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ENROLLED ACTUARIES REPORT

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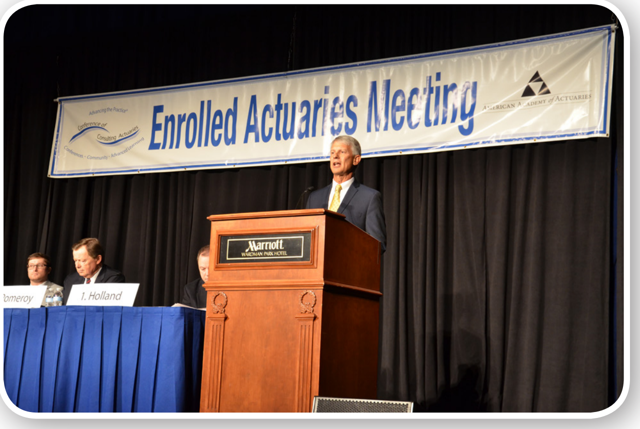
Enrolled Actuaries Meeting Addresses Key Pension Issues

ABOUT 700 ACTUARIES and other pension professionals attended the Enrolled Actuaries Meeting April 2–5 in Washington, D.C., where they heard presentations on a wide spectrum of retirement and pension issues, while gaining valuable—and professionally necessary—continuing education credit.

Academy President Bob Beuerlein gave an opening address, noting that the pension community's "work analyzing retirement income plans and programs has consequences for virtually every American," and telling the assembled audience of EAs that the Academy is looking out for them in discussions of their credential at international meetings.

At the meeting—jointly sponsored by the Academy and the Conference of Consulting Actuaries—several lively sessions featured Academy work and volunteers. Senior Pension Fellow Ted Goldman gave session presentations on lifetime income and financial wellness; Eric Keener, chairperson of the Academy's Pension Practice Council's (PPC) Forward Thinking Task Force, gave an overview of the Academy's Retirement for the AGES initiative during a plenary session on composite plans and other risk-sharing retirement plans; and the 2015 and 2016 alternative pension cost recognition issue briefs released by the Academy's Pension Cost Work Group were discussed in a lively session.



Academy President Bob Beuerlein gives the opening address at the EA Meeting

"A confluence of factors is making your important work more challenging," Beuerlein said at the opening plenary session. They include longer lifespans; low individual savings rates;

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Committee Nominates Josh Shapiro as Academy's Vice President, Pension

THE ACADEMY'S NOMINATING Committee has nominated Josh Shapiro, chairperson of the Multiemployer Plans Subcommittee, for vice president, to serve as chairperson of the Pension Practice Council (PPC).

"With more and more Americans retiring without traditional pension benefits, and many traditional defined benefit plans facing financial challenges, there is a need for new thinking and new ideas regarding the delivery of retirement benefits," Shapiro said. "Bringing actuarial expertise to bear in these discussions is a critical role for the PPC, and I am deeply honored to have the opportunity to help make that happen as vice president."


Shapiro

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Do Your Reports Measure Up? ASOPs and Actuarial Communications

IN THE SESSION, "Do Your Reports Measure Up? ASOP Communication and Disclosure Rules," Susan Breen-Held and Matthew Daskivich outlined requirements of actuarial standards of practice (ASOPs) related to pension actuarial communications and disclosure, as outlined in Precept 4 in the Code of Professional Conduct.

Breen-Held, at podium, and Daskivich at the ASOPs session

They emphasized the distinctions laid out in ASOP No. 1, *Introductory Actuarial Standard of Practice*, between "must," "should," and "may," and reviewed ASOP No. 41, *Actuarial Communications*, which applies across all actuarial practice areas.

The speakers cited a number of common pitfalls, including multi-document reports, which could exclude references to other information used to calculate the actuarial findings. One solution could be to create separate documents for data, assumptions, methods, and plan provisions.

Another common pitfall is the lack of disclosure in regard to actuarial projections; specifically, when funding measures, actuarial costs, and contributions are presented to a client but are missing disclosure of assumptions or rationale. A solution could be to include appendices to the presentation stating rationale, as required by ASOP Nos. 27 (*Selection of Economic Assumptions for Measuring Pension Obligations*) and 35 (*Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations*), both of which deal with pension issues. Another related pitfall, ambiguous or missing rationale language, could be addressed by reviewing those two ASOPs to determine when rationale is needed.

Per the panelists, many of the answers and good guidance to potential pitfalls can be found in ASOP No. 41. In taking audience questions, Breen-Held, a member of the Academy's Pension Committee, noted that email correspondence can present its own unique pitfalls, especially when a client requests an immediate reply. In this instance, the actuary should include basic assumptions in a response and then follow up with a formal actuarial report, if warranted.

Similarly, in oral communications, "the first step is to stop, think, then reply," she said, adding to "feel free to say 'I can't answer that right now.'" A good course of action would be a follow-up email summarizing the conversation, along with original and/or actuarial findings and required disclosures, the panelists said. ▲

Alternative Pension Cost—When, Why, How

SPEAKERS IN THE SESSION, "Alternative Pension Cost—When, Why, How," discussed how granular pension cost approaches work, the rationale for the methodology changes, and possible variations of the approach.

The session was based on two issue briefs released by the Academy's Pension Cost Work Group—*Alternatives for Pension Cost Recognition—Implementation Approaches Using Bond Models*, released last December, and *Alternatives for Pension Cost Recognition—Issues and Implications*, released in August 2015. Speakers Bruce Cadenhead and Jerry Mingione, members of the work group, gave a detailed summary of costs determined using the granular/spot-rate approach compared with those under a traditional/aggregated approach, gave examples, and discussed implementation issues. ▲

Ethics and Professionalism

AN ETHICS SESSION—always popular at the EA Meeting in part because enrolled actuaries are required to earn ethics credits—looked at several hypothetical cases involving actuarial services, including situations such as double-billing, overpromising, and gray areas where determining the right thing can become murky or difficult.

An attendee asks a question at the packed ethics session

Panelists David Godofsky and Margaret Berger fielded comments from the large audience, which included everything from basics such as Code of Professional Conduct's Precept 1 (professional integrity) to questions of confidentiality, also addressed in the Code. Godofsky is a member of the Academy's EA Meeting Joint Program Committee and Berger is a member of the Academy's Pension Committee.

Godofsky, who has led the ethics session before, said in an interview following the session that for actuaries, there is a difference between ethics and professionalism.

"Professionalism involves compliance with things like the code of conduct, the ASOPs, the Joint Board regulations—essentially all the rules and regulations governing the conduct of actuaries," he said. "Ethics is a less regulatory concept—a more general concept that doesn't apply uniquely to actuaries—that's the way our profession uses the term."

That can be different from how other professions use the term "ethics," he said. For example, how lawyers refer to "ethics" is similar to how actuaries use the term "professionalism." Something prohibited in one state in the legal profession may be required in another, said Godofsky, who is an attorney.

"But for actuaries, that wouldn't be true at all," he said. "Something that's unethical here is unethical anywhere." While technical rules might not always present an unethical situation, that doesn't mean you can violate the technical rules either, he said, noting that as ASOPs change in the actuarial profession, something that used to be allowed may not be any more.

"That changes the rules of professionalism, but does not change the concept of ethics," he said. "When you change the ASOPs, those things that are unethical don't become ethical, [so] … there is a logical distinction between professionalism and ethics."

Going through the hypothetical examples of situations in such sessions is a good way to get actuaries to think about ethics, he said, adding that it can be "relatively easy for actuaries to get into situations where they have no particularly good choices. One of the things I try to make them think about and understand is … how to avoid getting into those situations by thinking ahead about the ethical situations they might find themselves in." ▲

Dialogue With and Update From the PBGC

IN THE SESSION "Dialogue With and Update From the PBGC for Single-Employer Plans," the panel looked at recently published PBGC guidance and issues of interest to the actuarial profession including highlights from this year's Blue Book and the premium rules. Panelists discussed regulation 4010, reportable events, the early warning program, missing participants, premiums, and risk transfer data. The session was moderated by Ellen Kleinstuber, chairperson of the Academy's Pension Committee, and she was joined by PBGC officials Kristina Archeval, Amy Viener, Stephanie Cibinic, Adi Berger, and Stacy Day.

Viener discussed regulation 4010, which requires certain underfunded plans to report identifying, financial, and actuarial information to the PBGC. The regulation, which was recently amended, is now in effect, and Viener highlighted that "PBGC has added a waiver for companies with less than 500 participants" and that people can ask for waivers and extensions for fillings via email.

Most notable was the discussion of reportable events that require pension plans and the companies that sponsor them to give the PBGC notice of events that may signal financial problems and could potentially put the pension at risk. Archeval noted the number of filings declined from 780 in 2015 to 746 in 2016. "The most common filing issue seen is that the filings are late and PBGC is trying to work with the community to figure out why," she said. ▲

Dialogue With and Update From the PBGC for Multiemployer Plans

"DIALOGUE WITH AND UPDATE FROM the PBGC for Multiemployer Plans" covered an array of topics such as the Pension Benefit Guaranty Corporation (PBGC) guaranteed benefit calculations, revised financial projections regarding the solvency of the multiemployer guarantee program, as well as final regulations and evolving experience with candidates for a MPRA partition.

This was an opportunity for interested individuals to hear from a panel of PBGC representatives. The session was moderated by Eli Greenblum, the Academy's past vice president for pension, who was joined by Chris Bone, Darren French, and Theresa Anderson of the PBGC.

The panel began with a discussion about partitions, the financial assistance given to a financially troubled plan by PBGC. Panelists provided examples of what might be financially viable plans versus insolvent plans, and a discussion then followed about the informal partition review under MPRA, as well as tips for filling. A brief update on data books followed, as did an overview of recent regulatory work such as the "two pool" withdrawal liability method. ▲

Multiemployer Solvency Projections

THE APRIL 4 SESSION "Multiemployer Solvency Projections" focused on informing and cultivating a discussion on solvency projections in the context of critical and declining plans. The session was moderated by Eli Greenblum, the Academy's past vice president for pension, who was joined by Christian Benjaminson from Cheiron Inc., Aaron Shapiro with Conduent, Julie Cameron with the PBGC, and David Gustafson from the U.S. Treasury Department.

Topics included MPRA, selecting assumptions, practitioner experience, lessons learned, and stochastic modeling, followed by Q&A. Cameron's focus was on lessons learned from prior applications and discussing things the PGBC wants the profession to know.

"The goal is to remove the surprise factor," she said, explaining that, in an effort to remove "surprises," the PBGC met with the Academy's Multiemployer Subcommittee to discuss the MPRA application and how to successfully navigate the process. Cameron also noted that it would be beneficial for actuaries to "review the examples in Treasury's final rule for suspension benefits under MPRA."

One audience member asked whether the PBGC required projections to be updated after an application had been submitted and Gustafson said the answer would be no in such a case. ▲

Dialogue With the Joint Board Representatives and Review of Key Sections of Joint Board Regulations

"DIALOGUE WITH the Joint Board Representatives and Review of Key Sections of Joint Board Regulations" offered updates on the work that the Joint Board was undertaking, as well as be an opportunity for interested actuaries to ask questions relating to the re-enrollment process, professional discipline, and other topics of related interest. The panel included Chet Andrzejewski from the U.S. Department of Labor and chair of the Joint Board for the Enrollment of Actuaries (JBEA), James Holland from Cheiron Inc., and David Ziegler of the IRS and secretary of the JBEA.

Ziegler said the JBEA was searching for an executive director, but "we don't know when they're going to have [one]—it's a lengthy process." An audience member asked how to become a pre-tester. "Some of the societies nominate people for [the Joint Board] to consider," Ziegler said. "They are usually short, so if you know anyone, then let us know. Make sure to check the list on the website when [it is] provided."

He shared with the audience that enrollment of enrolled actuaries was a big issue. Currently, of 3,400 enrolled actuaries about 800 have not yet renewed. Compounding the enrollment issue are individuals who think they are currently enrolled, but are not, Ziegler said.

Andrzejewski followed with an update of the renewal requirements, and an audience member asked whether the board would consider eliminating the "three in the same location" rule. The general view from the audience was that the rule seemed like the JBEA was not recognizing modern technology in relation to webcasts and other similar forms of communication. "Yes, [we] will consider that," Ziegler said, adding that "this is supposed to be a dialogue, and if [we] modify [our] regulations these are definitely things that [we] will consider. ▲

ASB Standards for Pension Actuaries

A PROFESSIONALISM SESSION covered highlights of the Actuarial Standards Board's (ASB) standards for pension actuaries, including current and draft actuarial standards of practice (ASOPs). Panelists were Frank Todisco, ASB's vice chairperson for operations; Kathy Riley, an ASB member and a past member of the Actuarial Board for Counseling and Discipline; and Tammy Dixon, a member of ASB's Pension Committee.

The panel looked at three cross-practice ASOPs—Nos. 21 (which covers working with auditors or examiners) and 23 (*Data Quality*), and a third exposure draft of a proposed ASOP on modeling. They also covered aspects of pension-specific ASOP Nos. 4, 27, and 35, a second exposure draft of a proposed ASOP on risk, and the ASB Pension Task Force (PTF) report, which was released last year.

Dixon covered the current pension ASOPs, including assumption disclosures in ASOP Nos. 27 and 35. Dixon discussed the criteria for a reasonable assumption, and guidance regarding geometric and arithmetic rates of return and mortality and mortality improvement assumptions. She also covered disclosure requirements regarding rationale for assumptions and disclosure regarding unreasonable assumptions set by another party.

Dixon noted that ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*, was approved in 2013 and has been effective since January 2015. Among other provisions, it addresses disclosure of a plan's funded status, as well as contribution and cost allocation procedures. It also requires actuaries to qualitatively assess and disclose the implications of the contribution allocation procedure or funding policy on a plan's expected future contributions and funded status, Dixon said in her presentation.

Todisco covered the Pension Task Force suggestions, in which the ASB has directed its Pension Committee to draft proposed changes to pension ASOPs in response. The PTF's work originated from comments first requested by the ASB in 2014 about ASOPs and public pension plan issues. Following a public hearing in 2015, its report's suggestions included calculation and disclosure of a reasonable actuarially determined contribution and of a "solvency value," and additional disclosures around assumptions and methods, including regarding "negative amortization."

Todisco, at podium, with Riley (left) and Dixon at the ASB session

Riley covered the exposure draft on risk currently titled, *Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions*. She discussed some issues raised in the comment letters to the first exposure draft, as well as the proposed ASOP's scope. She noted that the proposed ASOP would require the actuary to identify material sources of risk, disclose appropriate plan maturity measures, and disclose an assessment of risk, which could be qualitative but should take into account circumstances applicable to the plan.

At various points during the presentation, the panel interjected "in practice" hypothetical situations as a means for discussing how various aspects of current and proposed ASOPs might be applied in real-world situations.

Late-Breaking Developments

THE APRIL 3 SESSION "Late-Breaking Developments" provided an update on regulatory items that have come out in the past 12 months from the IRS, the Treasury Department, the Department of Labor (DOL) and the Pension Benefit Guarantee Corporation (PBGC).

The session was moderated by Ellen Kleinstuber, chairperson of the Academy's Pension Committee, and included James Holland, chief actuary at Cheiron Inc., Kent Mason, a partner at Davis & Harman, and IRS officials Linda Marshall, Michael Spaid, and Carolyn Zimmerman.

The panel began with an overview of items that IRS/Treasury, DOL, and PBGC hoped to cover in the session, including various guidance and possible legislation. Zimmerman then provided updates on section 417(e), 430, 436, 404 and 411(a) regulations, all of which are currently being worked on by the IRS. On the Section 430 mortality tables, which are used to determine present value for defined benefit plans and that the IRS recently asked for comments on, Kleinstuber said the proposed tables will impact IRC 430, 417(e), and 415 calculations, and noted the tables are loosely based on the RP 2015 table.

The panel concluded with updates from the PBGC and DOL on the missing participant program, late premium penalty relief, the early warning program, and a possible de-risking study. Regarding the late premium penalty relief, Holland said "the final rule applies for plan years beginning after 2015 and it cuts penalties for late payments in half."

Financial Wellness

THE SESSION "FINANCIAL WELLNESS" included Ted Goldman, the Academy's senior pension fellow; Grace Lattyak with Aon Hewitt; and Neil Lloyd with Mercer. The session offered insight on the societal implications of individual financial wellness. Panelists presented current data on U.S. consumer savings habits and addressed how employers can facilitate sensible retirement savings options to help their employees meet their savings goals to ensure a dignified standard of living after retirement.

"We live in a defined contribution world," Goldman said, adding this is one of several reasons why he believes that addressing financial literacy and wellness is critical, especially because there is much to be done to address the state of defined benefit plans in the U.S. There is a clear correlation between having healthy workers and lower costs and more productivity, he added. Goldman also stressed the importance of realigning Social Security and upgrading 401(k) plans to "lifetime financial insurance."

Lloyd addressed the employer perspectives on financial wellness, emphasizing that employers should focus on the issues that resonate with their employees. Retirement is the biggest financial concern for workers over age 50, while younger workers do not place the same urgency or emphasis on saving for retirement that their older peers do.

Lattyak, whose presentation centered on retirement income, noted that three out of five employees in the workforce will not be able to retire at 65 at their current standard of living due to insufficient retirement savings. How can this problem be addressed? Retirement actuaries, Lattyak stressed, should continue to help employers find innovative ways to help their employees. Lloyd added that it is important to analyze the full scope of financial problems that cause anxiety, and for employers to hone in on issues that resonate with their employees and inspire them to take meaningful action toward their long-term financial health.

Dialogue With the IRS/Treasury Department

THE APRIL 5 "Dialogue With the IRS/Treasury" session was not intended to address any specific issue, but instead was an opportunity for interested actuaries to ask questions relating to the work that the IRS has been doing on various pension-related matters. The panel was moderated by Tonya Manning, co-chairperson of the Academy's Lifetime Income Risk Joint Task Force, and included Harlan Weller of the Department of Treasury, and Linda Marshall, Michael Spaid, and Carolyn Zimmerman of the IRS.

Regarding the new Trump administration, Weller opened the panel by stating that "we are very early in the administration and the policies ... are not clearly defined yet. As a result, some of our processes, like our guidance, have slowed down considerably. This is pursuant to [Office of Management and Budget (OMB) rules] that regulations cannot go out until they are reviewed by the administration. So until such time, we shouldn't anticipate seeing regulations." Weller added that "with respect to OMB's directive that for every new regulation, two must go, there are more questions than answers."

Several questions were about tax reform and the Section 430 mortality table in particular, concerning the priority of certain projects over others. Weller said "tax reform at the Treasury is a high priority, so this is slowing down other regulatory areas. This will be a potential distraction which will slow down guidance." When a question was asked about the priority level of the Section 430 mortality tables, Weller assured the audience that "timing [is] a concern. [We] are conscious of timing, but we can't promise where it will go but this project will have high priority whereas others will have to wait in the queue."

Qualification Standards for Public-Sector Plans

THE "QUALIFICATION Standards for Public-Sector Plans" April 3 session included Brian Murphy of Gabriel, Roeder, Smith & Co.; David Levine, of Groom Law Group; and Christopher Sears, of Ice Miller. Sears discussed the numerous advantages of qualification, such as employee contributions not being taxable (with the exception of certain 414(h)(2) pick-up contributions).

They also discussed Rev. Proc. 2016-37, the new determination letter rules for sponsors of individually designed government plans who want the IRS to review a plan document. Sears cited concerns about whether charter school plans will be jeopardized and whether staff can participate in their school's plan without compromising the plan's status.

Other timely topics explored by the panelists included the main requirements of Section 401 and the implications of the minimum distribution rules under Section 401(a)(9). They gave a robust overview of minimum plan funding standards and additional requirements pertaining to public sector pension plans versus those that do not. For example, "top-heavy" rules under 401(a)(10)(b) do not apply to public plans.

Two examples they discussed related to "top-heavy" rules that do not apply to public plans and contribution limits for government "excess benefit plans" that are subject to standard 415 limits.

Lifetime Income Options

FOCUSING ON ONE OF THE most important current retirement-related issues, in the "Lifetime Income Options" session panelists Ted Goldman, senior pension fellow at the Academy, Steve Vernon with Rest-of Life Communications, and moderator Tonya Manning, co-chairperson of the Academy's Lifetime Income Risk Joint Task Force (LITF), participated in this highly interactive and engaging session.

Posing the question, "How many people think there is a retirement crisis in this country?" Vernon set the stage with the problem as he sees it: How to deploy retirement savings to last for a long lifetime? One solution, he said, was to apply modern portfolio theory to the payout phase, noting there are tremendous opportunities for actuaries to be involved in the drawdown phase. While people rely on experts in all areas of our lives, the problem of generating income is very complex and deserves those same experts, he said.

Vernon highlighted several "key takeaways":

- Plan sponsors don't need to wait to implement retirement income solutions; sufficient solutions exist today;
- Employers can and should build a strong business case for implementing a retirement income program;
- Plan sponsors can follow a rigorous, documented process to carry out their due diligence when designing a retirement income program;
- The one perfect retirement income generator (RIG) doesn't exist; plan sponsors should design programs to meet a variety of participants' needs and circumstances;
- Consider both the economic/actuarial and behavioral factors; and
- Optimal solutions might combine insurance and investing RIGs and integrate with Social Security claiming strategies.

Goldman said his goal in the session was to "stimulate some thinking for generally rational people," and suggested three new ideas to address the lifetime income problem. His "out of the box" concepts for DC plans included:

- The "Artificial Intelligence (AI) Drawdown Solution," which relies on the employer—using technology, behavioral science, and actuarial science—to set up, initiate, and refresh a drawdown strategy for an employee;
- "Retiree Open Multiple Employer Plans" (ROME) plans, where, at retirement, an employer transfers participant DC assets to a new entity—the ROME plan, which provides a full spectrum of retirement services to retirees including a drawdown strategy, asset management, annuity purchases, quality control, and a Social Security claiming strategy. Goldman referred to the Rome Plan as a "win, win, win, win" for employers, retirees, ROME providers, and financial services.
- "DC Plan Risk Mitigation Tontine" where, in a variation of an old concept, a retiree allocates a portion of DC account into a risk-mitigation pool, the retiree receives payments from the pool when triggered by set rules that determine when and how much will be paid, and the pool is depleted or rolled over to the following class of retirees upon the death of last pool member.

Introducing the "actuarial" part of lifetime income, Manning reviewed recent lifetime income publications by the LITF and others and then led a highly interactive discussion among all panelists and audience members. She posed the question, "What are some of the changes needed from the involved stakeholders—policymakers, employers, individuals, and markets?"

Underscoring the need to get more policymakers involved, Goldman noted that "nobody is going to lose an election over it [retirement issues] yet." He also said that people are embarrassed to talk about these issues, which needs to change. Vernon characterized lifetime income issues as a business opportunity for actuaries. The session ended with Goldman urging actuaries to get out of their silos, and noting that life and pension actuaries should collaborate more on these important issues.

Goldman, at podium, with Manning and Vernon at the lifetime income session

Risk Management and Measurement for Public Plans

"RISK MANAGEMENT AND MEASUREMENT for Public Plans" included a risk profile assessment exercise, an example from a teachers' retirement system, and a discussion of risk reduction techniques.

Moderated by Elizabeth Ann Wiley with Cheiron Inc., the session was kicked off by Robert Gooderham of Ashford Consulting Group, who gave an example of how his firm approached helping a public pension fund board of trustees to evaluate its risk profile and understand how that fits into the asset-allocation process. This included examining and understanding the client's risk profile and determining whether the current downside risk tolerance is appropriate.

Brian Grinnell with the State Teachers Retirement System of Ohio used that system as an example of a way to measure a risk—which must be done before managing the risk. In this case, the solution was to develop a funding policy dashboard, a visual display with a set of metrics describing the health of the system and measuring the risks it faces. The dashboard includes a scorecard where each individual metric results in a score for that component. The summary score acts as an early-warning indicator of potential issues.

Plan design changes to mitigate risk was the focus of David Driscoll with Conduent Human Resources Services. He noted that the fights between those who want reform versus those who don't often end up in "a lot of actuarial bills." Plan design changes include:

- All-DC arrangements;
- DB-DC hybrid designs;
- Cash balance plans; and
- Variable participant contributions.

Driscoll said that in his opinion cash balance plans are good for a variety of reasons, citing several examples of states that offer cash balance plans, including Nebraska, which implemented a DC plan but then found that such plans were a bad use of taxpayer money and instead implemented a cash balance plan for state workers. ▲

Current Events in Public Plan Funding Policy

THE APRIL 4 SESSION, "Current Events in Public Plan Policy," was moderated by David Kausch of GRS Consulting. Panel participants included Paul Angelo of Segal Consulting; Ed Bartholomew, former CFO of the Inter-American Development Bank; Robert North of Building Better Pensions; and Sherry Chan, New York City's chief actuary.

Angelo touched on key insights of the CCA's Public Plans Community's white paper *Actuarial Funding Policies and Practices for Public Pension Plans* and the ongoing controversy on how to value pension obligations for public sector pension plans. During Q&A, Angelo stated that the best way to illustrate risk is risk aversion vs. risk management.

Bartholomew provided an overview of the financial economics behind today's public pension plan policies, including a critique of how the cost of risk is often ignored by plan partners. Key concepts of financial economics were discussed at length, including perspectives on the cost of investment risk; hedging scenarios involving risky and safe assets; the economic reasons for funding public sector pensions; and the perils of risk-blind financial decisions, as seen in the experience with drop accounts that Dallas, Texas, has had.

North and Chan offered their perspectives on the roles of public plan actuaries in addressing the challenges faced by public plans. North noted that actuaries are paying more attention to solvency and adequacy than ever before. Chan elaborated on her unique supervisory duties as chief actuary of the country's largest city and said she is currently leading an effort to pass legislation in New York State that would help determine liability costs for withdrawing employers. ▲

Public Plan DB vs. DC Experiences and Efficiencies

THE APRIL 4 SESSION "Public Plan DB vs. DC Experiences and Efficiencies" included panelists Diane Oakley, executive director of the National Institute on Retirement Security (NIRS); Leon (Rocky) Joyner Jr., vice president and actuary at Segal Consulting;, and Judith Kermans of Gabriel, Roeder, Smith & Co.

Their discussion centered on the strength of defined benefit pensions that deliver economic efficiency and NIRS' "Still a Better Bang for the Buck" study on defined benefit (DB) pension plans. Oakley cited the NIRS study and noted that generous retirement plans are significantly more important to public-sector workers as compared with private-sector workers. According to the U.S. Bureau of Labor Statistics, public-sector median employee tenure is twice as long as the private sector, with an average tenure of nearly eight years for public employees in 2012.

Session topics included various scenarios relating to the efficiencies of retirement plans. Joyner presented "A Tale of Three Cities," comparing the traditional hybrid retirement plan to a "stealth" hybrid plan and a "cutting-edge" plan. Kermans provided analysis of the financial economics involved in pension structuring and recommendations related to other factors, such as projected cash flow as a percentage of assets and level percentage of pay amortization of Unfunded Actuarial Accrued Liability in a closed plan. ▲

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a low-interest-rate environment that continues despite recent rate hikes; Baby Boomers' retirement; multiemployer and public plan funding issues; and pension risk transfers and plan terminations.

He said the PPC is "attuned to the policy discussions on retirement security issues here in the nation's capital [and is] working hard to bring actuarial considerations to policymakers' attention" in discussions on issues such as tax and Social Security reform; lifetime income; multiemployer issues; defined benefit reductions under the Multiemployer Pension Reform Act of 2014; public plans; the Retirement for the AGES framework, which helps to assess strengths and shortcomings of pension plans and systems, including composite plans; the maturity of pension plans; different roles and responsibilities in managing a pension system; and the setting of expected returns on investments.

We Survived the Election—Now What?

The opening plenary session—"We Survived the Election—Now What?"—featured a panel that included former Rep. Earl Pomeroy, a North Dakota Democrat who also previously served as that state's insurance commissioner. Other panel members were James Holland, an enrolled actuary, Academy member, and chief research actuary with Cheiron Inc.; and Andrew Remo, director of legislative affairs for the American Retirement Association.

Remo, Pomeroy, and Holland greet attendees after the election plenary session

They outlined Republicans' efforts to repeal and replace the Affordable Care Act, while noting that even if that were to occur, key parts of the landmark health care law would likely remain, including popular provisions such as prohibiting pre-existing exclusions and covering plan participants' dependents until age 26.

They outlined key elements of proposed tax reform packages—and attendant political challenges—and the prospects for retirement policy changes, including tax reform opportunities in defined contribution plans, potential small-employer pension plan tax credits, and delayed election of safe harbor 401(k) plan status.

"Tax cuts are going to be easier than tax reform," Pomeroy said. "That's going to be a complicated, fully engaged fight." He also accurately predicted, several days before it happened, that the Senate would approve Neil Gorsuch to serve on the U.S. Supreme Court.

Setting Expected Return Assumptions

The April 4 plenary session, "Setting an Expected Return Assumption," reviewed the uses of investment return assumptions and the key parameters for selecting them, including guidance from ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*.

The panel was moderated by Ellen Kleinstuber, chairperson of the Academy's Pension Committee, and included Academy Board member Jerry Mingione and Evan Inglis, an interested party of the PPC.

"The idea that the plan sponsor wants us to make sure that those benefits get paid is not talked about enough, but I think the fact that the benefits are being guaranteed demands that we at least think about a need to be conservative in our assumptions," Inglis said.

Mingione noted that typical allocations have evolved as plans matured and employers became more sensitive to financial risks, including greater asset diversification and less "return-seeking."

Projecting investment returns involves an assessment of both the current capital market and long-term/normative expectations; a sound projection will reflect a combination of the two. Referencing historical data appropriately requires looking at underlying conditions such as the levels of inflation and interest rates, the rates of economic growth, and the level of market pricing. It might not be reasonable to presume these conditions can remain unchanged going forward.

Mingione and Inglis gave assessments of the impact of low interest rates on investment return projections. Inglis cited a "new paradigm" in projecting equity returns that better reflects current high equity pricing and possible future increases in interest rates, with both factors likely acting to drive future equity returns below historical levels.

Mingione focused primarily on the fixed-income market, and presented a historical slide (based on data from the Bank of England) that put recent years' fixed-income market trends in historical perspective—indicating that global interest rates are currently at or near a 5,000-year low, while just thirty years earlier they were at or near a 5,000-year high.

He said that to define an expectation for future interest rate levels, it is necessary to find a balancing point between the supply of funds made available by savers and the demand for funds from borrowers.

The level of rates reflective of this balance going forward will be affected by increased globalization, aging demographics, great-

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er conservatism in spending habits by both consumers and companies, and the continuation of expansionary monetary policy and high levels of government debt.

Most of these trends support a presumption that interest rates will remain relatively low going forward, and work to suppress the level of investment return that can be expected in both fixed-income and equity markets.

Risk-Sharing Retirement Plans

The final plenary session on April 5 was "Meeting in the Middle: Composite Plans and Other Risk-Sharing Retirement Plans." It looked at defined benefit (DB) plans, which are built on the premise of a benefit that is defined by a formula, but which also comes with a certain level of risk. Traditional DB designs place that risk solely with the plan sponsor, but that does not always fit well with plan sponsors' overall risk tolerance and financial goals.

In response, new designs are in use and more are being built to allow for the sharing of risk, while still giving some definition to the benefits employees receive. These DB risk-sharing approaches are emerging in the Netherlands and Canada, and have been referred to as "defined ambition," "collective defined contribution," and "auto-rebalance" plans. The U.S. term "composite plan" has been introduced in a multiemployer plan setting.

The session was moderated by Tonya Manning, co-chairperson of the Academy's Lifetime Income Risk Joint Task Force. Eric Keener, chairperson of the PPC's Forward Thinking Task Force, gave an update on the Academy's Retirement for the AGES initiative, noting that the Academy created the task force in 2010 to identify guiding principles for a robust retirement system and to introduce those principles into policy discussions.

The task force is using the AGES framework—the idea that pension plans can be examined in light of four key principles (Alignment, Governance, Efficiency, and Sustainability)—to develop assessments of various pension reform proposals, offering letter grades for each principle as well as the overall proposal. Among the assessments that have been published so far, single-employer DB plans earned a C+ grade, while safe harbor defined contribution (DC) plans earned a C grade, Keener said. DB plans do fairly well at alignment and efficiency, while not as well at governance and sustainability. DC plans do better at sustainability but not as well at alignment and efficiency. Risk-sharing plans that combine the most effective features of DB and DC plans have the potential to fare better under the AGES framework. One example of such a plan is the New Brunswick shared-risk model, which earned an A- in its assessment.

Josh Shapiro, a vice chairperson of the PPC and a member of the Pension Committee, gave an overall perspective on multiemployer plans and the challenges they face. While most multiemployer plans are fixed-benefit plans that have no mechanism for adjustments in their design, an increasing number of plan

Putting actuarial science to work: Attendees at the Academy's booth estimate the number of M&M's in a jar, as part of a contest during the meeting's reception

sponsors are considering variable-benefit designs. But, he noted, benefit cuts can still occur in fixed plans if the plans are unable to pay those benefits.

"You can say 'fixed' all you want—if the plan doesn't have the money, it's not going to pay that benefit," said Shapiro, who has since been nominated to be the Academy's next vice president, pension (see story, p.1).

Léon Zijlmans, with Dutch firm Syntaxyz Actuarial Consultancy & Training, gave an overview of the Netherlands' "collective defined contribution" plans and the highly rated adequacy and sustainability of that country's pension systems.

Questions from the audience included one about preparing for shocks to the economy, such as the 2008 financial collapse that led to the subsequent recession. Shapiro said that history had shown similar downturns—from whatever cause.

"I tend to push back when people use that as an excuse for what's happened in pensions, multiemployer or otherwise. I think 2008 is something we need to be ready for," he said. "When all is said and done, I'm pretty sure it's going to happen again, so I think the systems need to be designed to absorb that kind of event."

SHAPIRO, FROM PAGE 1

Vice presidents serve two-year terms on the Academy's Board. The nominating process is designed to ensure that all candidates bring deep expertise, experience, and balance to the Board, and also significant knowledge of the Academy's history, mission, and priorities.

Terms will begin at the completion of the Academy's Annual Meeting, to be held Nov. 14 in Washington, D.C., as part of the 2017 Annual Meeting and Public Policy Forum. Visit the Academy's Board Election Center for nomination guidelines and details. Regular director candidates, elected by the membership at large in an online election over the summer, will be announced soon.

Pension Committee Comments on *Setting Assumptions* ASOP

THE PENSION COMMITTEE submitted a comment letter to the Actuarial Standards Board on the proposed actuarial standard of practice (ASOP), *Setting Assumptions*.

The letter notes that retirement plan actuaries are already subject to strict guidelines regarding the setting of assumptions, including ASOP Nos. 4, 6, 27, and 35, which include detailed and rigorous guidance on the selection and assessment of reasonable assumptions and methods.

"We do not believe there is any guidance in the proposed ASOP that directly conflicts with the guidance in these pension-specific ASOPs," the letter states. "Accordingly, while we believe that this proposed ASOP may strengthen actuarial practice for other practice areas, we do not expect it to substantially change the scope of U.S. pension practice."

Committee Releases Issue Brief on Women and Social Security

THE SOCIAL SECURITY Committee released an issue brief, just before Mother's Day weekend in May, which discusses differences in the factors affecting men and women that contribute to disparate benefits under Social Security.

"Financial security is a great way to honor all women, including mothers," said Janet Barr, a co-author of the issue brief. "Ensuring that the dialogue around Social Security reform accounts for the facts about women's benefits and the much-changed place of women in society since the program originated is a great place to start."

The issue brief notes that while Social Security provides benefits on a gender-neutral basis, "gender-related differences in the American work culture mean that, in reality, Social Security provides different levels of retirement security for women and men."

It concludes by exploring various reform proposals and the potential impact they may have on women. The issue brief highlights key aspects of the program, including:

- Social Security's rules are gender-neutral, but on average, some of the program's features affect women differently because the average woman's work history is not the same as that of the average man. Women tend to have more frequent breaks in employment due to child-bearing, child care, or caring for elderly parents or relatives.
- Women on average receive lower Social Security benefits than men with the same number of years of covered earnings due to differences in earnings between men and women. In 2012, the median covered wage reported to the Social Security Administration for all workers was $31,205 for men and $21,914 for women.
- Women's longer lifetimes make Social Security benefits a more significant component of their retirement security. The average life expectancy at age 65 is 18.1 years for males and 20.6 years for females. About 23 percent of women age 62 and older (but only about 18 percent of similarly aged men) depend on Social Security for 90 percent or more of their family income.

Annual Meeting Pension Sessions Announced

This year's Annual Meeting and Public Policy Forum, to be held Nov. 14–15 in Washington, will cover today's top issues—with a deep dive into pension developments, including, "Multiemployer Plans: Is There a Runaway Ramp Before the Cliff?"; "Public Plans: The Pothole-Filled Road to Retirement Security?"; "National Retirement Policy Objectives: Are We on the Same Page?"

The Academy believes in good faith that you may earn 1.8 continuing professional education credits for "non-core subject matter" under the Joint Board for the Enrollment of Actuaries (JBEA) for each breakout session.

Visit the Academy website for session descriptions. Register now, and join us in November.

Committee Comments to IRS and Treasury on Projection of Cash Benefits

THE PENSION COMMITTEE submitted a comment letter to the IRS and the Treasury Department on the projection of benefits under cash balance plans with variable interest credits.

The letter states that additional guidance is needed, and that cash balance plans with variable interest credits cannot be sure they are operating in compliance with all legal requirements without guidance that provides a workable approach to projecting benefits.

The comments cover accrual rules, setting a projection rate, and a recommended projection rate. “We believe the starting point for setting a projection rate should be a reasonable assumption or reasonable range of assumptions based on future expectations,” the letter states. “Ideally, the assumed rate would be used for projecting interest credits, regardless of the actual rate in the year of the test.”

The letter concludes that “the IRS could require plan sponsors to include a methodology for determining the projection rate in the plan document and require plan sponsors to provide the rationale for the reasonableness of the rate in determination letter filings or upon audit. Having the rate (or the basis) defined in the plan document would ensure benefits are definitely determinable.”

Pension Committee Submits Letter to IRS

THE PENSION COMMITTEE submitted a comment letter to the IRS on an update to mortality tables for determining the present value for defined benefit pension plans. The letter follows the committee’s February 2015 letter and states that pension plans should be using up-to-date mortality assumptions and best practices where possible.

The proposed regulations note an expectation that further updates will be reflected as they become available, which the committee said it strongly supports.

“As noted in our 2015 comment letter, the pension actuarial community has gradually moved toward a generational basis for mortality improvement over the past 20 years since the introduction of the 1994 tables,” the letter states. “However, we acknowledge that for certain purposes such as administration and for the valuation of smaller plans, requiring generational projection may introduce more complication and reprogramming cost than is appropriate for the associated refinement of the result.”

The committee offered several suggestions on substitute mortality tables to help clarity and understanding, as well as comments on additional simplifications and automatic approvals. The letter also comments on construction of §417(e) tables, aggregation of male and female experience, and noted the challenges for large multiemployer plans.

PPC Sends Letter to Congress on Pension-Related Revenue

THE PENSION PRACTICE Council (PPC) sent a letter to congressional leaders on pension-related revenue.

The letter cites concerns about recent legislation scored by the Congressional Budget Office as raising revenue from the private sector pension system to offset unrelated spending increases. Provisions in this recent legislation appear to raise revenue, but this appearance is due to anomalies in the current scoring mechanism.

The PPC said that it believes that this scoring approach should be changed. Pension Benefit Guaranty Corporation (PBGC) premiums are deposited into on-budget revolving funds, and the receipt of these premiums is now counted as revenue without any offset for the payment of benefits that will be provided by those premiums, the letter states, adding

that such treatment would be appropriate if the premiums could be used for purposes unrelated to the PBGC or if general revenues could be used to support the PBGC.

But, it notes, premiums have been collected from plan sponsors solely to support the PBGC’s guaranteed level of retirement income from employer-sponsored pension plans. Diverting premiums to other purposes is not permitted under current law, nor does current law allow the PBGC to draw on other federal revenues to provide the retirement income it guarantees.

The letter noted that two bills introduced earlier this year—S. 270 in the Senate and H.R. 761 in the House—would prevent PBGC premiums from being inappropriately counted for budget scoring purposes. “Passage of such legislation would better align the scoring of PBGC-related legislation with its financial impact,” the PPC wrote.