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Congress Presses for Pension Accounting Changes

THE PENSION COMMUNITY has been on high alert following legislative efforts to extend by four years pension funding rules enshrined in the Moving Ahead for Progress in the 21st Century Act (MAP-21) to pay for expanding unemployment insurance. But a related legislative request has received much less notice.

In September 2013, 69 members of the U.S. House of Representatives sent a letter to the Financial Accounting Standards Board (FASB) and the Securities and Exchange Commission (SEC) asking both agencies to make financial reporting standards consistent with the 25-year discount rates used in MAP-21.

Both Democrats and Republicans expressed their concern that generally accepted accounting principles (GAAP) were not in line with the "more accurate and consistent" 25-year discount rates embedded in MAP-21's funding rules for valuing pension liabilities. The legislators argued that such a change would allow "more access to capital and provide for increased investment in job-creating projects." Current accounting employs a discount rate based on the obligations' settlement value on the measurement date relative to high-quality corporate bond rates.

Several House members advocated these changes when Congress first passed MAP-21 in 2012. While the

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Disclosing Violations: A Guide for the Perplexed

MUCH LIKE THE VOICE on the D.C. metro loudspeakers buzzing, "If you see something, say something," the Code of Professional Conduct requires actuaries to report "an apparent, unresolved, material violation of the Code by another actuary" to the Actuarial Board for Counseling and Discipline (ABCD).

Specifically, under Precept 13, "an Actuary with knowledge of an apparent, unresolved, material violation of the Code by another Actuary should consider discussing the situation with the other Actuary and attempt to resolve the apparent violation. If such discussion is not attempted or is not successful, the Actuary shall disclose such violation to the appropriate counseling and discipline body of the profession, except where the disclosure would be contrary to Law or would divulge Confidential Information."

Failure to disclose in these circumstances violates Precept 13.

To help actuaries understand this precept, the Academy's Council on Professionalism released a discussion paper and infographic in December that explore questions such as:

- ➜ Why does the profession need Precept 13?
- ➜ How does an actuary approach discussion of a possible violation with another actuary?
- ➜ What does "apparent" mean? When does the actuary determine that an apparent violation has reached the point that it cannot be resolved? What standard does the actuary apply to determine whether something is material?

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Delaying Social Security Key to Lifetime Income

MOST AMERICANS need to take more steps to expand their retirement savings, including delaying the time when they claim Social Security in order to increase monthly benefits. This was the consensus of several retirement experts who participated in a panel discussion on securing retirement income for life at the National Academy of Social Insurance's (NASI) Washington policy conference in January.

Don Fuerst, the Academy's senior pension fellow, highlighted the Academy's ***Risky Business: Living Longer Without Income for Life*** discussion paper at the roundtable discussion. "Why is lifetime risk an issue? The most obvious reason is Americans are living a lot longer," Fuerst said. "Workers and retirees need to be better prepared to manage their lifetime-income needs in retirement."

All the panelists in the roundtable discussion, which was cosponsored by the Academy and the Society of Actuaries (SOA), agreed that most Americans weren't saving enough for retirement. About half of U.S. workers lack private pension coverage, and about a third of the workforce has saved no money for retirement, according to the Social Security Administration.

Another factor affecting retirement income is that most Americans are claiming early retirement benefits from Social Security, which provide them smaller monthly checks than they'd receive if they waited until full retirement, said Virginia Reno, NASI's vice president for income security policy. NASI has launched a new education initiative for middle- and lower-income workers about the benefits of delaying Social Security claiming, she said.

Nearly three-quarters of Americans who started receiving Social Security benefits in 2011 made their claims before reaching full retirement age. People who claim Social Security at age 62, the earliest possible date, receive only 75 percent of their full monthly benefits, Reno said. Additionally, changes made to Social Security law in 1983 boost monthly benefits by 8 percent for each year that people delay claiming beyond their full retirement age until they reach 70, Reno said.

Many Americans have gaps in their financial literacy, said Anna Rappaport, chair of the SOA's Committee on Post-Retirement Needs and Risks. Workers often make the decision to claim Social Security before full retirement without doing much research, she said.

Retirees who delay claiming Social Security benefits could consider making up for the temporary income shortfall by spending their 401(k) or IRA accounts, said Sita Nataraj Slovov, an economist and resident scholar at the American Enterprise Institute. Retirees who can delay claiming Social Security by just a year or several months will still see higher monthly benefits for the rest of their lives, she said.

Experts need to turn their focus on workers' and retirees' behavioral factors to increase lifetime income, said Steve Vernon, a research fellow at the Stanford Center on Longevity. The majority of Americans would rather have someone else make their retirement decisions or provide significant help, he said. But today most workers and retirees are left on their own in making major retirement-planning decisions unless they are well off, he said.

—DOUG ABRAHMS

Actuary Serving Congress: A Conversation With GAO's Chief Actuary

March 20, 2014 / Noon-1 p.m., Eastern

Speaker: Frank Todisco, chief actuary, U.S. Government Accountability Office (GAO)
The GAO is an independent, nonpartisan federal government agency that works for Congress. Frank Todisco, currently chief actuary for the GAO and formerly the Academy's senior pension fellow, will discuss:

- The GAO and its role in the federal government;
- The role of the actuary at GAO;
- GAO's work on key national issues that have required actuarial input and expertise.

Register now.

Academy Updates Monograph on Social Security Reform

SEIZING THE OPPORTUNITY presented by President Obama's FY2015 budget request to Congress, the Academy released an updated version of its ***Social Security Reform Options*** monograph on March 3 to remind the president and members of Congress of the pressing need for Social Security reform.

"Addressing Social Security's long-term financial issues, and specifically reaching the bipartisan commitment required to act on reform, is long overdue," said Academy President Tom Terry in a news release announcing the updated monograph. "The analysis published by the Academy provides a comprehensive menu, in one place, of reform options for Congress to consider, along with an essential discussion of the implications of each option."

In the updated monograph, the Academy's Social Security Committee describes the financial condition of the program and outlines reform approaches based on actuarial methods and principles. It notes that "[t]he projected shortfalls in the most recent trustees report reinforce the need to make further efforts to strengthen and reform the financing and/or change the benefits of the program for future generations." Among the many options examined in the monograph are:

- Raising the full retirement age to reflect increased longevity since the Social Security program was enacted;
- Making changes within the current defined benefit structure and investment policy of the Old-Age, Survivors, and Disability Insurance programs, such as increasing the payroll tax or the limit on taxable earnings;
- Making changes within the defined benefit structure, such as investing in securities markets and means-testing of eligible beneficiaries;
- Establishing mandatory or voluntary individual investment accounts, and options for annuitization.

Essential Elements

AS PART OF A NEW INITIATIVE to provide a quick, understandable overview of key public policy topics, the Academy recently released ***Essential Elements: Raising Social Security's Retirement Age***. The paper discusses the program's long-term financial issues, the benefits of raising the retirement age, and how raising the program's full retirement age would affect retirees.

"With concise explanations and infographics, ***Essential Elements*** is designed to boil down often complex content into plain and relevant terms for a broader audience that might be unfamiliar with or have limited knowledge of the subject matter," said Academy President Tom Terry in announcing the new series.

Also available in the series is ***Essential Elements: Long-Term Care Financing***, which explores public policy options for long-term care financing. Future topics to be addressed in the series include:

- Means-testing of Social Security;
- Pension funding policies;
- Medicare reform options;
- Medicare solvency;
- The National Flood Insurance Program;
- The Terrorism Risk Insurance Program.

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Senate and House Tax Committee chairs focused solely on the "stabilization" and "relief" that MAP-21 funding rules would bring, Rep. Shelley Moore Capito (R-W.Va.), a signatory of the letter, expressed her concern that the legislation will be incomplete should accounting not conform with MAP-21. She argued that Congress "should expect prompt harmonization between the law and how pension obligations are reported on companies' financial statements." According to Rep. Capito, current accounting treatment requires that companies show the "inflated liabilities" that the bill sought to address.

In January, Don Fuerst, the Academy's senior pension fellow, responded to the 69 House members in a letter that questioned the logic that called for making accounting and funding rules consistent. Fuerst wrote that the Academy's Pension Practice Council had warned MAP-21 conferees in the past that the discount rates determined using 25-year average interest rates do not provide meaningful information about the current funded status of the plan. According to Fuerst, "Congress recognized that this discount rate did not provide adequate disclosure and therefore required disclosure to participants on both a stabilized and pre-stabilized basis."

Fuerst argued that while MAP-21 may help stabilize contributions, "the rates do not reflect current market conditions" and that pension accounting should remain consistent with FASB's conceptual framework, which uses a settlement concept.

At the end of January, FASB voted to remove postretirement benefit obligations from its agenda, so a change looks unlikely. However, as long as legislators continue to press for an extension of MAP-21, which Senate Leader Harry Reid (D-Nev.) called "not a controversial pay-for," it's likely that the accounting issue will keep finding advocates on Capitol Hill.

—DAVID GOLDFARB

IN MEMORIAM

Paulette Tino

BY CAROL ZIMMERMAN

THE PENSION COMMUNITY lost a legendary actuary and a good friend when Paulette Tino passed away on Nov. 14, 2013, at the age of 89.

Born in Paris and educated at the Sorbonne, Paulette came to the United States in the mid-1950s. She was married to Ovid Tino, a Romanian who moved to Paris during World War II.

Paulette was well known for her work at the Internal Revenue Service, where she served for 30 years. She was an instrumental part of the Joint Board for the Enrollment of Actuaries, and assisted in developing the Schedule B and in shaping many of the basic principles in pension funding used by actuaries for many years. Paulette is remembered for her intelligence, her practical approach when answering practitioner questions, her warmth, and her wonderful French accent.

Her contributions to the actuarial profession were widely recognized—and formally acknowledged when she was presented with the Robert J. Myers Award for outstanding contributions to public service in 2005. In typical Paulette fashion, she was modest enough that she truly didn't understand why she had been chosen for such an honor. The rest of us understood it perfectly!

But Paulette's real legacy is the people she touched. Paulette was a natural teacher, and many of us are better actuaries as a result of her tutelage. She was loved by virtually everyone who met her—even casual acquaintances were affected by her death. It's impossible to capture her personality and impact in a few paragraphs, but Paulette had a wonderful sense of humor, whether laughing at something or at herself. She always managed to see the silver lining while remaining pragmatic and realistic, and she was a joy to be around. Paulette was very well read, and loved opera, ballet, and theater. One of my fondest memories is of her singing snatches of songs from the opera *Don Giovanni* over the dinner table. (She was appalled that I'd reached full adulthood without ever having seen it performed!)

Rest well, Paulette! We miss you. Many kisses!

CAROL ZIMMERMAN *is an actuary with the Internal Revenue Service.*

Rowland Cross

BY HO KUEN NG

ROWLAND CROSS, a retired actuary at the Internal Revenue Service, passed away on Dec. 27, 2013, at the age of 89.

Rowland the actuary was a legend, leaving quite a legacy. Most people involved with pensions knew or knew of Rowland. He took actuarial work very seriously and was still thinking and discussing actuarial problems a few months before his death. Rowland was steadfast in his belief that actuarial principles must be strictly followed. He had a strong sense of right and wrong and, almost always, would not deviate from what he perceived to be correct.

Rowland the person was quite different: soft and gentle. He loved to travel and learn about other peoples and cultures and spent time out of the country every year, even in his 70s. His intriguing travel stories continue to resonate with me. Rowland loved music: He sang, and he played the piano, violin, and viola. He would enthusiastically recount his experience playing with Albert Einstein. He liked the German composer Richard Wagner and would travel to the performances at the Bayreuth Festspielhaus.

Rowland never married and didn't have children. But he loved children and was a kid at heart. Rowland also loved candies, sodas, cereals, fried chicken, and junk food. He had boxes and boxes of cereals in his kitchen cabinets, and could eat cereal for breakfast, lunch, and dinner. He visited my family in the Bay Area almost every year while he was able to travel. When my daughter was little, they watched *Barney and Friends* together, played Monopoly Junior, and solved jigsaw puzzles every day. In fact, we still have an unfinished game of Monopoly Junior from one of his visits.

Rowland's contributions as an actuary are well known. But it's the personal connections he forged with others that he will be remembered for, first and foremost. My family will miss him. Rowland, let's finish our game of Monopoly Junior, somewhere, sometime.

HO KUEN NG *is a professor in the department of mathematics at San Jose University in San Jose, Calif.*

2014 Pension Symposium: Retirement Security in the U.S.

THE STATISTICS on the insufficiency of individual retirement savings are staggering. Future retirees may find that their only source of guaranteed retirement income is Social Security.

During the 2014 Pension Symposium, attendees will explore the three tiers of the U.S. national retirement system: Social Security, employer-sponsored retirement plans, and individual savings. The work of the Academy's Forward Thinking Task Force and its Retirement for the AGES initiative will serve as a framework for participants to evaluate each tier. Using the four key principles of alignment, governance, efficiency, and sustainability, the discussion will center on how these programs can be improved to increase their long-term viability and ensure retirement security for current and future generations.

The Acadamy's multifaceted Retirement for the AGES initiative was launched on Jan. 17 to highlight the need for a stronger U.S. retirement system and to spark public policy dialogue about creating more sustainable retirement plans that will benefit workers, employers, retirees, and society as a whole. The Academy recently published a monograph, ***Retirement for the AGES: Building Enduring Retirement-Income Systems***, which describes important attributes for sustainable retirement plans and offers suggestions for areas of improvement, including allowing smaller plans to group together to benefit from economies of scale, clearly defining conflicts of interest, and incorporating elements such as self-adjusting mechanisms to respond to major economic changes.

Since 2005, the Pension Symposium has enabled a select group of attendees to have an in-depth discussion on pension issues. The symposium begins on Wednesday, March 26, with the closing general session of the 2014 Enrolled Actuaries Meeting and continues Wednesday afternoon and Thursday morning. Each symposium segment is facilitated by a short panel presentation followed by open discussion. There's still time to **register** and take advantage of 8.4 EA noncore continuing education credits.

Comments on Nondiscrimination Relief

THE ACADEMY'S Pension Committee **commented** in a Feb. 28 letter to the Internal Revenue Service on Notice 2014-5, *Temporary Nondiscrimination Relief for Closed Defined Benefit Plans and Request for Comments.*

The committee noted that there are four significant areas of difficulty that sponsors of closed plans and plans with grandfathered employees in traditional formulas face when trying to satisfy nondiscrimination rules, including:

- Meeting the regulatory tests of benefits, rights, and features that relate specifically to a grandfathered defined benefit formula (e.g., early retirement subsidies when the ongoing plan formula is a cash balance plan);
- Fulfilling Section 410(b) and/or 401(a)(4) when closed defined benefit plans are unable to be aggregated with defined contribution plans, because the cross-testing gateways can't be satisfied;
- Satisfying Section 401(a)(26) requirements as the number of participants in the defined benefit plan declines;
- Reflecting Section 403(b) contributions when testing qualified plans.

The letter addressed all of these in the context of the proposals that appear in Notice 2014-5.

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- To what extent is maintaining confidentiality a reason, rather than an excuse, not to disclose?
- How does law, as defined in the code, affect disclosure under Precept 13? How should it be allowed to affect disclosure?
- Under what circumstances would a failure to report an apparent, unresolved, material violation of the code become a violation of Precept 13 itself?
- Within what time frame should an actuary disclose an apparent, unresolved, material violation of the code?

The paper's appendix includes hypothetical scenarios related to Precept 13 violations and offers suggestions on how an actuary can approach these situations.

Many consider the actuarial profession a model of self-regulation. (In a 2012 article published in the *American Banker*, Timothy Parsons wrote, "The American Academy of Actuaries may be the best model for the banking community to study. Independent of the U.S. government, but cooperative, the Academy sets and controls the standards for the actuarial profession.")

The profession's self-regulation is rare in an era in which the state oversees professions ranging from doctors and lawyers to hairstylists and taxi drivers. As the Academy paper recognizes, Precept 13 helps maintain self-regulation. If "actuaries fail to report actuarial work violative of the Code—and companies, governments, employees, customers, and citizens end up bearing the eventual costs," the paper warns, "the public and its representatives may lose faith in the profession's ability to self-regulate with integrity and effectiveness. Ultimately, preserving the right of actuaries to self-regulate lies with you, the practicing Actuary."

—DAVID GOLDFARB