 27.5% | 27.0% | | 26.0% | | | | 25.0% | | |
| | 15.0% | 10% of first \$6,000 of income for singles or first \$12,000 of income for married couples; 15% for remaining portion of tax bracket | | | | | | Breakpoints between 10% and 15% rates increased to \$7,000/\$14,000 | | Breakpoints between 10% and 15% rates indexed for inflation | |
| Child credit | \$500 | \$600 | | | \$700 | | | \$800 | \$1,000 | | |
| Saver tax credit | N/A | N/A | Applicable percentage ¹ of qualified retirement savings contributions up to \$2,000 | | | | Expired | | | | |
| Estate tax | | | | | | | | | | | |
| Top rate | 55% | 55% | 50% | 49% | 48% | 47% | 46% | | 45% | | Repealed |
| Exemption (millions) | \$0.675 | \$0.675 | \$1.0 | | \$1.5 | | \$2.0 | | \$3.5 | | Repealed |
| Marriage penalty relief beginning in 2005 | | | | | | | | | | | |
| Standard deduction for married as % of single | | | | | | 174% | 184% | 187% | 190% | 200% | |
| 15% bracket maximum income for married as % of single | | | | | | 180% | 187% | 193% | 200% | | |
| Phase-out of personal exemption and itemized deductions beginning in 2006 | | | | | | | Phase-out amount is reduced by 1/3 | | Phase-out amount is reduced by 2/3 | | Repealed |

¹ Saver Tax Credit applicable percentage is a function of filing status and adjusted gross income (AGI), as shown below:

| Applicable Percentage | Married Filing Jointly AGI | Head of Household AGI | Other Filing Status AGI |
|-----------------------|----------------------------|-----------------------|-------------------------|
| 50% | up to \$30,000 | up to \$22,500 | up to \$15,000 |
| 20% | \$30,001 – \$32,500 | \$22,501 – \$24,375 | \$15,001 – \$16,250 |
| 10% | \$32,501 – \$50,000 | \$24,376 – \$37,500 | \$16,251 – \$25,000 |
| 0% | over \$50,000 | over \$37,500 | over \$25,000 |

Federal income tax factors

The breakpoints between tax rates (except for the breakpoint between the new 10 percent bracket and the 15 percent bracket) and various other federal income tax factors are

adjusted annually on the basis of year-to-year changes in the average CPI-U for the 12 months ending August 31—a 1.6 percent increase, before rounding, for 2003. IRS published the 2003 factors in Rev. Proc. 2002-70.

| Item and Filing Status | 2003 | 2002 |
|--|-------------|-------------|
| Personal Exemption | \$3,050 | \$3,000 |
| Standard Deduction | | |
| Single | 4,750 | 4,700 |
| Head of Household | 7,000 | 6,900 |
| Married, Filing Jointly | 7,950 | 7,850 |
| Married, Filing Separately | 3,975 | 3,925 |
| Additional Standard Deduction (for elderly or blind) | | |
| Unmarried | 1,150 | 1,150 |
| Married (each) | 950 | 900 |
| "Kiddie" Deduction | 750 | 750 |
| Breakpoint between 10% and 15% rates | | |
| Single | 6,000 | 6,000 |
| Head of Household | 10,000 | 10,000 |
| Married, Filing Jointly | 12,000 | 12,000 |
| Married, Filing Separately | 6,000 | 6,000 |
| Breakpoint between 15% and 27% rates | | |
| Single | 28,400 | 27,950 |
| Head of Household | 38,050 | 37,450 |
| Married, Filing Jointly | 47,450 | 46,700 |
| Married, Filing Separately | 23,725 | 23,350 |
| Breakpoint between 27% and 30% rates | | |
| Single | 68,800 | 67,700 |
| Head of Household | 98,250 | 96,700 |
| Married, Filing Jointly | 114,650 | 112,850 |
| Married, Filing Separately | 57,325 | 56,425 |
| Breakpoint between 30% and 35% rates | | |
| Single | 143,500 | 141,250 |
| Head of Household | 159,100 | 156,600 |
| Married, Filing Jointly | 174,700 | 171,950 |
| Married, Filing Separately | 87,350 | 85,975 |
| Breakpoint between 35% and 38.6% rates | | |
| Single | 311,950 | 307,050 |
| Head of Household | 311,950 | 307,050 |
| Married, Filing Jointly | 311,950 | 307,050 |
| Married, Filing Separately | 155,975 | 153,525 |

Personal exemptions are currently phased out for taxpayers whose adjusted gross incomes exceed specified amounts (which vary by tax filing status). For 2003 these “threshold amounts” at which phase-out begins and ends are shown below. EGTRRA reduces the phase-out of personal exemptions beginning in 2006 and eliminates the phase-out in 2010.

Total itemized deductions for 2003 are reduced by 3 percent of a taxpayer’s adjusted gross income in excess of \$139,500 (\$69,750 for married, filing separately), an increase from \$137,300 in 2002 (\$68,650 for married, filing separately). EGTRRA phases out this reduction in itemized deductions beginning in

EITC. EGTRRA marriage penalty relief increases the threshold phase-out amount for joint return filers by \$1,000 in 2002 – 2004, by \$2,000 in 2005 – 2007 and by \$3,000 after 2007.

Social Security and Supplemental Security Income (SSI) amounts

Social Security benefits payable January 1, 2003, will increase 1.4 percent—the increase in CPI-W from the third quarter of 2001 to the third quarter of 2002. The average monthly Social Security benefits before and after the 1.4 Social Security and Supplemental Security Income (SSI) amounts

| Filing status | Phase-out begins at | Phase-out completed after |
|----------------------------|---------------------|---------------------------|
| Unmarried | \$139,500 | \$262,000 |
| Head of Household | 174,400 | 296,900 |
| Married, Filing Jointly | 209,250 | 331,750 |
| Married, Filing Separately | 104,625 | 165,875 |

2006 and eliminates the reduction in 2010. Certain taxpayers are entitled to a refundable earned income tax credit (EITC) equal to the maximum credit amount reduced by the phase-out amount. The *earned income amount* is the amount of earned income at or above which the maximum amount of the earned income credit is allowed. 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 adjusted gross income or earned income, whichever is greater, over the *threshold phase-out amount*. For tax years beginning after 2001, only taxable earned income (excluding salary reduction contributions under 401(k) plans, cafeteria plans and health or dependent care FSAs) is taken into account when calculating the

Personal exemptions are currently phased out for tax payers whose adjusted gross incomes exceed specified amounts.

| EITC value | 2003 | 2002 |
|--|-------------|-------------|
| Earned income amount | | |
| No qualifying children | \$4,990 | \$4,910 |
| One qualifying child | 7,490 | 7,370 |
| Two or more qualifying children | 10,510 | 10,350 |
| Maximum credit amount | | |
| No qualifying children | 382 | 376 |
| One qualifying child | 2,547 | 2,506 |
| Two or more qualifying children | 4,204 | 4,140 |
| Threshold phase-out amount (and percentage) | | |
| No qualifying children (7.65%) | 6,240 | 6,150 |
| One qualifying child (15.98%) | 13,730 | 13,520 |
| Two or more qualifying children (21.06%) | 13,730 | 13,520 |
| Phase out completed | | |
| No qualifying children | 11,230 | 11,060 |
| One qualifying child | 29,666 | 29,201 |
| Two or more qualifying children | 33,692 | 33,178 |
| Threshold phase-out amount (and percentage), married filing jointly | | |
| No qualifying children (7.65%) | 7,240 | 7,150 |
| One qualifying child (15.98%) | 14,730 | 14,520 |
| Two or more qualifying children (21.06%) | 14,730 | 14,520 |
| Phase out completed, married filing jointly | | |
| No qualifying children (7.65%) | 12,230 | 12,060 |
| One qualifying child (15.98%) | 30,666 | 30,201 |
| Two or more qualifying children (21.06%) | 34,692 | 34,178 |

Social Security and Supplemental Security Income (SSI) amounts

Social Security benefits payable January 1, 2003, will increase 1.4 percent—the increase in CPI-W from the third quarter of 2001 to the third quarter of 2002. The average monthly Social Security benefits before and after the 1.4 percent COLA are shown in the table below.

(continued on page 10)

| Average Monthly Social Security Benefit | After 1.4% COLA | Before 1.4% COLA |
|---|-----------------|------------------|
| All retired workers | \$ 895 | \$882 |
| Aged couple, both receiving benefits | 1,483 | 1,463 |
| Widowed mother and two children | 1,838 | 1,812 |
| Aged widow(er) alone | 862 | 850 |
| Disabled worker, spouse, and children | 1,395 | 1,376 |
| All disabled workers | 833 | 822 |

The 2003 taxable wage base will increase 2.5 percent, from \$84,900 to \$87,000, determined from the change in deemed average annual wages from 2000 to 2001. The table on page 10 shows this and other indexed 2002 and 2003 Social Security and SSI values.

| Social Security/SSI Value | 2003 | 2002 |
|---|-------------|-------------|
| Cost-of-living increase | 1.4% | 2.6% |
| Average annual wage (second preceding year) | \$32,921.92 | \$32,154.82 |
| OASDI contribution and benefit base (wage base) | 87,000 | 84,900 |
| "Old law" contribution and benefit base | 64,500 | 63,000 |
| Retirement earnings test exempt amount (annual) | | |
| Under full retirement age (full year) | 11,520 | 11,280 |
| Year individual attains full retirement age (period before attaining full retirement age) | 30,720 | 30,000 |
| Wages needed for a quarter of coverage | 890 | 870 |
| Disability thresholds | | |
| Substantial gainful activity — non-blind | 800 | 780 |
| Substantial gainful activity — blind | 1,330 | 1,300 |
| Trial work period | 570 | 560 |
| Coverage thresholds for: | | |
| Domestic employees | 1,400 | 1,300 |
| Election workers | 1,200 | 1,200 |
| Maximum monthly Social Security benefit for a worker retiring at full retirement age in: | | |
| January 2002 (age 65) | 1,660 | 1,536 |
| March 2003 (age 65 and 2 months) | 1,741 | n/a |
| 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 | 606 | 592 |
| 15% of AIME over second bend-point | 3,653 | 3,567 |
| 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 | 774 | 756 |
| 134% of PIA over second bend-point up to | 1,118 | 1,092 |
| 175% of PIA over third bend-point | 1,458 | 1,424 |
| SSI federal payment standard | | |
| Individual | 552 | 545 |
| Couple | 829 | 817 |
| SSI resources limit | | |
| Individual | 2,000 | 2,000 |
| Couple | 3,000 | 3,000 |
| SSI student exclusion limits | | |
| Monthly limit | 1,340 | 1,320 |
| Annual limit | 5,410 | 5,340 |

Medicare premiums, coinsurance, and deductibles

The table on page 11 shows the increases in Medicare premiums, coinsurance and deductible amounts from 2002 to 2003.

| Part A—Hospital Insurance | 2003 | 2002 |
|--|----------|----------|
| Inpatient hospital deductible coinsurance | \$840.00 | \$812.00 |
| Daily coinsurance payment for 61-90 days of inpatient hospital care | 210.00 | 203.00 |
| Coinsurance for up to 60 life-time reserve days | 420.00 | 406.00 |
| Daily coinsurance payment for 21-100 days in a skilled nursing facility following a hospital stay of at least three days | 105.00 | 101.50 |
| Voluntary premium for persons not eligible for monthly benefits | 316.00 | 319.00 |
| Alternative reduced premium for persons with 30-39 credits | 174.00 | 175.00 |
| Part B—Medical Insurance | | |
| Annual Deductible | 100.00 | 100.00 |
| Monthly Premium | 58.70 | 54.00 |

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.

Covered compensation

Covered compensation—the average OASDI contribution and benefit base for the 35-year period ending with the year the employee attains Social Security retirement age—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 2003 table on page 12, published in Rev. Rul. 2002-63, rounds values to the nearest \$3,000. ❧

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| Calendar year of birth | Social Security retirement age | Calendar year of Social Security retirement age | Covered compensation | | Rounded covered compensation | |
|------------------------|--------------------------------|---|----------------------|--------|------------------------------|--------|
| | | | 2003 | 2002 | 2003 | 2002 |
| 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 | 33,060 | 33,000 | 33,000 |
| 1935 | 65 | 2000 | 35,100 | 35,100 | 36,000 | 36,000 |
| 1936 | 65 | 2001 | 37,212 | 37,212 | 36,000 | 36,000 |
| 1937 | 65 | 2002 | 39,444 | 39,444 | 39,000 | 39,000 |
| 1938 | 66 | 2004 | 43,968 | 43,848 | 45,000 | 45,000 |
| 1939 | 66 | 2005 | 46,236 | 46,056 | 45,000 | 45,000 |
| 1940 | 66 | 2006 | 48,492 | 48,252 | 48,000 | 48,000 |
| 1941 | 66 | 2007 | 50,724 | 50,424 | 51,000 | 51,000 |
| 1942 | 66 | 2008 | 52,908 | 52,548 | 54,000 | 54,000 |
| 1943 | 66 | 2009 | 55,008 | 54,588 | 54,000 | 54,000 |
| 1944 | 66 | 2010 | 57,096 | 56,616 | 57,000 | 57,000 |
| 1945 | 66 | 2011 | 59,148 | 58,608 | 60,000 | 60,000 |
| 1946 | 66 | 2012 | 61,152 | 60,552 | 60,000 | 60,000 |
| 1947 | 66 | 2013 | 63,132 | 62,472 | 63,000 | 63,000 |
| 1948 | 66 | 2014 | 64,968 | 64,248 | 66,000 | 63,000 |
| 1949 | 66 | 2015 | 66,720 | 65,940 | 66,000 | 66,000 |
| 1950 | 66 | 2016 | 68,352 | 67,512 | 69,000 | 69,000 |
| 1951 | 66 | 2017 | 69,912 | 69,012 | 69,000 | 69,000 |
| 1952 | 66 | 2018 | 71,376 | 70,416 | 72,000 | 69,000 |
| 1953 | 66 | 2019 | 72,780 | 71,760 | 72,000 | 72,000 |
| 1954 | 66 | 2020 | 74,136 | 73,056 | 75,000 | 72,000 |
| 1955 | 67 | 2022 | 76,656 | 75,456 | 78,000 | 75,000 |
| 1956 | 67 | 2023 | 77,856 | 76,596 | 78,000 | 78,000 |
| 1957 | 67 | 2024 | 78,972 | 77,652 | 78,000 | 78,000 |
| 1958 | 67 | 2025 | 79,992 | 78,612 | 81,000 | 78,000 |
| 1959 | 67 | 2026 | 80,952 | 79,512 | 81,000 | 81,000 |
| 1960 | 67 | 2027 | 81,852 | 80,352 | 81,000 | 81,000 |
| 1961 | 67 | 2028 | 82,692 | 81,132 | 84,000 | 81,000 |
| 1962 | 67 | 2029 | 83,448 | 81,828 | 84,000 | 81,000 |
| 1963 | 67 | 2030 | 84,180 | 82,500 | 84,000 | 84,000 |
| 1964 | 67 | 2031 | 84,876 | 83,136 | 84,000 | 84,000 |
| 1965 | 67 | 2032 | 85,500 | 83,700 | 87,000 | 84,000 |
| 1966 | 67 | 2033 | 86,028 | 84,168 | 87,000 | 84,000 |
| 1967 | 67 | 2034 | 86,436 | 84,516 | 87,000 | 84,900 |
| 1968 | 67 | 2035 | 86,748 | 84,768 | 87,000 | 84,900 |
| 1969 | 67 | 2036 | 86,940 | 84,900 | 87,000 | 84,900 |
| 1970 or later | 67 | 2037 | 87,000 | 84,900 | 87,000 | 84,900 |

Pension Section Council

Minutes of Meeting on September 13, 2002

O'Hare Hilton Hotel, Chicago

Attendees: Paul Angelo, Marilyn Oliver, Eric Freden, John Kalnberg, Ian Genno, Tom Lowman, John Wade, Sarah Wright, Judy Anderson, Lois Chinnock, Ken Kent, Michael Pisula.

Welcome

Paul called the meeting to order at 9:30 am. Since two newly elected members (Ken & Michael) were in attendance, everyone introduced themselves.

Minutes

Eric provided minutes of the last meeting and conference calls. As there were no corrections, John moved that the minutes be approved and Sarah seconded the motion. The motion carried.

Treasurer's Report

John reported that we are starting to reduce our balances to the target levels because of the spending we have authorized this year. The Urban Institute and the Linda Smith-Brothers research are not included yet.

The council approved a one-time online course hosting fee of \$2,000.

SOA Structure Presentation; Practice Area Report

Judy made her annual presentation of the Society's organizational structure.

During Judy's practice area report she presented the Practice Area Key Issues for Strategic Planning. The document includes a matrix that identifies how various activities are tied to the various issues so the Retirement Systems Practice Area and the Pension Section can see how each of the key issues is being addressed. It also reflects some of the issues being addressed by Pension Section activities. We should review this matrix and put an agenda item on a future conference call to give Judy feedback on how appropriately we are addressing the various issues.

Pension Basics Course

Sarah discussed the status of the Pension Basics Course. She reviewed Adrien LaBombarde's September 24, 2001 memo on developing and updating the course content.

Research Update

Tom Lowman began a discussion of the status of various research projects.

Moshe Milevsky's Voluntary Annuitization project is awaiting the completion of the contract. The Project Oversight Group will start within three months.

Linda Smith-Brothers' review of retirement timing literature project is ongoing.

Matt Greenwald's survey of retirement feature preferences is ongoing.

Lawrence Bader & Jeremy Gold's paper on Reinventing Pension Actuarial Science is scheduled to appear in *The Pension Forum*, to be published later in the year.

Update on Economic Statistics

Marilyn reported that the Economic Statistics project is almost complete. The tables to be included have been decided. Marilyn will recommend that an actuary at Milliman review the information before it is finally released. She also mentioned that there is an Academy Alerts spreadsheet that comes out with good fixed income information, but no equity information. She thinks this is not duplicative information, but wanted to bring it to the Council's attention.

Election of 2002-2003 Officers

Officers were nominated and elected.

Secretary: Mike Pisula

Treasurer: John Kalnberg

Vice Chairperson: Ian Genno and

Sarah Wright, jointly

Chairperson: Marilyn Oliver

Lois conducted a presentation of gifts to outgoing officers.

Spring 2003 Meeting Sessions

Eric Freden conducted a discussion to identify session topics for the 2003 Spring Meeting to be held in Vancouver, BC in June, 2003. The group came up with over 30 topic ideas. Later the ideas were grouped into about fourteen agreed-upon session ideas with several others as “maybe” session ideas.

The next step is to learn the exact number of sessions that will be pension sessions from the planning committee. In our next conference call we will finalize the list and assign session coordinator responsibilities.

Seminars and Webcasts

Tom reported on the Public Plan seminar and the E&O webcast coming up next week. A forecasting seminar is planned for late April or early May. The multiemployer seminar is in limbo for the moment due to lack of issues.

Publications

Lois reported that the September issue of *The Forum* is at the printer. The August newsletter has gone out. The next issue is scheduled for October. She reminded all of us to submit articles for the newsletter.

Web Page Updates

Judy encouraged us to visit our web page to see what is new. The “What’s New” box really has some new items in it!

New Business

Our schedule for this year is as follows:

October 15 conference call
November 8 conference call
December 9 meeting (Atlanta)
March 16 meeting (Washington)
June 21 meeting (Vancouver)

Adjournment

The meeting adjourned at 3:45 pm. ☘

Our schedule for this year is as follows:

October 15
conference call
November 8
conference call
December 9
meeting (Atlanta)
March 16
meeting (Washington)
June 21
meeting (Vancouver)



Retirement Implications of Demographic and Family Change (RIDFC)

by Karen Gentilcore, Senior Project Manager, Practice Areas

Retirement Implications of Demographic and Family Change (RIDFC) was a project designed to respond to our rapidly changing environment (aging, divorce, single vs. two earner families). The project began with a call for papers, which were then presented at a symposium within the SOA's Spring San Francisco Meeting. A monograph of the papers along with an overview and discussant papers can be accessed from the Pension Section Web site at <http://www.soa.org/sections/pension.html>.

Participant feedback from a questionnaire distributed at the symposium has been compiled and summarized. Of particular interest are the suggestions for further research and follow-up. Three Retirement Systems Practice Area Committees—the Committee on Social Security-Retirement and Disability Income, the Committee on Retirement Systems Research and the Committee on Retirement Systems Professional Education & Development—are considering the comments for potential future research and continuing education presentations.

Excerpts from the RIDFC participant feedback are presented here. If you would be interested in pursuing any of the research or presentation ideas, please contact the chair of one of the above committees or Karen Gentilcore at kgentilcore@soa.org.

Question: What would you identify as the most important topics for further research?

Summary of Responses

Phased retirement was mentioned more than twice as often as any other topic. Decisions about retirement timing, whether employers would rehire old workers, the concept of not retiring at all and how to annuitize retirement savings and how these impact a redesign or

elimination of social security or a national health program were mentioned in reference to the topic of phased retirement.

Additional work on projecting retirement income was suggested along with including realistic demographic changes. We should seek better modeling and predictions of future birth rates and productivity. The economic implications of an aging population along with funding sources and plan options were suggested for further study. It was recommended to conduct a stochastic analysis of retirement income and wealth distributions by gender and by race under various proposals for privatization of social security.

It was also suggested that we study the impact of future productivity on the economy as longevity increases. What is the ability of our economy to sustain productivity growth? How does that affect the ability of the post baby boom generation to produce the goods and services to meet the needs of the population?

Also mentioned was nationalized provision of benefits. A couple of respondents remarked about assigning benefits for unpaid labor (i.e., child care, elder care) and others on the impact of social inequities (i.e., gender wage gap, lack of universal health care, impact of divorce on women's benefits). Other suggestions related to aging and policy-driven changes, in particular: the impact of including flex workers (part time, flex schedules) in benefit packages, and the considerations surrounding retirement and the transfer of wealth.

Several respondents indicated that there is a need to better educate individuals so they can prepare for their future financial needs. They need to plan for their own retirement, taking into account all possible income sources. This is related to the switch from DB to DC plans.

(continued on page 16)

Additional research ideas included: studies of effects of various plan designs on the life choices of the study group; employers' attitudes (especially smaller employers); studies on eliminating social security for those currently under 40; tie retirement/social security research to health/medicaid research; market implications of asset transfer from retired to active; the relationship of the world economic situation to capital markets.

Question: What other follow-up work would you like to see done?

Summary of Responses

Several suggested another call for papers and/or follow-up symposiums, along with getting information out to the general public. One suggested distributing "sound bites" to the media and having broader discussions on TV and radio.

Two people indicated that developing databases would be helpful. Also suggested for study were techniques for greater cooperation with government. Introduction of proposed legislation in areas of ERISA, the tax code and social security to provide flexibility with regard to timing and equity of social security benefits of dual income couples. Follow up on the SOA and AAA responses to IRS Notice 2002-43 was recommended.

Question: How will this information be the most useful for you?

Summary of Responses

It was noted that the concepts were directly applicable to consulting work. In particular, designing new retirement plans (DB and DC), designs to fill in the gaps and designs that reward career employment while meeting the needs of all workers. Some also indicated it would help them better communicate with their employees.

Question: What was the best thing about RIDFC?

Summary of Responses

Overwhelmingly, the participants indicated the variety of topics and the representation of non-actuarial fields provided a breadth of issues and perspectives that they felt was valuable. They liked having the diversity of perspectives, providing broad thinking from a wide range of specialties.

They liked the format and indicated it covered some very timely issues. There were suggestions to conduct more symposia like this one. ❧

Several respondents indicated that there is a need to better educate individuals so they can prepare for their future financial needs.



The Case Against Stock in Corporate Pension Funds

by Lawrence N. Bader

A company has \$1 million of stock in a pension fund. The liability can be matched with a \$1-million dedicated bond portfolio. What are the consequences of shifting the pension fund from stock to bonds?

Current accounting

Current accounting rules favor equity investment by recognizing future risk premiums in advance, while concealing risk through smoothing techniques. The stock-to-bonds shift will lower the company's reported earnings—which of course disqualifies the shift from further consideration at many companies.

This article focuses on the real economics rather than GAAP accounting. For this purpose, we assume a transparent financial system, in which shareholders have full information about corporate pension funds and recognize that they experience the risks and rewards of these funds. Needless to say, today's system falls well short of that standard, but it is advancing rapidly in that direction, as the accounting profession progresses toward a market value paradigm and the financial community improves its understanding of pension plans.

No first-order change in value

After the stock-to-bonds shift, the company expects to earn less on its pension assets, giving up the chance of a surplus reversion. There is, though, no "first-order" change in corporate value, because the \$1-million bond portfolio has the same value for shareholders as the \$1-million stock portfolio that it replaces. The company's reported earnings (and expected economic earnings) will be less. The company, though, has reduced its risk, so investors will require less expected return¹. Put another way, companies add no value for shareholders by doing what the shareholders could do for themselves—investing in publicly traded securities.

Shareholder response

If the company's stock-to-bonds shift is transparent, astute shareholders will observe the need to reoptimize their personal portfolios. Suppose that a shareholder held a personal portfolio of equity and bonds that was optimal for his risk preference. Because the company's stock now has a lower risk and lower expected return, the shareholder's portfolio no longer reflects his risk preference. To re-optimize, he should buy whatever equity the company has sold and should sell bonds equivalent to the company's new immunized portfolio. (This adjustment should be in proportion to his fractional ownership of the company's equity. It should also reflect the corporate tax rate, as we shall see below.) His portfolio, including the indirect ownership through the pension fund, would then be restored to its previous position.

We now consider the second-order effects of the overall changes, taking into account the shareholder's response to the company's pension fund reallocation.

Notation and assumptions

We use the following notation and assumptions:

- The shareholder pays personal income taxes at effective rates of τ_{ps} on stock and τ_{pb} on bonds. Generally $\tau_{pb} > \tau_{ps}$, because capital gain tax rates are lower than ordinary tax rates and are deferred until gains are realized.
- The company pays taxes at a rate of τ_c . Therefore \$1 earned in its pension fund (whether on stock or bonds) has an after-tax value *to the company* of $(1-\tau_c)$. That $(1-\tau_c)$ has an after-tax value *to the shareholder* of $(1-\tau_{ps})(1-\tau_c)$.
- The actual (stochastic) investment return is \bar{r}_s on stock and \bar{r}_b on bonds.
- The shareholder owns one millionth of the company's equity.

(continued on page 18)

¹ For example, investors may require only a five percent return on a safe Treasury bond investment. At the same time, they may require an expected (but risky) 10 percent return on a specific stock.

Income tax effects. Here is the income tax effect on the shareholder of the overall transaction, reflecting his fractional ownership of the company and the offsetting change he should make in his personal portfolio.

| Change in | Pension Fund | Personal Portfolio |
|---------------------------|--|---|
| 1. Holdings | +\$1 bonds – \$1 stock | $(1-\tau_c)(+\$1 \text{ stock} - \$1 \text{ bonds})$ |
| 2. Corporate Earnings | $(1-\tau_c)(\tilde{r}_b - \tilde{r}_s)$ | |
| 3. Shareholder Net Income | $(1-\tau_{ps})(1-\tau_c)(\tilde{r}_b - \tilde{r}_s)$ | $(1-\tau_c)[(1-\tau_{ps})\tilde{r}_s - (1-\tau_{pb})\tilde{r}_b]$ |
| 4. Total of Line 3 | $(1-\tau_c)\tilde{r}_b(\tau_{pb} - \tau_{ps})$ | |

Line 1: The shareholder's pro rata share of the pension fund buys \$1 of bonds and sells \$1 of stock. The shareholder offsets this shift by buying $(1-\tau_c)$ of stock and selling the same amount of bonds. The $(1-\tau_c)$ adjustment may not be intuitively obvious, but Line 4 will show its correctness.

Line 2: The pension fund earnings reflect \$1 of bonds rather than \$1 of stock. To arrive at the after-tax value to the company, we multiply by $(1-\tau_c)$.

Line 3: We further adjust the company's tax-adjusted pension fund earnings to reflect their after-tax value to the shareholder. We similarly tax-adjust the change in the return of his personal portfolio.

Line 4: Note that \tilde{r}_s does not appear. This shows that the shareholder has hedged the company's transaction and restored his previous risk level. The total effect on the shareholder's net income is positive, because $\tau_{pb} > \tau_{ps}$. (On a mark-to-market basis, \tilde{r}_b may be negative in any one year, but on a dedicated portfolio it must be positive over its horizon.)

Offsetting pension change at the company level

The illustration above is based on Tepper (1981), who shows that companies should sell their pension fund equities to permit their shareholders to increase their personal equity holdings. Black (1980) suggests a different way to offset the pension fund restructuring, at the company level rather than the shareholder level. The company can sell (or issue) bonds and buy back its own stock, thus restoring its previous overall bond and equity exposure. Its holdings of its own stock create no tax liability, but the bond issuance creates a new tax deduction. So again, keeping the equity exposure outside the pension plan reduces income taxes. Boots PLC is following a similar path, see Ralfe (2002).

The Black transaction exchanges a diversified equity portfolio for an undiversified holding of company stock. This exchange is consistent with the finance principle that shareholders gain no value when companies diversify, because the shareholders can do that themselves in their own portfolio construction. Shareholders should prefer the option of buying "pure" shares of a single business, rather than "pre-diversified" shares that combine businesses. On the other hand, the Black transaction can destroy value if this concentration increases the company's own risk to a dangerous level.

Black mentions an alternative of issuing bonds and investing the proceeds in a tax-managed diversified equity portfolio.²

² A tax-managed portfolio could include high-dividend stocks to take advantage of the corporate dividend exclusion. It would also minimize turnover and try to time its sales to balance realized gains and losses.

The stock portfolio would generate some taxable income, but the interest deduction on the bonds would more than offset it, leaving a net tax saving.

Company ownership of a diversified stock portfolio makes little sense in corporate finance terms, because that's not what shareholders are paying management to do. But both the leveraged stock repurchase and this alternative illustrate the financial gains available from the pension fund restructuring. The pension fund restructuring by itself gives the company more debt capacity (or cheaper rates on its existing debt level) that it can use in various ways. The most natural is probably further investment in its own business, which management commonly regards as superior to stock repurchase. Such managements should regard pension fund restructuring plus borrowing to invest in the business as superior even to the demonstrable gains of pension fund restructuring plus a leveraged stock buyback.

Excise taxes

The company is exposed to an excise tax upon plan termination if the pension fund holds stock that outperforms the immunizing portfolio and therefore the liability. If the equity risk is taken instead by the shareholder directly (Tepper, 1981) or on the company's balance sheet (Black, 1980), the shareholder gets the full benefit of superior stock performance without liquidity problems or excise taxes.

Participants' right to surplus

The excise tax is not the only claim on surplus generated by stock held in the pension fund. If the participants can assert a legal or moral claim to the surplus, they too may share the benefit of superior stock performance. The company may also devote some of the surplus to additional pension benefits simply to minimize its excise tax upon reversion.

PBGC risk-related premiums

Holding stock in the pension fund exposes the fund to greater potential for risk-related PBGC premiums, which are minimized by immunization.

Benefit security

With the immunized bond portfolio, partici-

pants enjoy full benefit security regardless of the performance of the stock markets. They may attach a higher value to their more secure pensions.

Default risk

There is finally an advantage for holding stock in the pension fund—the company may be able to pass off losses to others! If the company goes bankrupt after a period of poor equity performance, the PBGC and the participants might absorb some of the losses. There is no such possibility if the pension fund is immunized.

Of course, the plan participants do not see this as an advantage and may devalue the pension plan as a part of their total compensation³. The PBGC likewise does not see this as an advantage—hence the risk-related premiums.

In conclusion

As its title indicates, this article presents a one-sided view of pension fund investment and neglects the joys of equity investment. Perhaps a few readers will undertake to repair this neglect.

When doing so, they should not simply point to the superior long-term performance characteristics of equity and the diminution of risk that they believe takes place over the extended horizons of pension funds. I do not suggest that equity is an inferior investment because of its risk—*only that it is an inferior investment for corporate pension funds*. In a transparent financial environment, equity risk taken in a pension fund is not “free.” It raises the return demanded by shareholders and creditors. It comes at the expense of similar risk that could be taken elsewhere with more tax efficiency and full benefit of upside performance—in shareholders' investment portfolios, or in the company's capital structure or business risk.

Financial economists understand that shifting pension funds from equity to bonds raises the expected pension cost. Pension actuaries must understand equally well why it can, at the same time, raise shareholder value. Companies better serve their shareholders *and* their pensioners when they use their businesses rather than their pension funds as platforms for taking risk and building value. ❧

Acknowledgment

The author thanks Jeremy Gold for his advice and previous treatment of this topic in Gold (2001).

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- Sharpe, W. F.**, “Corporate Pension Funding Policy,” *Journal of Financial Economics* 3, June 1976, pp.183-193.
- Tepper, I.**, “Taxation and Corporate Pension Policy,” *Journal of Finance* 36-1, March 1981, pp.1-13.
- Larry Bader, FSA**, is retired. He can be reached at: larrybader@aol.com

³ See Sharpe (1976).

Controversy in Pension Mathematics

What is the controversy? Why is there an issue with the methods that most of us have been using?

By now you should have received the new issue of the *Pension Forum*. In it you will find the article "Reinventing Pension Actuarial Science" along with discussion from reviewers and the author's response. This article contends that the actuarial pension model, frozen since the enactment of ERISA and FAS 87, does not reflect the teachings of financial economics. In fact, the authors feel that the traditional pension valuation model does not accurately reflect the price of risk both in selection of assumptions and the smoothing of assets and gains/losses.

Of course, many would disagree. They feel that our current model does reflect a true value of pension liability and an appropriate level of contributions/expense. Many feel that

smoothing is important for protecting sponsors from volatility and that smoothing is fair and safe for an ongoing plan.

Does the financial economics' perspective match that of an employer sponsored pension plan? Is it appropriate for determining pension expense, for funding, for measuring solvency?

If you haven't read it already, take a look. The article and discussions are also available at http://www.soa.org/sections/reinventing_pension.pdf

Let the editor, Dan Arnold, know what you think. This could be one of the more significant issues that will face pension actuaries.

Society of Actuaries offers new insurance coverage products to members

We are pleased to announce that the Society of Actuaries is offering new insurance coverage products to its members to be administered through Marsh Affinity Group Services.

By purchasing insurance programs through SOA, members can take advantage of a wide variety of benefits. These programs have been researched by the SOA and have been proven to be an excellent source of protection for members. Also, with the mass-purchasing power of the SOA, members can benefit from the group rates offered.

Insurance plans currently being made available to SOA members will be launched throughout 2003 and include:

- Professional Liability Insurance
- Disability Income Insurance
- Term Life Insurance
- 10-Year Term Life Insurance
- Catastrophe Major Medical Insurance
- Major Medical Market Basket

Marsh is a full-service insurance broker and administrator for affinity groups. A pioneer in the concept of association-sponsored insurance plans since 1949, Marsh Affinity Group Services has earned a reputation for the innovative design and administration of a wide range of insurance and financial products, and has become a leading provider of insurance program management and underwriting services in North America. Marsh Affinity Group Services is a part of Marsh & McLennan Companies, a multinational corporation and one of the world's foremost leaders in insurance administration.

Look for more information in future communications as the programs become available. Members who have any questions, or who would like more information, may contact the insurance administrator:

Marsh Affinity Group Services
a service of Seabury & Smith
1.800.503.9230
www.seaburychicago.com

Controversy Presented and Discussed Live at a June Symposium

Current Pension Actuarial Practice in Light of Financial Economics

The Society of Actuaries and the American Academy of Actuaries joined forces to release a call for papers on the possible intersection between the financial economics model and the pension measurement, accounting and funding models. One introduction to this controversy is included in the paper, with discussions, "Reinventing Pension Actuarial Science" in the January 2003 issue of the *Pension Forum*. We will have accepted at least 19 papers on topics ranging from funding, smoothing, investment strategies and the sponsors viewpoint.

The papers we have received in response to this call will be presented at a two day symposium, during the Society of Actuaries' Spring 2002 meeting in Vancouver on June 24 & 25.

Consider the appropriateness of new, and old, ways to look at pension finances. Find out where you stand and discuss the issues with all sides of the controversy. Attend the symposium.

Investment Strategies Key Focus First LIMRA/LOMA/SOA

Jointly-Sponsored "The Pension Conference"

by John Riley, Managing Director of Continuing Education

Whether or not self-funded retirement is an irresistible trend in the retirement market, the need to plan and administer funds effectively stands as a critical challenge to administrators and workers alike. The Pension Conference, the inaugural event of LIMRA, LOMA and the SOA, will devote a lot of energy to dealing with the difficult investment environment as well as the increased choice and competition that accompanies it. The conference takes place on April 6-8, 2003 at the Baltimore Marriott Waterfront. Complete conference information and registration can be found at <http://www.loma.org/pension.htm>.

Investment strategy takes center stage in the opening keynote. Peter Ricchiuti, the assis-

tant dean at Tulane University's A.B. Freeman School of Business, will address "*Market Signal: What the Financial Markets are Telling Us Now*" in the general session, Monday, April 7. Other sessions of interest include:

- **Redefining the Retirement Market: It's Not Your Father's 401(k) Market** — Trends such as declining plan fees, loss of proprietary assets, lower cost investment vehicles and asset leakage to rollover program lay the groundwork for dramatic change in the 401(k) industry. This session will provide perspectives on the size of the retirement market, the future of the full-service business and the role of scalable advice and strategic partnering.

(continued on page 22)

Redefining the Retirement Market: It's not your father's 401 (k) Market.

- **Market Timing and Market Timers: Overcoming the Epidemic**—With the market fluctuations and current market conditions, plan participants might go to extreme measures to “beat” the market. Gain insight into the financial implications of market timers on organizations’ portfolios.
- **Choosing and Forming Alliance Partners**—Investment product manufacturers are increasingly embracing the concept of utilizing non-affiliated investment managers. Learn the pro’s and con’s of utilizing various relationship types within insurance trusts and consider what role the product manufacturer plays in the utilization of external managers.
- **Exploring the Retirement Process**—In an environment where retirement is increasingly self-funded, workers are faced with a myriad of decisions. How do people plan and manage retirements? What tools are available to help them do so? What do workers do with a lump sum opportunity from their retirement plans at work? Hear the research that answers these important questions.

- **Value of the Group Annuity Contract vs. Net Asset Value Products**—The group annuity contract has been the cornerstone of many insurance companies’ qualified plan business since the inception of ERISA. The recent introduction of no-load “R” shares by more fund families’ advisors has brought the inherent flexibility of a group variable annuity to light. Hear some perspectives on the value of this for both the organization and the plan sponsor.
- **412(i) Plans—Better Than a Traditional DB Plan?**—Changes to pension law that began in 200 and continue have made 412(i) plans increasingly attractive. Hear an indepth overview of 412(i) plans and advantages over a traditional DB plan and gain insight into situations where this type of plan might be most effectively employed.

Pension actuaries should note that registered attendees of The Pension Conference may also attend sessions at the Seventh Annual Annuity Conference at no additional charge. The Annuity Conference program takes place concurrently and contains more than 30 unique sessions. Session descriptions can be found at <http://www.loma.org/annuity.htm>. ☘



THANKS, JUDY!!

Judy Anderson receiving the “Jolly Good Fellow” award from retiring Pension Section Chairperson, Paul Angelo. Longtime SOA Staff Fellow, Judy is leaving the Retirement Systems Practice Area to become SOA Staff Fellow of Actuarial Education.

“Judy has been a tireless source of ideas, support and wisdom for the volunteers in the Retirement Systems Practice Area. She’s fostered and championed projects at the SOA that have increased our profession proficiency and expanded our possibilities as actuaries. We will miss her greatly.”

—Marilyn Oliver and Paul Angelo, on behalf of the Pension Section

Pension Section Council Members

Paul Angelo, retiring Pension Section chairperson, receiving a gift of appreciation from Marilyn Oliver, incoming section chairperson.



Retiring Pension Section Council members attend their last council meeting.

Many Thanks to—

Left to right — Paul Angelo, John Wade, Tom Lowman.

Pension Section Council members taking a break from planning the section's 2003 activities –

Left to right — Tom Lowman, Judy Anderson (SOA Staff Fellow), Ian Genno, Eric Freden, John Wade, Paul Angelo, Marilyn Oliver, Sarah Wright, John Kalnberg

Other council members include: Mike Pisula, Ken Kent, Tonya Manning and Zenaida Samaniego.





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