

Pension Practice Council
Vice President: Donald J. Segal
Staff Liaison: Samuel D. Genson
April 2007

HIGHLIGHTS*

Since the last Board of Directors/Executive Committee meeting, members of the Pension Practice Council have been actively involved in: providing guidance to policymakers and regulators on various provisions in the Pension Protection Act (passed in August); responding to media inquiries on the passage of the funding legislation, release of FAS 158, general questions regarding longevity risks, and the PBGC's annual report; and hosting a practitioner's liaison group to assist government agencies in the prioritization and development of regulations pertaining to the passage of Pension Protection Act (PPA).

The following is a list of ongoing projects/public statements being undertaken by the council's committees and task forces:

- ❑ Practice notes on mortality and other demographic assumptions (Pension Committee)
- ❑ Issue brief on transparency (Pension Accounting Committee)
- ❑ Issue brief/white paper addressing issues with FAS 158, including ABO v PBO and phase 2 recommendations (Pension Accounting Committee)
- ❑ Issue brief on annuitization (Retirement Security Principles Task Force)
- ❑ Issue brief on *Expected Returns in Individual Accounts* (Social Insurance Committee)
- ❑ Issue brief on *DB vs. DC* (Social Insurance Committee)
- ❑ Issue brief on *Women and Social Security* (Social Insurance Committee)
- ❑ Issue brief on actuarial soundness in public pension plans (Public Plans Subcommittee)
- ❑ Interactive website program addressing longevity risks (Pension Committee)
- ❑ Website program highlighting pension plan funding levels (Pension Committee)
- ❑ Public statement discussing features of a safety-net DB plan (Pension Committee)
- ❑ Comments to IRS on phased retirement provisions in PPA (Pension Committee)
- ❑ Comments to IRS on cash balance guidance related to provisions in PPA (Pension Committee)

The following is a list of public statements/projects that have been completed since the last Board of Directors and/or Executive Committee meeting:

- ❑ Issue brief on *Investing Social Security Assets in Private Securities* (Social Insurance Committee)
- ❑ Comment letter to the ASB on the exposure draft of Asset Valuation Methods ASOP and ASOP 4 (Pension Committee)
- ❑ Comment letter to the IPSASB on ED 31 (Public Plans Subcommittee)
- ❑ Social Security Reform Options monograph (w/press background briefing) (Social Insurance Committee)
- ❑ Comment letter to the IRS and Treasury Department on using substitute mortality tables (Pension Committee)
- ❑ Actuary's Guide to Financial Economics (Joint SOA/Academy Financial Economics and the Actuarial Model Task Force)
- ❑ *Updated Social Security Reform: Changes to the Benefit Formula and Taxation of Benefits* (Social Insurance Committee)
- ❑ Practice note exposure draft on the valuation of stock options (Stock Options Task Force)
- ❑ Comment letter to IRS regarding Circular 230 (Pension Practice Council)

* For a full account of Pension Practice Council activities, please see cycle report in the Appendix.



AMERICAN ACADEMY of ACTUARIES

Pension Practice Council
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March 2007

APPENDIX

STRATEGIC DIRECTIONS

Educate public policymakers and the general public on aspects of issues relating to financial security and actuarial soundness to promote the public good.

Proposed strategy: To identify areas in which there are gaps in general education on issues related to retirement security and to provide that education through fact sheets, issue briefs, etc.

- ❑ The Retirement Security Principles Task Force is working on an issue brief to address issues associated with annuitization (primarily from DC accounts) – e.g., voluntary versus mandatory, tax incentives for annuities, pros/cons of lump sums, the problem of selection, treatment of IRAs, etc. The brief would serve to outline the importance of annuitization as part of a strong retirement plan so that workers will not outlive their assets in retirement.
- ❑ The Pension Committee is working to develop an interactive feature for the Academy’s website – a longevity index – that would provide statistics on frequently asked questions regarding life expectancy. Similar to the issue brief on annuitization, the project is designed to respond to a growing concern that workers/retirees will begin to outlive their assets because they are not prepared for the amount of time they are likely to spend in retirement.
- ❑ The Pension Committee is also working to develop another feature for the Academy’s website – a pension funding index that would show monthly updated average funding levels for S&P500, the total underfunding in those plans, and a percentage of sponsors with funding above a certain level.
- ❑ The Joint SOA/Academy Task Force on Financial Economics and the Actuarial Model has released the Actuary’s Guide to Financial Economics. This guide provides actuaries with an understanding of the core principles of financial economics. With the release of the guide, the Champions program will be launched; the purpose of the Champions program is to set up intra-company networks to educate actuaries about what's in the guide
- ❑ The Public Plans Subcommittee has recently decided to draft an issue brief that would address actuarial soundness in public systems.

Advocate for public policy outcomes that are actuarially sound.

- ❑ The Social Insurance Committee recently completed and released a comprehensive monograph that outlines the various policy options for Social Security reform. A communications strategy was developed to release

the monograph, which included a press background briefing, early 2007. In addition to this monograph, the committee is drafting a number of issue briefs: *Investing Social Security Assets in Private Securities* (update), *Expected Returns in Individual Accounts* (new), *Women and Social Security*, and a new project that would address DB versus DC within the Social Security system.

- ❑ The Pension Committee has begun looking at the next generation of retirement plans. One piece of this general strategy is a project that would look at features of a 'safety net' DB plan. Members of the subgroup working on this project will be meeting with Congressional staff to discuss this and other 'new' DB-type plan designs to revitalize the employer-sponsored plan system. There will also be discussion with the members of the Life Practice Council regarding any joint work that may occur on this project.
- ❑ With the implementation of phase 1 of FASB's project to reexamine accounting for pension and other employee benefits, the Pension Accounting Committee is now looking toward preparation of a white paper that would address issues pertinent to phase 2 of the project. The white paper will be sent to accountants and users of financial statements, as well as the FASB, prior to any exposure draft on phase 2 recommendations.
- ❑ With the passage of the PPA, the Academy helped create a work group named the Funding Reform Advisory Task Force (or FRAT Force), which is comprised of individuals (actuaries, attorneys, and other employee benefit experts) who would identify, prioritize, and make recommendations to policymakers and regulators on guidance with respect to various provisions in PPA. Since the inception of the FRAT Force they have written several papers addressing several PPA related issues such as: lookback rule, yield curve, maximum tax deductions, benefit restrictions and substitute mortality.

Advocate on behalf of the actuarial profession in order to promote and protect the profession and to increase the influence of the Academy and the actuarial profession in the creation of public policy that affects the profession.

- ❑ In general, for the last few years, the PPC and the Pension Committee have been engaged in discussions with policymakers and regulators regarding the need for pension funding reform legislation. During the past year, as legislation moved closer to passage, members of the committee met with congressional staff and regulatory officials to discuss various aspects of the reform, their advantages and disadvantages, and the impact on the private sector.
- ❑ The Public Plans Subcommittee is responding to a request for the GAO on public plan administration and funding.
- ❑ The Pension Committee is experimenting with a trial program of Hill visits for 2007 that consists of multiple targeted meetings throughout the year instead of one single day of meetings. The purpose of this trial program is to ensure that we represent and promote the profession as experts, in the most efficient way possible, in discussions related to the next generation of pension plans.
- ❑ The Social Insurance Committee has been reaching out to external organizations to promote the profession and determine areas in which we can cooperate with and coordinate on activities. This will be an ongoing outreach effort, and members of the committee have met with AARP, Urban Institute, Brookings Institution, National Academy of Social Insurance, and congressional staff. The Social Insurance Committee will be holding Hill visits in early April of 2007.

Advocate on behalf of the actuarial profession for sound public policy outcomes to increase the recognition, appreciation, and use of actuaries in new areas of practice.

- ❑ The Stock Options Task Force released an exposure draft of its practice note on Valuation of Stock Options. The exposure period ended on November 30, and comments will be incorporated prior to the finalization of the note. This is an emerging issue area where the Academy saw the need for guidance for actuaries,

developed a task force, created the practice note, and is now working with the SOA on an experience study. In December members of the task force began talking with FASB, SEC, and other organizations on aspects of the practice note and any questions on the guidance.

2007 KEY PRIORITIES

During its November planning session (11/5 – Las Vegas), the Pension Practice Council identified its 2007 Key Priorities:

- ❑ Revitalize defined benefit pension plans as part of a strengthening of private retirement systems.
- ❑ Advance retirement income security policy for:
 - Private sector, employer-sponsored plans
 - Social Security
 - Public Plans
- ❑ Assist government policymakers and regulators in:
 - Responding to the Pension Protection Act of 2006
 - Developing the next generation of pension legislation
- ❑ Work with accounting policymakers to develop appropriate financial reporting requirements for pension plans.
- ❑ Advocate the continuous advancement of pension actuarial practice.

NEW MEMBERS/NEW SUBCOMMITTEES

The Multiemployer Task Force and the Public Plans Task Force have been changed to subcommittees under the jurisdiction of the Pension Committee. The chairs of both subcommittees will still hold seats on the Pension Practice Council.

As part of an effort to encourage participation and provide for a fresh perspective, the PPC has directed all committees and task forces to add at least one new member within the next few months.

- ❑ Eric Sondergeld (LIMRA International) and Emily Kessler (SOA) have joined the Retirement Security Principles Task Force.
- ❑ Michael Callahan (PenTec, Inc.) has joined both the Social Insurance Committee and the Retirement Security Principles Task Force.
- ❑ Lane West (Stanley Hunt DuPree & Rhine, Inc.) and Gordon Enderle (Watson Wyatt) have joined the Pension Committee.
- ❑ Joan Gucciardi (Summit Benefit and Actuarial Service) has joined both the Pension Practice Council and the Pension Committee.
- ❑ Robert North (New York City Office of the Actuary), Michael de Leon (Deloitte), Ira Summer (Public Pension Professionals), Martin McCaulay (Washington Office of the State Actuary), Brad Armstrong (Gabriel, Roeder, Smith), Bob McCrory (EFI Actuaries) have joined the Public Plans Subcommittee.
- ❑ Kathleen Manning (MWM Consulting Group) has joined the Pension Accounting Committee.
- ❑ Dimitry Mindlin (Wilshire Associates) has joined the Social Insurance Committee

PUBLICATIONS

The following documents have been released since the last Board of Directors and/or Executive Committee meeting (December 2006):

- ❑ *Actuary's Guide to Financial Economics* (Joint SOA/Academy Financial Economics and the Actuarial Model Task Force)
- ❑ *Social Security Reform Options* monograph (Social Insurance Committee)
- ❑ Updated Issue Brief, *Social Security Reform: Changes to the Benefit Formula and Taxation of Benefits* (Social Insurance Committee)
- ❑ Practice note on the valuation of stock options (Stock Options Task Force)

- The 60-day exposure period for comments on the note ended on November 30, and after comments are incorporated, the note will be finalized.
- Comment letter to IRS regarding Circular 230 (Pension Practice Council)
- Issue brief on *Investing Social Security Assets in Private Securities* (Social Insurance Committee)
- Comment letter to the ASB on Asset Valuation Methods ASOP and ASOP 4 (Pension Committee)
- Comment letter to the IPSASB on ED 31 (Public Plans Subcommittee)

SENIOR PENSION FELLOW REPORT

- Helping design Academy's "Pension Funding Index" website to show monthly updated average funding levels for S&P500, total underfunding in those plans, using ABO and PBO, and percentage of sponsors with aggregate funding levels over X percent (or show distribution).
- Helping design Academy's "Longevity Index" website to show stats on frequently asked questions on life spans, like: life expectancy at age 65, percent still alive at ages 90, 95, and 100 (male and female), age at which ¼ still alive, points on why an annuity can be valuable, etc.
- Helping FRAT force with suggestions for IRS/Treasury on PPA issues.
- Discuss new retirement ideas with Hill staff, policy wonks in town.
- Helping on our response to the IAA letter to IPSASB draft standard which would basically apply the ideas of IAS19 to government bodies.
- Preparing for meetings of the IASB Employee Benefits Working Group
- Updating slides for speeches on Social Security, Pensions, and the Future of Pensions
- Finding ways in which we can work with other professions (e.g., study mortality by income level with economists and Brookings; study the pick up of automatic elections with Urban Institute).
- Engaging in ongoing activities, including responding to media calls; reading and responding to approximately 100 emails/day; making presentations at actuarial meetings, as well as meetings hosted by external organizations; participating in the activities of PPC committees/task forces.