AMERICAN ACADEMY *of* ACTUARIES

May 5, 2006

Ms. Barbara D. Bovbjerg
Director, Education, Workforce, and Income Security Issues
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Bovbjerg:

On behalf of the American Academy of Actuaries'[1] Pension Practice Council, I would like to thank you for the opportunity to continue our ongoing dialogue regarding the GAO's report *Private Pensions: Information on Cash Balance Pension Plans, GAO-06-042,* which began with our initial letter on November 28, 2005 that outlined the council's concerns with the report.

We were pleased that in his response letter of December 12, 2005, Mr. David Walker reiterated that cash balance and other hybrid defined benefit plans play an important role in the voluntary pension system. Nevertheless, as discussed during our meeting with you in January, we continue to believe that the comparisons made in GAO's study between "typical" cash balance and traditional pension plans are not reflective of real world conversions.

The traditional benefit formula that the GAO claims is typical is far from typical, based on the considerable experience and data of our committee members. Based on our discussion with GAO, we are still concerned that the Bureau of Labor Statistics (BLS) data may have been inappropriate for the purpose used, or may have been misinterpreted or misapplied. Given our understanding of BLS confidentiality rules and the limited level of access available to us, we have determined that we do not have the resources necessary for a thorough examination of the BLS data. The GAO is in a much better position to conduct such an examination and to review how that data was applied in its study.

We are confident that a comparison of plans that actually converted would have demonstrated that cash balance conversions generally do not reduce future benefits for most workers in all age groups in actual cash balance conversions, contrary to one of the major conclusions in the GAO report, which has been picked up in the media and is being used in litigation against sponsors of cash balance plans. For example, in an April 23, 2006 Associated Press article *Congress Struggles With Pension Bill,* the following sentence appears: "Congress' Government Accountability Office concluded in a study in November that employees whose companies switch to cash-balance plans generally lose benefits regardless of age." An example appearing in cash balance litigation is on page 6 of an amicus brief filed on behalf of AARP and others with the Seventh Circuit Court of Appeals on December 8, 2005 in litigation against IBM.[2]

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[1] The American Academy of Actuaries is a national organization formed in 1965 to bring together, in a single entity, actuaries of all specializations within the United States. A major purpose of the Academy is to act as a public information organization for the profession. Academy committees, task forces and work groups regularly prepare testimony and provide information to Congress and senior federal policy-makers, comment on proposed federal and state regulations, and work closely with the National Association of Insurance Commissioners and state officials on issues related to insurance, pensions and other forms of risk financing. The Academy establishes qualification standards for the actuarial profession in the United States and supports two independent boards. The Actuarial Standards Board promulgates standards of practice for the profession, and the Actuarial Board for Counseling and Discipline helps to ensure high standards of professional conduct are met. The Academy also supports the Joint Committee for the Code of Professional Conduct, which develops standards of conduct for the U.S. actuarial profession.

[2] The language in the amicus brief is as follows: "Recently, the U.S. Government Accountability Office ("GAO") released a report on benefit reductions under cash balance conversions entitled PRIVATE PENSIONS: INFORMATION ON CASH BALANCE PENSION PLANS, which found that: (a) in conversions from a typical traditional defined benefit plan to a typical cash balance plan, most workers, "regardless of a worker's age," will receive lower benefits than under the traditional defined benefit plan; and (b) older workers experience greater losses of expected benefits than younger workers; the median benefit reduction for workers at age 30 at the conversion was $59 per month versus $238 per month for workers at age 50." (Go to: http://www.ca7.uscourts.gov/briefs.htm and enter case no. 05-3588, and click on Amicus Brief Engers, Noerr, McFall, etc.)

We continue to recommend that the GAO amend or supplement the report to reflect these concerns. One way to do that was discussed during our meeting with you — to analyze how benefits before and after a conversion would compare for a plan such as the average final average pay plan (FAP) shown in Table 112 of the Department of Labor (DOL) paper [cited on page 59 (footnote 2) of the GAO report]. If appropriate, you could include a heavily subsidized early retirement provision in such a plan, although we note that your current study might not fully recognize the value of these additional benefits. We would be happy to assist you and your staff in such an exercise.

We appreciate the opportunity to provide these comments. If you have any questions or would like to discuss this matter further, please contact Heather Jerbi, the Academy's senior pension analyst (202.785.7869; Jerbi@actuary.org).

Sincerely,

Donald J. Segal, MAAA, EA, FCA, FSA
Vice President, Pension Practice Council
American Academy of Actuaries

Cc: Mr. David Walker, Comptroller General, Government Accountability Office
Mr. Joe Applebaum, Chief Actuary, Government Accountability Office
Mr. Charles Jeszeck, Assistant Director, Education, Workforce and Income Security, Government Accountability Office