JUNE 2013

Actuarial UPDATE

THE NEWSMONTHLY OF THE AMERICAN ACADEMY OF ACTUARIES

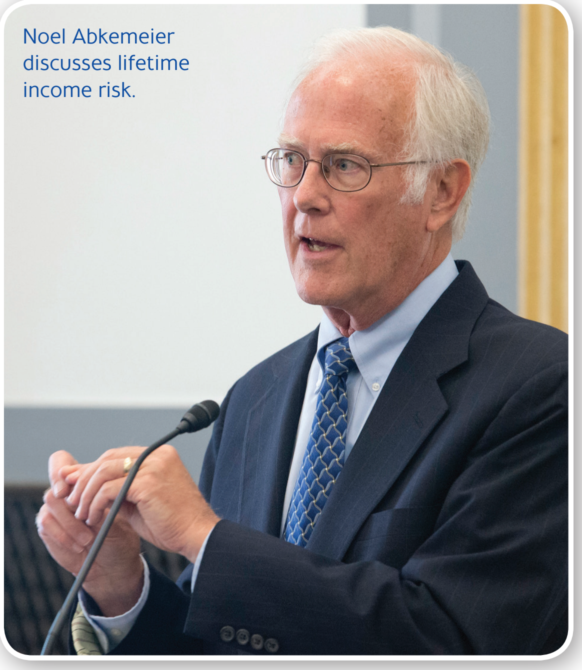
Longer Lives and Less Money

Academy Briefs Capitol Hill Audience on Lifetime Income Risk

LIVING LONGER SOUNDS GREAT until it means living on less and less as retirement funds run dry. With the retiring of the baby boom generation and the possibility that an increasing number of Americans could face outliving their assets, the Academy held a Capitol Hill briefing June 27 on its new discussion paper "Risky Business: Living Longer Without Income for Life."

"Without careful planning, retirees risk running out of income to cover the basic needs of their lifestyle," said Noel Abkemeier, co-chairperson of the Academy's Lifetime Income Risk Joint Task Force. "If individuals outlive the income provided by their assets, they risk becoming a burden on family or society. We are all going to pay for it."

A multitude of factors have led to those in retirement facing inadequate or depleted assets. Many workers do not understand how to navigate the switch from defined benefit (DB) to defined contribution (DC) plans and the more active role they needed to play in investing. Some retirees do not save enough during their working lives; others have watched their assets shrink during the past 13 years from the dot.com bust, the financial crisis, and the resulting great recession. Individual choices alone won't address the complex factors at play.



Noel Abkemeier discusses lifetime income risk.

SEE **LIFETIME INCOME,** PAGE 8

Academy Reaches Out on Professionalism Issues

Separate Web Events for Regulators and for Members

ACADEMY EFFORTS to create more in-depth and frequent dialogue with regulators continued during a June 27 professionalism web event that gave them greater detail on the profession's standards, qualifications and counseling, and discipline and encouraged regulator input on key professionalism concerns. The web meeting continued conversations begun at April's NAIC breakfast meeting with regulators and is part of a larger initiative to give regulators a forum for discussing and suggesting improvements on actuarial professionalism in their work.

Throughout the web meeting, panelists stressed the importance of receiving any and all feedback, comments, questions, and suggestions from regulators. All questions will be considered with a view toward providing feedback and responses at the August NAIC meeting during the planned breakfast hosted by the Council on Professionalism.

Cande Olsen, vice president of the Academy's Life Practice Council and member of the Task Force on Discipline, began the discussion with a summary of the breakfast conversation at the April NAIC meeting that helped spur Academy efforts on behalf of the public and the profession to reach out to regulators.

That breakfast had more than 60 participants and focused primarily on the reasons regulators do not report poor actuarial work to the Actuarial Board for Counseling and Discipline (ABCD). For instance, some cited concerns related to how and when confidentiality comes into play, and if they need to be worried about liability. "Everybody seemed to have different reasons," Olsen said.

Bob Meilander, chairperson of the Actuarial Standards Board (ASB), provided background on the board's work to

SEE **PROFESSIONALISM,** PAGE 6

JULY

11–14 NCOIL summer meeting, Philadelphia

15 Academy summer summit, Washington

AUGUST

2-3 International Association of Black Actuaries (IABA) Annual Meeting, Chicago

14 Academy Executive Committee meeting, Washington

24–27 NAIC summer national meeting, Indianapolis

SEPTEMBER

16–17 Casualty Loss Reserve Seminar, Boston

OCTOBER

1 CUSP meeting, Washington

1–2 Academy Board of Directors meeting and board orientation, Washington

20–23 CCA Annual Meeting, San Antonio

20–23 SOA Annual Meeting, San Diego

NOVEMBER

3–6 CAS Annual Meeting, Minneapolis

4 Academy Annual Meeting and Awards Luncheon, Minneapolis

11–14 2013 Life and Health Qualifications Seminar, Arlington, Va.

13–14 Effective Loss Reserve Opinion Seminar: Tools for the Appointed Actuary, Chicago

15–16 NAAC meeting (AAA), South Beach, Fla.

21–24 NCOIL Annual Meeting, Nashville, Tenn.

DECEMBER

11 Executive Committee meeting, Washington

15–18 NAIC fall national meeting, Washington

To continue receiving the *Update* and other Academy publications on time, remember to make sure the Academy has your correct contact information. Academy members can update their member profile at the member log-in page on the Academy website.

Academy NEWS Briefs

Academy Testifies on Revised PBGC Reporting Requirements

MAINTAINING THE DELICATE BALANCE between enough information for government entities and too much paperwork for private companies was the focus of the first-ever Pension Benefit Guaranty Corp. (PBGC) public hearing on a proposed rule. Academy Senior Pension Fellow Donald Fuerst was one of eight panelists offering input on a proposal that would amend PBGC's current regulation on reportable events and certain other notification requirements (Part 4043) to conform to changes under the Pension Protection Act of 2006 and PBGC's regulations on premium rates (Part 4006) as well as other changes.

Fuerst's remarks represented the work of the Academy's Pension Committee. Before he detailed suggestions from the Pension Committee, Fuerst complimented the PBGC on its common-sense, risk-based approach to reporting, especially its efforts to reduce reporting requirements with little risk to the pension insurance system.

He discussed the need to recognize the dual influence of plan sponsor and plan financial soundness, specifically suggesting a new test that combines a plan sponsor's creditworthiness and a plan's funded status. "We would like to see a balance between company soundness and plan soundness," he said. "A sponsor and plan that only marginally fall short of both the company and plan financial soundness criteria may pose little risk to PBGC."

He also urged lowering the threshold for plan termination liability to something less than 100 percent. Because of tax and regulatory requirements, few plans have assets greater than 100 percent of termination liability or 120 percent of the premium liability, and there is little incentive to contribute to this level. "We suggest that a plan at 100 percent of the premium level poses very little risk to the PBGC," Fuerst said.

He also suggested that PBGC consider revising the waiver rules, especially those requiring unavailable or outdated information. A revision that allows net income from the two previous years available as of the event date, or termination liability data for a date three months before year-end would make more sense for all involved.

Sometimes more current information for a reportable event is available than that required by the proposed regulation. If a plan could meet the test based on current-year premium information, Fuerst suggested, the plan financial soundness waiver should be expanded to cover such plans. He also recommended that contributions deemed to be missed because of a failure to sign a timely funding balance waiver should not be treated as reportable events. "This deemed missed contribution poses no additional risk to the PBGC," he said.

For contributions missed but corrected before the Form 200 filing deadline, Fuerst suggested allowing sponsors to submit a simplified Form 200 to cut down on complicated filings that pose no real risk to the PBGC. He also recommended keeping the active participant reduction waiver that was cut from the current proposed rule. He gave several reasons for this, including that a one-time decrease in active participants can cause two separate reportable events and that PBGC monitoring is ongoing when multiple events occur. "The regulations should clarify that in determining whether a second report is required, any reductions already reported should be disregarded," he said.

Other panelists and organizations at the hearing included Shaun O'Brien, assistant policy director for health and retirement for the AFL-CIO;

CONTINUED ON PAGE 3 ➜

Aliya Wong, executive director of retirement policy for the U.S. Chamber of Commerce; Michael J. Francese, a partner at Covington & Burling LLP and a representative for the ERISA Industry Committee (ERIC); Mark Dunbar, president of the ASPPA College of Pension Actuaries (ACOPA) and representative of ACOPA and the American Society of Pension Professionals and Actuaries (ASPPA); Deborah Forbes, executive director of the Committee on Investment of Employee Benefit Assets (CEIBA); Michael F. Pollack, senior consulting actuary at Towers Watson; and Eric Keener, partner and chief actuary at AON Hewitt.

IN THE NEWS

A story on FEMA and climate change quoted Stuart Mathewson, a member of the Academy's Flood Insurance Subcommittee, as did an article on federal flood insurance programs on NBCnews.com.

Donald Fuerst's congressional testimony on Social Security has been increasingly popular. It also has been mentioned in several publications:

- John Bogle: Social Security's the Greatest Fixed Income You'll Ever Get
- Can This Plan Avert a National Retirement Disaster?
- Social Security May Be at Jeopardy for 62ers
- No More Social Security at 62?
- Social Security Report

The minimum value calculator and the Academy's role in the actuarial profession are mentioned in a LifeHealthPro story.

ACA-related statistics from a *Contingencies* article were mentioned in several places:

- Exploring Possible Pitfall of Affordable Care Act: Many Under 40 Might Not Buy In
- Pro&Con: Some Youths Unlikely to Pay for Affordable Care Act
- Editorial: The High Price of Obamacare
- Impact of New Healthcare Law Disputed in Tennessee

Tom Wildsmith, chair of the Medicare Steering Committee, was quoted in a *Healthcare Finance News* article on the Medicare Trustees Report.

The *Des Moines Register* interviews Academy President Cecil Bykerk in an article on the HIP Iowa-Fed program.

An article on the PBGC's financial soundness test talks about the Academy.

Cori Uccello's congressional testimony on the ACA was mentioned in the Macon, Ga., *Telegraph* and was listed as a top story on the Health Affairs Blog. She was also quoted in *Bloomberg Businessweek* on ACA and mentioned in an article on *Pharmacy Choice* for her role on MedPac.

The Academy was mentioned in a *Health Affairs* article on Medicare restructuring.

New reserving standards promulgated by the Actuarial Standards Board and the Canadian Institute of Actuaries were discussed in the *Insurance and Investment Journal* in Canada.

The Academy's newly released discussion paper "Risky Business: Living Longer Without Income for Life" was mentioned in several articles:

- AAA: Don't Underestimate Yourself
- Don't Go Broke by Age 75
- Risky Business: Living Longer Without Income for Life
- Living Longer + Lack of Lifetime Income + Risky Business.

Work at GAO

ACTUARIES WHO WOULD LIKE TO WORK at the Government Accountability Office (GAO) can apply to do so. GAO is recruiting for two senior actuary positions at its Washington office. The work will cover multiple practice areas, depending on the project.

PROFESSIONALISM BRIEFS

- Actuarial Standards Board member **Patricia Matson**, delivered a presentation, "Does That Apply to Me? How Actuarial Standards of Practice May Apply to Your Daily Work," to the Hartford Actuaries Club on May 21.
- COP Task Force on Discipline Chair **Mike Toothman** made a presentation on the task force's work and led discussions on the professionalism issues it is considering at a May 29 meeting of the Casualty Actuaries of Greater New York and at the May 30 meeting of the Casualty Actuaries of the Mid-Atlantic Region.

Academy's Annual Member Awards Are Now Open for Nominations

The Jarvis Farley Service Award is given to Academy members whose volunteer efforts on behalf of the Academy have made significant contributions to the advancement of the profession. The Robert J. Myers Public Service Award recognizes actuaries who have made an exceptional contribution to the common good, whether for a single noteworthy public service achievement or a career devoted to public service. And, the Award for Outstanding Volunteerism honors Academy volunteers who have made a single, noteworthy contribution above and beyond what is reasonably expected.

Extreme Events Committee Contributes to FIO Study

ON JUNE 24, the Academy's Extreme Events Committee provided input on the Federal Insurance Office's (FIO) natural catastrophes and insurance study. As required by the Biggert-Waters Flood Insurance Reform Act of 2012, FIO is analyzing the availability and affordability of insurance for natural catastrophes around the country and determining whether a consensus definition of "natural catastrophe" should be developed.

The Academy described several key aspects of the market that regulators should keep in mind, including rate adequacy and increased private market involvement, as well as the relative utility of developing a consensus definition of "natural catastrophe."

The committee also responded to several specific study questions involving the:

- State, community, and individual ability to mitigate losses associated with natural catastrophes;
- Insurer incentives for risk mitigation;
- Current state of catastrophic insurance and reinsurance markets;
- Financial condition of state residual markets and catastrophe funds in high-risk regions;
- Role of federal, state, and local incentives for risk mitigation;
- Current approaches to insuring for natural catastrophes.

COPLFR Requests Fine-tuning of "Qualified Actuary" Definition

THE COMMITTEE ON PROPERTY & LIABILITY FINANCIAL REPORTING (COPLFR) submitted comments on proposed final regulations for California's workers' compensation self-insurance plans. Specifically, the committee recommended that the regulations use a definition of "qualified actuary" that more closely matches the definition in the Statement of Actuarial Opinion Instructions included in the NAIC's Annual Statement Instructions for property and casualty insurers. Describing the proposed definition as "overly broad and somewhat ambiguous," COPLFR says it would include many people who "have neither completed examinations covering workers' compensation topics and many other relevant topics, nor demonstrated sufficient knowledge of the relevant materials." A definition that references the U.S. Qualification Standards, in particular the specific education components listed in Section 3, would be more appropriate.

CASUALTY BRIEFS

- **Judy Mottar**, a casualty actuary at the Illinois Department of Insurance in Springfield, has joined the Committee on Property and Liability Financial Reporting.
- **Janet Duncan**, senior vice president and senior actuarial officer of reserving for CNA Financial Corp. in Chicago, has joined the Opinion Seminar Subcommittee.

NAIC Solvency Paper Reflects Academy Changes

ON JUNE 6, the Risk Management and Financial Reporting Council's Solvency Committee commented to the NAIC on the revised version of its draft white paper on the U.S. national state-based system of insurance financial regulation and the Solvency Modernization Initiative. The new draft incorporated jointly submitted comments from several Academy committees. In the revisions, the committee believes, "the necessary, significant issues have been addressed. The revised report is well-organized, covers the important issues, and in our view accurately reflects U.S. state-based regulation." In closing, the committee suggested that the NAIC compare the new draft's content with the recently released EU/U.S. study to ensure consistency.

RISK MANAGEMENT AND FINANCIAL REPORTING BRIEFS

- **Leonard Reback**, vice president and actuary for Metropolitan Life Insurance Co. in Bridgewater, N.J., has joined the Solvency Committee.

LIFE NEWS

Comments on NAIC Briefs on PBR

ON JUNE 11, the PBR Strategy Subgroup submitted an additional comment letter to the NAIC Principle-Based Reserving Implementation (EX) Task Force on the May 9 drafts of the PBR legislative and educational briefs.

Get Ready for ICA 2014

Actuarial organizations around the world are invited to help promote ICA 2014. Click here to find out more about registration and events.

LIFE BRIEFS

- **Steven Sorrentino**, vice president for Metropolitan Life Insurance Co. in Bridgewater, N.J., has joined the Asset Adequacy Analysis Practice Note Work Group.
- Joining the ARWG VM22 Subgroup are **Barbara Hilligoss**, second vice president and assistant actuary for Standard Insurance Co. in Portland, Ore.; **John Blocher**, an actuary at Security Benefit Life in Topeka, Kan.; and **Ryan Stowe**, an actuary at CUNA Mutual Group in Madison, Wis.
- **Marc Whinston**, an actuary at Teachers Insurance and Annuity Association in New York, has joined the Annuity Reserves Work Group.
- **Kenneth Birk**, director and actuary for Prudential Financial in Hartford, Conn., has joined the Aggregate Margin Task Force.

HEALTH NEWS

Academy Issue Brief Focuses on the 2013 Medicare Trustees Report

COMPARED WITH 2012, the Medicare Trustees Report shows some improvement in the program's sustainability, as discussed in the Academy Medicare Steering Committee's issue brief. Each year, the committee offers an actuarial perspective on Medicare's financial condition and outlines public policy options to address the program's long-term financial challenges.

New numbers in the Medicare Trustees Report show that the program's federal Hospital Insurance (HI) program has two more years before depletion—2026 as opposed to 2024—and its 75-year deficit decreased from 1.35 percent of taxable payroll to 1.11 percent. More recent data and technical changes in project methods contributed to this change.

During most of the 75-year projection period, HI expenditures will exceed revenues. The program's long-term sustainability is still in question because total Medicare expenditures will take up a larger share of federal outlays and the gross domestic product. The trustees' report projections are based on current law, but the Office of the Actuary includes an alternative analysis that offers projections if current law is not met, specifically if the scheduled provider payment reductions do not occur. This scenario illustrates the potential understatement of the seriousness of Medicare's financial condition.

"Because Medicare plays a critically important role in ensuring that older and certain disabled Americans have access to health care, the American Academy of Actuaries' Medicare Steering Committee urges action to restore the long-term solvency and financial sustainability of the program. The sooner such corrective measures are enacted, the more flexible the approach and the more gradual the implementation can be. Failure to act now will necessitate far more drastic actions later."

The issue brief also discusses the provisions in the Affordable Care Act that may help reduce Medicare costs and/or increase Medicare revenues, as well as provisions that allow for the development of new delivery systems and payment models for the program.

Additionally, the committee submitted written testimony to the U.S. House Ways and Means Subcommittee on Health for a hearing on the report.

HEALTH BRIEFS

- **Dave Bond**, managing partner at CCRC Actuaries LLC in Reisterstown, Md., and **Gordon Trapnell**, president of Actuarial Research Corp. in Annandale, Va., have joined the Long-Term Care Committee.
- **Muzammil Waheed**, an actuary at the Society of Actuaries in Schaumburg, Ill., has joined the Long-Term Care Valuation Work Group.
- **Robert L. Jordan**, a government actuary at Blue Cross/Blue Shield of Arizona in Phoenix, has joined the Medicare Steering Committee.
- **Audrey Halvorson**, chief actuary and vice president of actuarial services and healthcare economics for Blue Cross/Blue Shield of Arizona in Phoenix, has joined the Health Practice Council.
- **David Andreae**, assistant vice president and actuary for Unum in Chattanooga, Tenn., has joined the Individual Disability Table Work Group.

establish and improve standards of actuarial practice. When creating or revising an ASOP, the ASB seeks to set standards for appropriate practice that are principles-based. These ASOPs identify what the actuary should consider, document, and disclose when performing an actuarial assignment. Most ASOPs pertain to long-standing areas of actuarial practice. Some ASOPs are based on regulations; others reflect evolving practice. "The ERM Committee was just added in March," Meilander said. "That is a fairly active area of practice. We just added standards, and now we have a committee to keep up with those standards."

Panelists noted that it is important for regulators to comment on exposure drafts of ASOPs before they are finalized if they have ideas about how they could be more prescriptive without sacrificing the overall principles.

Curtis Huntington, a member of the ABCD, discussed its work on behalf of the profession and the public to investigate individual actuaries and their compliance with the Code of Professional Conduct, counsel actuaries in appropriate professional practice, and mediate disputes between actuaries and others. He also clarified that the ABCD charge is to review individual credentialed actuaries' work rather than issue practicewide general statements about actuarial professionalism, which may be appropriate through another Academy entity such as the Council on Professionalism. The ABCD follows general law and due process and keeps confidentiality according to Academy bylaws.

John Purple, a member of the ABCD, said the board spends the most time on the counseling function. He also clarified the discipline process. "The ABCD does not discipline individual actuaries," he said. "We make recommendations to member organizations, and they make the final determination on any discipline that should come out of our process."

John Morris, chairperson of the Committee on Qualifications, talked about the committee's work and composition. He stated that the committee has representation from the regulatory community and that "ideally we would like to have another regulatory actuary on the committee." He reminded the audience that the committee has requested input from the public and particularly regulators on potential changes to the U.S. Qualification Standards and stated that the committee has posed seven questions to the public for particular response.

He said that over the years the committee has responded to hundreds of qualifications questions and that "these questions provide valuable input to the committee on the areas where people are having questions," he said. "We have hosted webinars, and they have been well attended. A lot of our effort is devoted to educating actuaries in regard to what qualification standards apply to them."

Another issue had to do with member audits. "The Academy does not require or perform any kind of audits on its members, but maybe this is something we need to be thinking about going forward," said Joeff Williams, vice chairperson of the Council on Professionalism. "I know some suggestions have been made about how we might be able to look into that. Maybe they have to annually certify when they renew their membership. We are open to any suggestions for how we can do that."

The panelists also addressed specific questions submitted by regulators, including why the ASOPs are not more prescriptive.


Panelists for the June 17 webinar included (l to r) Patricia Matson, Tom Levy, and Jim Murphy. Tom Snook is not pictured.

"This is a question we get a lot," Meilander said. "I have been involved in standards of practice for about 10 years, and virtually every year there are some who think they should be more prescriptive and some who think they should be less prescriptive. At the present time we are trying to increase their specificity, if not their prescriptiveness, particularly of those related to regulation."

Meilander and Sheila Kalkunte, the Academy's assistant general counsel, talked about applicable laws that limit how far private standard-setting bodies can go in their regulations.

Other questions from regulators touched on qualifications for actuaries doing principles-based reserves evaluations, potential audits of CE or other member qualifications, actuary-to-actuary counseling through the ABCD, possibility of referrals from regulators to the ABCD, open hearings on updates to standards, liability when reporting an actuary to the ABCD, and strained interpretations of compliance with ASOPs.

The strained interpretation issue also came up at the ASOP No. 1, *Introductory Actuarial Standard of Practice*, web event for members on June 17.

"To me, as a lawyer, laws should be followed in terms of the letter and their spirit," Kalkunte said. "We don't expect you to find some loose interpretation to get around requirements. It is principles-based for a reason: This is a concept we want you to follow, to follow the spirit."

ASOP No. 1 Web Event

At the June 17 web event, such guidelines were discussed in detail as panelists who have served on the ASB or its subcommittees talked through the new ASOP No. 1, which became effective on June 1.

"The goal of this particular ASOP is to set the stage for all of the standards," said Patricia Matson, a member of the ASB. "As we review standards as a board, we will look at definitions and make sure we are using consistent terminology where it makes sense. We did want to make sure that those types of key words are defined in the standards."

Matson said that the definitions help clarify the mandatory guidance in all ASOPs, including the new content in ASOP No. 1. Before

CONTINUED ON **PAGE 7** ➔

Life News

PBR Implementation Comments

THE ACADEMY SUBMITTED TWO LETTERS to the NAIC on May 6. The Life Practice Council sent comments to the Principle-Based Reserving (PBR) Implementation (EX) Task Force on its PBR Draft Implementation Plan. The letter underscored the importance of new language added to Section 1 relating to PBR methodology and the willingness of the Life Practice Council to work with NAIC to develop appropriate procedures. The PBR Strategy Subgroup submitted comments on the draft NAIC legislative brief on PBR.

Pension News

Academy Comments on ASOP No. 4

ON MAY 31, the Academy's Pension Committee and Pension Finance Task Force submitted comments to the Actuarial Standards Board (ASB) on revisions to ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*.

The Pension Committee said the current draft addresses many of its previous suggestions, and it suggested additional changes involving output smoothing, disclosures, definitions, and other terminology and formatting issues. The Pension Finance Task Force had specific concerns about the proper measurement of pension obligations, especially exposure draft terminology that uses "market-consistent present value" instead of "market liability." The task force recommends that "market liability" be used instead for greater consistency and clarity and suggests the ASB review ASOP No. 6 for this terminology as well.

PENSION BRIEFS

- **Indira Holder**, an associate actuary at Mercer in Princeton, N.J., has joined the Social Security Committee.

Professionalism, continued from Page 6

the revision, ASOP No. 1 had been an unnumbered introduction. The repeal of ASOP No. 2, *Recommendations for Actuarial Communications Related to Statements of Financial Accounting Standards Nos. 87 and 88*, which was done because of its similarity to ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*, helped the process.

"Practice notes talk about standards out there, but ASOPs seek to establish an appropriate level of practice," Matson said. "I often read them and make sure I continue to consider the requirements of the standards."

Because the ASOPs cannot consider every single actuarial quandary, actuaries should keep in mind the use of "professional judgment" as explained in ASOP No. 1 and outlined in ASOP No. 41, *Actuarial Communications*.

"When you choose to deviate from a standard and disclose, this isn't an absolute 'I'm protected from any bad thing happening,'" said Thomas Snook, a member of the ASB's General Committee, which worked on the new ASOP No. 1.

Along these lines, Kalkunte encouraged members to look at the ABCD as more than a group that seeks to punish those who make mistakes. "We have about 19,000 practicing actuaries in the United States but only about 54 requests for guidance last year," she said. "I like to think that anybody who is introspective probably has some questions about standards, and you are missing out on an opportunity by not reaching out to the ABCD. You don't have to disclose who you are. And you can use them as a resource, as part of your dues and your professionalism. "

Web event participants also discussed the rationale behind an ASOP's focus on "appropriate" as opposed to "best" practices.

"This has always been an issue for us," said Jim Murphy, a member of the ASB. "Are we raising the bar or lowering the bar, and what is the bar? Practice has to be in the real world."

Lifetime Income, continued from Page 1

Technically everyone faces lifetime income risk, which refers to the ability to meet the basic needs of one's lifestyle. The discussion paper identifies three groups based on the level of assets accumulated at retirement: those with very limited assets, those with enough assets to address the risk, and those with plenty of assets to last a lifetime. The paper focuses on the middle group—not those who have inadequate or excess assets. For this middle group, education and structural changes are key.

"There has been significant progress over the last 20 years to get us to a better structure to accumulate money for retirement, although it still needs more work," said Mark Shemtob, a member of the Lifetime Income Risk Joint Task Force. "But there has been no work on what happens at the other end. People are not put in a proper position to understand how to use that money to provide lifetime income."

Better education would give individuals tools to understand their own lifetime income risk, especially given that more than half of retirees will live longer than 20 years in retirement. It would also make them aware of all lifetime income sources, products, and strategies. Government-approved safe-harbor educational programs would help plan sponsors overcome their liability concerns and subsequent reluctance to educate and communicate on the issue.

Retirement plans also require structural changes to move beyond the present focus of treating asset accumulation as a lump sum and instead find ways to turn account balances into lifetime income streams when workers retire. This could include requiring qualified retirement plans to offer a lifetime income distribution option, perhaps as default payout, and accompanying this change with clear and broad fiduciary safe-harbor provisions for employers that provide these forms of distribution.

Actions also are needed to ensure that people can trust that the money owed to them in the future will actually be paid. For instance, continuing to ensure that the Pension Benefit Guaranty Corp.'s ability to support guarantees could help encourage participants to keep their lifetime income benefits instead of opting for a lump-sum distribution (if offered at retirement). Solving Social Security's long-term funding issues could also prevent many retirees from taking benefits early, out of concern that the program is "running out of money."

"Solutions will often be a mixture of things," Abkemeier said. "How can things be brought together to provide the optimal solution for people in different circumstances?"

Social Security will be a part of the mix, and laws that make it difficult to defer payments should be reconsidered. Those with other retirement income sources could use Social Security as a life or longevity insurance policy. Those who can defer to age 70 will receive benefits almost 76 percent greater than those who start their benefits at age 62.

Mark Shemtob presents information at the June 27 event. Don Fuerst moderated the briefing.

"Deferring Social Security benefits to a later age comes with a great advantage," said Academy Senior Pension Fellow Donald Fuerst. "You will not outlive it, and it adjusts for inflation."

Attendees posed thoughtful questions about longevity risk and socioeconomic status, rates of return on investments, adverse selection with annuities, and Social Security. For instance, how many people claim Social Security at age 62?

"The most recent statistics show that 44 percent of those eligible claim at their first eligibility, and 95 percent claim before full eligibility, which is now 66," Fuerst said. "That's a real challenge. We need to encourage people to recognize their longevity risk and Social Security's role in that. Deferring the first claim can really help in that regard."

Although the math lines up well for those who wait, an attendee wondered if the choice to defer was a boon only to the better off who live longer. "It could be, but it is available to everybody," Shemtob said. "It is calculated on an actuarial basis, and even those who are not wealthy can take advantage of it."

Initiatives to address the many moving parts of lifetime income risk should be undertaken sooner rather than later.

"If nothing is done, it will get more serious," Abkemeier said. "Now is the time to do something. We really need to engage the various players—employers, legislators, regulators, financial planners—who have a responsibility to address this. It can be done with the right effort."

More information can be found at the Academy's Lifetime Income Initiative website.

EXECUTIVE OFFICE
The American Academy of Actuaries
1850 M Street NW
Suite 300
Washington, DC 20036
Phone 202-223-8196
Fax 202-872-1948
www.actuary.org