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2013 EA Meeting Re-envisions Retirement

THE THEME OF RETHINKING REGULATION ran throughout the 2013 annual Enrolled Actuaries Meeting and Pension Symposium in Washington, April 7-10. Beginning with the opening session that focused on potential congressional action and concluding with a session that dissected the hits and misses of the 2006 Pension Protection Act (PPA), enrolled actuaries and policymakers considered innovative ways to address persistent pension problems.

The diverse session topics included pension provisions in the Moving Ahead for Progress in the 21st Century Act (MAP-21), public plan funding, multiemployer plan issues, ways to de-risk investment strategies, new plan design options and innovative techniques, and aspects of professional ethics.

In the meeting's opening session, James Holland Jr., a former chief actuary at the Internal Revenue Service and currently chief research actuary at Cheiron Inc.; Earl Pomeroy, a former congressman and state insurance commissioner and currently senior counsel at Alston and Bird LLP; Donald Fuerst, the Academy's senior pension fellow;

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Senior Pension Fellow Donald Fuerst spoke on May 23 before the House Subcommittee on Social Security. The hearing focused on Social Security's continuing solvency and the effects new approaches would have on beneficiaries, workers, and the economy.

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DOUGLAS ABRAHMS

Lifetime Income and Longevity Risk

TACKLING THE ISSUE OF LONGEVITY RISK, the Academy released a discussion paper in June that explores options for helping older Americans avoid running out of money in retirement. The paper, *"Risky Business: Living Longer Without Income for Life,"* was developed by the Academy's Lifetime Income Risk Joint Task Force.

The risk of running out of sufficient funds too early in retirement is rooted in many factors, especially longer life spans—Americans now live an average of six years longer than when Social Security was enacted. Other contributing elements include fewer traditional defined benefit employer pension plans, low savings rates, and individuals who take lump-sum distributions from their retirement funds but don't possess the skills and knowledge to turn that money into a reliable monthly income stream that will last for the rest of their lives. Far from being just a personal financial issue, the risk, according to the paper's authors, is "a societal one as well since the public safety-net programs can be strained if expected to

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DOUGLAS ABRAHMS

PBGC Proposed Rule Reduces Reporting Requirements

IN A SESSION OF THE 2013 ENROLLED ACTUARIES MEETING, Pension Benefit Guaranty Corp. (PBGC) officials explained the agency's new proposed rule that would reduce reporting requirements for many defined benefit (DB) pension plans. Daniel Liebman, an attorney-adviser at the PBGC, said the proposals would cut reporting requirements on small DB plans or plans that either are financially sound or whose sponsors are financially sound.

The PBGC's proposal announced in April affects the enforcement policy of ERISA's Section 4062(e) and changes the waiver structure to better tie the reporting to actual risk, Liebman said. He also said this would allow the PBGC to reduce regulatory burdens and intervene earlier in struggling plans.

Plans could receive financial-soundness waivers for certain reportable events, including:

- Extraordinary dividends or stock redemptions;
- Changes in contributing sponsor or controlled group;
- Active participation reduction over specified thresholds;
- Transfer of benefit liabilities over specified threshold;
- Certain large distributions to the substantial owner.

Additionally, small plans with fewer than 100 participants would receive waivers. The PBGC estimates that more than 70 percent of plans would qualify to receive reporting waivers.

To receive the waivers, the PBGC established a required five-part test for plan sponsors or members of sponsors' controlled groups that shows financial soundness. This includes:

- A commercial credit report score that indicates a low probability of default;
- Positive net income for two years;
- No secured debt with some exceptions;
- No reportable loan default;
- No missed pension contribution event for two years.

DB plans themselves could prove financially sound and receive waivers if they are fully funded on a termination basis or 120 percent funded on a premium or ongoing basis.

The PBGC ended its comment period for the rule June 3, and it held a public hearing on June 18, at which Academy Senior Pension Fellow Donald Fuerst testified (See 3). More information can be found on the PBGC website at *Reportable Events proposal*.

Additionally, PBGC officials said that although hard freezes among single-employer DB plans had grown, the majority of those were small plans, and hard freezes affected only about 15 percent of the overall workers covered by DB plans.

Amy Viener, senior policy actuary in the PBGC's Policy, Research and Analysis Department, said that 70 percent of large plans with 5,000 to24,999 participants had no freeze on their plans, as did 77 percent of the jumbo plans with more than 25,000 participants.

DOUGLAS ABRAHMS *is the senior policy writer/editor at the American Academy of Actuaries.*

Enrolled Actuaries Sought for Advisory Committee

THE JOINT BOARD FOR THE ENROLLMENT OF ACTUARIES is seeking applicants for its Advisory Committee on Actuarial Examinations. Actuaries interested in helping to shape the examinations that qualify them for ERISA-related work can apply before July 31 to be considered.

Members of the committee serve a strictly advisory role for the joint board on examinations that qualify actuaries for enrollment, including recommending topics, exams, and passing scores; drafting questions; reviewing examination results; and providing other appropriate input relating to the examination process.

Committee members generally serve a two-year term, but the upcoming term will run for 18 months, beginning Sept. 1, 2013, and ending Feb. 28, 2015. Members may seek reappointment for additional consecutive terms. Terms for current committee members expire on Aug. 31. The selection process will involve balancing representation among the main practice areas for enrolled actuaries, such as members who work for small employers, large employers, and multiemployer plans.

Interested candidates can learn more about the application process from the *Federal Register* notice.

Academy Testifies on PBGC Proposed Final Rule

ACADEMY SENIOR PENSION FELLOW DONALD FUERST testified June 18 at a Pension Benefit Guaranty Corp. (PBGC) hearing on a reportable events proposed regulation. He was one of eight panelists who weighed in on the 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.

In his remarks, which reflected the Academy's Pension Committee's positions, Fuerst applauded the PBGC on its common-sense, risk-based approach to reporting and said that they Academy supports the PBGC's goal of reducing reporting for events that pose little risk to the pension insurance system. He went on to detail several suggestions from the committee.

Recognize Dual Influence of Plan Sponsor and Plan Financial Soundness

To qualify for the financial soundness waiver, Fuerst suggested a combination of a plan sponsor's creditworthiness and a plan's funded status could satisfy requirements. "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."

Lower Thresholds for Plan Financial Soundness

Because of other 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. If they do so, they face increased risk of excise taxes if the plans terminate. Plan sponsors do, however, want to avoid variable rate premiums and can do so by funding 100 percent of the premium level. Because of these carrots and sticks, "we suggest that a plan at 100 percent of the premium level poses

very little risk to the PBGC," Fuerst said. He also urged lowering the threshold for plan termination liability to something less than 100 percent.

Revise Waiver Rules Requiring Late, Missing, or Outdated Information

Currently, some reportable event waivers ask for information that is outdated, not available, or timed poorly for the filing deadline. For instance, net income and termination liability information for the previous year may not be available early in the subsequent year, as the proposal requires. 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 fix this timing problem.

Reportable events that occur late in the year can require data more than two years old, although more current information may be available. Fuerst told the PBGC that the Academy suggested that "the plan financial soundness waiver be expanded to also cover plans that could meet the test based on current-year premium information, if available, by the event date."

Additionally, contributions deemed to be missed because of a failure to sign a timely funding balance waiver should not be treated as reportable events. No missed contribution has occurred—it just appears that way. "We urge you to provide a waiver for a deemed missed contribution that would have been fully covered by the funding balance had a timely election been made," Fuerst said. "This deemed missed contribution poses no additional risk to the PBGC."

Allow a Simplified Form 200 Filing in Certain Circumstances

Sometimes a plan has an unpaid balance of contributions that exceeds $1 million of an administrative or bank error. When the missed contribution has been made by the Form 200 filing deadline, a simplified form makes sense to "reduce onerous filings when there is no real risk to the PBGC," Fuerst said, adding that the PBGC can still ask for more information, if needed.

Keep the Active Participant Reduction Waiver

When significant active participant reductions occur, plan sponsors must sometimes submit multiple reports to PBGC. Proposed regulations in 2009

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and Judy Miller, director of retirement policy at the American Society of Pension Professionals and Actuaries (ASPPA), discussed possible pension initiatives in the new Congress.

Pomeroy set the stage by discussing the current political gridlock in Washington that has left little room for common ground on taxes and revenue, entitlement spending, budget deficits, and debt. "Wouldn't this all be much more interesting if our nation engaged in a meaningful discussion of risk?" Pomeroy said.

The shift of retirement risk from plan sponsors to pension participants that has occurred over the past decade and more as additional workers are covered under defined contribution (DC) plans is one example of inadequately considered consequences.

"There has been no significant inquiry into the consequences of this risk shift," Pomeroy said. "Workers continue to have almost complete discretion over whether to participate and how to withdraw—and they make mistakes all along the way."

To help shore up a secure retirement, especially for those who will be working longer and living on less, those passing legislation need to keep risk and sensible ways to balance it in mind, he said. Employers that still offer defined benefit (DB) plans and struggle to preserve them have to deal with regulations and potential regulations backed by diverse interests, which make their efforts more difficult.

"The most obvious approach is the recognition that sharing risk is preferable to the defined contribution model in which all risk is borne by the employee. Allow hybrid plans as preferred alternatives. Congress has to do a lot better job and not respond by undermining beleaguered employers that are trying to preserve their plans."

Many moves by state legislatures and governing bodies to do away with DB plans have been resisted by cities and counties.

"They have made an important difference in this debate," Pomeroy said. "Many have redesigned plans: raising contributions and ages, lowering accrual rates, changing or suspending COLA, moving to hybrid designs. They have preserved essential elements if risk is shared."

But despite the success in many quarters, DB plans at the state and local level remain a concern because some are not fully funded, and that funding shortfall can be seen as a crisis by the general public.

"You know what the public doesn't understand?" he asked. "Solvency issues for a few are not solvency problems for all. Many debates continue to have nothing to do with pension specifics and are instead caught up with activism. They have nothing to do with precisely allocating risk to preserve meaningful and affordable pension programs."

Pomeroy said that the divided government will reduce the likelihood of Congress getting too involved. He urged those at the federal level to be "balanced, thorough, and fair" as they work on shoring up retirement options for Americans. New solutions driven by a meeting of the minds between management and labor could induce employers to start offering DB plans again, if regulations don't get in the way.

In closing, Pomeroy said that Pension Benefit Guaranty Corp. (PBGC) issues also loom as existing laws for the multiemployer plan programs expire in 2014. Fuerst picked up the conversation here and talked about his experience working with Congress.

"Everyone will be affected at some point by retirement policy," Fuerst said. "I'm impressed with the intensity of the positions I see here in Washington and also challenged because we don't all see it the same way."

He reviewed highlights from the National Coordinating Committee for Multiemployer Plans (NCCMP) proposal for multiemployer plans. Recommendations fell into three main categories: create provisions to strengthen the current system, use measures that target deeply troubled plans, and look into alternative plan design structures.

Fuerst outlined significant factors within each category. Strengthening the current system would entail:

- ➜ Encouraging plan mergers and alliances;
- ➜ Allowing plans to harmonize normal retirement age with Social Security;
- ➜ Enhancing yellow zone rules;
- ➜ Equalizing PBGC benefits for pre-retirement survivors;
- ➜ Establishing permanent funding relief provisions;
- ➜ Enabling certain technical enhancements.

The most deeply troubled plans could receive some relief if they met three key criteria:

1. A plan has taken all reasonable measures to improve funding.
2. Insolvency is still inevitable.
3. It is possible to avoid insolvency and preserve benefits above the PBGC maximum guarantee level.

Plans meeting all of the above, with certain other restrictions, would be able to suspend a portion of accrued benefits.

"This aspect of the recommendations is the most controversial," Fuerst said. "Not all plans will qualify because they must meet those three stringent requirements."

Other significant legislative initiatives in the coming months include the Public Employee Pension Transparency Act, PBGC premium proposals, and a proposal by Sen. Tom Harkin (D-Iowa) that would provide universal access to a professionally managed retirement fund with a lifetime income benefit.

Innovation and regulation were recurring themes whatever the subject matter of a given session at the 2013 Pension Symposium. Participants and presenters often had similar questions: What is new and working? What else should we try? How can these new regulations make things easier? How will they change what we already do?

In the EA Meeting's final general session, which also kicked off the 2013 Pension Symposium, presenters looked at the seven principles of funding reform moving forward from the PPA.

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DAVID GOLDFARB

Securing PBGC Solvency Post-PPA

RECENT PENSION BENEFIT GUARANTY CORP. (PGBC) reports to Congress raised the specter of PBGC's multiemployer insurance fund being exhausted in the future. In a session at the 2013 EA Meeting, presenters discussed the current state of multiemployer plans, including reform proposals put forward by the National Coordinating Committee for Multiemployer Plans (NCCMP). Joshua Shapiro, deputy director of the NCCMP; Joseph LoCicero, president and CEO of Segal Co.; and Marc Ness, an actuary at the PBGC, talked about PBGC solvency and proposals to secure it.

Ness covered PBGC's two recent reports to Congress, the *2012 Exposure Report* and the five-year report *PBGC Insurance of Multiemployer Pension Plans*. For these reports, the PBGC used its pension insurance modeling systems to develop 10-year stochastic projections by running 500 scenarios of multiemployer plans.

By law, PBGC every five years must provide Congress with a determination on the premiums needed to maintain the current guarantee levels and on whether such guarantee levels may be increased without increasing the premiums for the multiemployer plan insurance fund.

The five-year report found that PBGC's multiemployer insurance fund faces a 35 percent probability that its assets will be exhausted by 2022 and a 90 percent chance by 2032. After analyzing different premium levels and their effect on the projected multiemployer fund deficit, PBGC found that even a tenfold increase in premiums would not eliminate the unfunded liabilities, although it would reduce the chance of insolvency in 2022 to less than 1 percent.

The 2012 exposure report explores net position, the present value of financial assistance it expects to pay over 10 years, and the probability of PBGC insolvency, as well as the probability of PBGC insolvency for the next 20 years (also contained in the five-year report). PBGC projected a range of outcomes for its net position in 2022. None ended up with a projected surplus. The outcomes skewed unfavorably; many scenarios projected large deficits.

NCCMP Report

In February, NCCMP published *Solutions Not Bailouts*, which proposes reforms to laws affecting multiemployer plans. Two core principles support these recommendations: proposals must protect retirement income security for participants, and must reduce or eliminate the financial risk to the sponsoring employers. Further, the report's suggestions fall into three categories: provisions that strengthen the current system, measures that target deeply troubled plans, and proposals that create alternative plan design structures. All proposed changes would be voluntary.

Provisions that strengthen the current system

Shapiro said that during NCCMP's discussions, the law surrounding plans in the "yellow zone" came up as an area needing reform. According to Shapiro, PPA's yellow zone added regulatory requirements but did not provide additional tools for relief. The NCCMP report proposes allowing sponsors with certain yellow-zone plans to move into the red zone as well as extending certain red-zone tools to all yellow-zone plans, such as excise tax protection. Additionally, the report recommends establishing permanent funding relief provisions that would trigger when a sharp market decline occurs and offered several technical enhancements, including letting plans voluntarily raise their normal retirement age to match Social Security's.

Measures that target deeply troubled plans

LoCicero noted that a small number of multiemployer plans face inevitable insolvency. When these plans fail, benefits will be cut to the PBGC maximum level, currently around $13,000 per year. However, as noted in the PBGC reports, PBGC's ability to support even this benefit level remains in doubt. To preserve the system, plans may need to suspend benefits in narrow instances.

NCCMP's report suggests giving trustees the authority to suspend a portion of accrued benefits if:

1. A plan has undertaken all reasonable measures to improve funding;
2. Insolvency is inevitable;
3. It is possible to avoid insolvency and preserve benefits at least 110 percent above the PBGC maximum guarantee level.

Benefit suspensions should be no more than necessary to avoid insolvency, according to the report.

To suspend benefits, the plan would need PBGC approval. Suspending benefits allows for the possibility that when a plan returns to healthy levels, it could reinstate those benefits.

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MIKE CLARK

De-risking Investment Strategies Investigated

DEFINED BENEFIT PLAN SPONSORS are expressing increasing interest in pension de-risking strategies, particularly given the large plan de-risking events of 2012. At the 2013 EA Meeting, presenters provided an opportunity for enrolled actuaries to learn more about options available for their clients.

Richard McEvoy, a principal actuary at Mercer, opened the meeting by sharing results from a recent survey indicating that funding volatility has increased sponsor interest in de-risking strategies. According to the survey, in the next two years more than 60 percent of plan sponsors are at least somewhat likely to undertake duration matching, offer lump sums, increase fixed income allocations, or adopt dynamic allocation. Fewer sponsors plan to purchase annuities, with 45 percent at least somewhat likely to do so.

McEvoy acknowledged that low interest rates were still seen as an impediment to implementing de-risking strategies. However, he urged the audience to remember that sponsors need to consider the full economic cost, including expenses and retained risk, when making de-risking decisions. McEvoy later suggested dynamic asset allocation as an approach to gradually de-risking liabilities as interest rates rise and funding ratios improve.

Jon Barry, a consulting actuary at Mercer, discussed the role of lump-sum cashouts as a de-risking option. Barry highlighted the importance of high-quality data and a comprehensive communication strategy when executing a lump-sum cash-out program. Barry then shared statistics showing that among Mercer clients in 2012, only 50 percent of participants that were offered lump sums as part of de-risking programs actually accepted them. Of those who accepted, 44 percent took their lump sum as cash despite advice on the potential negative tax consequences of doing so.

I closed with detailed discussions on the various de-risking options, which he classified into three distinct groups. Lump sums and traditional annuities lock de-risking cost and offload liabilities immediately. Liability-driven investing (duration matching) and buy-in annuities lock costs immediately without offloading assets and liabilities from the plan. And dynamic asset allocation allows the de-risking cost to float until it is more acceptable for plan sponsors.

I suggested that better-funded plans that have risk-averse sponsors would be more likely to purchase annuities and pay lump sums immediately to offload risk, while plans that have lower funding ratios or sponsors less averse to risk would lean more toward dynamic asset allocation as a way to pursue investment returns while hoping for rising interest rates.

The overarching message was that de-risking has become a permanent feature of defined benefit plan management, and rising interest rates will only accelerate plan sponsor interest in the concept.

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Academy members Ellen Kleinstuber, managing consultant at Savitz Organization and vice chairperson of the Pension Committee; Bruce Cadenhead, partner and chief actuary for U.S. retirement at Mercer and a member of the Pension Committee; Josh Shapiro, deputy executive director for research and education at the NCCMP, a member of the Pension Committee, and a member of the Multiemployer Plans Subcommittee; and William Hallmark, principal at Cheiron Inc. and chairperson of the Public Plans Subcommittee, managed the discussion.

The panelists analyzed the ways in which these seven principles—solvency, predictability and hedgeability, transparency, incentives to fund/flexibility, avoidance of moral hazards, simplicity, and transition—apply to single-employer plans, multiemployer plans, and public-sector plans. They also discussed the successes and shortcomings of the PPA in a preliminary scorecard. Panelists and participants all cited complexity as a chief problem with certain aspects of the PPA.

Panelists noted, as they applied the seven principles to each type of plan, that it was a balancing act. They recommended keeping three key ideas in mind:

- ➜ The primary goal should be to encourage solvent DB plans.
- ➜ Funding rules that go too far too fast may adversely affect good public policy.
- ➜ Employees would be hurt most by the widespread freeze and termination of DB plans.

Sessions at the symposium included discussions of the funding of single-employer and multiemployer pension plans, the PBGC's legacy liabilities and structure, and the opportunity actuaries currently have to influence and shape the debate.

"Our issues are on the radar in Washington, and legislators are looking to us to give them unbiased, thoughtful answers to complex questions," said Fuerst. "Now is the time for us to use our expertise to help them craft policies that make sense and make a difference."

LISA LARSEN

Plan Terminations: Tips From the Trenches

THROUGH MY WORK on several standard plan terminations over the past two years, I have refined my procedures while going through the process with clients. But I continue to learn ways to make the process smoother, and a session on this topic at the Spring EA Meeting, Life Cycle of a Plan Termination, added to my knowledge. Monica Gajdel of Aon Hewitt and Harold Ashner of Keightley & Ashner LLP offered their professional expertise on the subject, including Ashner's previous experience working for the Pension Benefit Guaranty Corp. (PBGC). The presentation was broken down into three sections: planning, procedures and distributions, and PBGC audits.

Planning

Planning was the biggest section, which, based on my own experience, did not surprise me. As the presenters stated, the time needed to determine the availability of data, all "benefit liabilities," and the necessary information for the notice of plan benefits as well as government forms is the most critical to the plan termination process. They suggested that a good way to uncover this information is to speak with the client about what it would take to have all data available to retire everybody in the plan within the next couple of months. This gives the client an idea of what the timeline needs to include, and advance planning helps to minimize the plan termination timeline and costs (actuarial, legal, and so forth as well as benefit liabilities).

A standard termination must have sufficient assets to pay out the termination liabilities. Presenters said that if sufficient assets are a concern, an actuary should consider the majority owner "alternative method." This method allows an owner to forgo benefits voluntarily if this will make the plan assets sufficient to terminate.

On the other hand, if faced with excess assets, an actuary can look at options such as minimizing and possibly eliminating the excess asset tax. Presenters talked about replacement plan contributions (not including an employee match) as a way to deal with potential asset reversions as well as to provide pro rata increases in accrued benefits.

Procedures and Distributions

Other helpful hints from the session included how to time filings. For example, actuaries should carefully count the 60-90-day period from the issuance date to the proposed date of termination on the notice of intent to terminate (NOIT). It is better to be closer to the 60-day part of the deadline to allow for more flexibility for possible extensions. This timing excludes the proposed termination date ("day zero") but does include the date the NOIT is issued. If the 60th day is on a Saturday and the following Monday is a holiday, the 60th day will become the next day, which is Tuesday. Once the first NOIT is issued, the plan cannot pay lump sums or purchase irrevocable commitments until the PBGC 60-day review period ends (subject to the "ordinary course" exception).

Most plan sponsors apply for an IRS determination letter, even if the plan has a recent letter, because this will be the final one for the plan and will include the plan termination amendments. Presenters said that doing so is a good way to wind up the plan. Sponsors that decide against this approach should check first with the trustee to see if there are any issues with forgoing the determination letter. Plans are allowed to wait for a favorable determination letter before distributing assets. Doing so means that some of the benefit options may have to be updated, because plan sponsors do not know when the letter will be received. Most plan sponsors wait for this before distributing.

Presenters also noted that the PBGC 60-day review period begins once the PBGC notifies the plan that the Form 500 was received. This means that plan termination distributions are prohibited until at least 61 days after the date PBGC received the filing. The date PBGC says it received the filing is considered day 'zero.' Plans should contact the PBGC if they do not receive a response within two to three weeks of filing that form.

PBGC Audit

Presenters discussed different aspects of the audit process. The PBGC selects plans to audit from the Form 501s filed each quarter. Therefore, if plans file the Form 501 near the end of the quarter, they will generally be notified within 30 days after the end of the quarter if they have been selected. The focus of the audit is on benefit determination and distribution, not procedures.

The most common error is that lump sums are too low because of:

1. Wrong determination date for interest rate or for current age;
2. Wrong retirement age assumption;
3. Failure to use plan assumptions that require greater than minimum lump sums;
4. Adoption of post-termination amendments regarding lump-sum assumptions.

The remedy is that the employer pays the balance due plus reasonable interest.

Common errors regarding irrevocable commitments include:

1. Failure to factor in all benefit options;
2. Failure to interpret/apply benefit formula correctly;
3. Use of erroneous participant data;
4. Failure to preserve the "future" lump-sum basis.

The remedy is to correct the irrevocable commitments.

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granted a waiver against multiple reports if an active participant reduction occurred the previous year, and 2013 regulations do away with the waiver. However, Fuerst told the PBGC, the waiver should be reinstated for several reasons. A one-time decrease in active participants can cause two separate reportable events, for example, and PBGC monitoring is ongoing when multiple events occur. According to Fuerst, "The regulations should clarify that in determining whether a second report is required, any reductions already reported should be disregarded."

Other panel members who spoke at the hearing include Shaun O'Brien, assistant policy director for health and retirement for the AFL-CIO; 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; Mark Dunbar, president of the ASPPA College of Pension Actuaries (ACOPA) and representative of ACOPA and the American Society of Pension Professionals & Actuaries (ASPPA); Deborah Forbes, executive director of the Committee on Investment of Employee Benefit Assets (CIEBA); Michael F. Pollack, senior consulting actuary at Towers Watson; and Eric Keener, partner and chief actuary at AON Hewitt.

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The report argues that preserving benefits at a level above the PBGC guarantee is preferable to plan insolvency.

Proposals that create alternative plan design structures

The NCCMP report posits that the current design structure does not meet the needs of all groups. Many employers do not like taking the market risk associated with defined benefit (DB) plans, and employee groups oppose defined contribution (DC) plans given their inefficiency at providing retirement security to participants.

The report proposes a flexible benefit plan, which would operate like a DB plan, have no withdrawal liability, and feature more conservative funding standards. Instead of a traditional fixed defined benefit, it would differentiate between core and non-core benefits. Core benefits would face greater protections, but be subject to adjustments only if a plan faces insolvency. Non-core benefits, on the other hand, could be adjusted by the trustees if necessary to reach a 100 percent funding target.

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cover large numbers of individuals who have not addressed their lifetime income risk," the paper notes.

"The American Academy of Actuaries is encouraging current and future retirees, lawmakers, the benefits community, and others to look within their areas of concern, whether it be personal retirement planning, public policy, or public education, to better prepare America's retirees to meet their lifetime income needs," said Tom Terry, president-elect of the Academy.

A robust national debate on the challenges of planning for longevity risk—the risk of living beyond expectations—and the value of a secure lifetime income can create an opportunity to develop initiatives to address these challenges through regulatory channels, private-sector initiatives, or both. Many steps can be taken that are noncontroversial, incur minimal costs, or do not place mandates on retirement-plan sponsors but can provide significant retirement benefits to workers and their families. The paper outlined various options for policymakers, including:

- Expressing benefits in terms of monthly lifetime income in employees' periodic retirement plan statements and providing lifetime income information through the workplace.
- Making lifetime income products available when employees make decisions about whether to cash out a defined contribution pension plan.
- Addressing Social Security's long-term funding issues to ensure confidence in the stability of the program and increasing the Social Security maximum age for delayed retirement credit beyond the current 70 years.
- Modifying the age for required minimum distributions (RMD) to later than 70½ years to reflect increasing life expectancies and implementing proposed regulations that allow longevity annuities to satisfy RMD rules.

On June 27, the Academy held a Capitol Hill briefing on the discussion paper at the Russell Senate Office Building. More information can be found at the Academy's *Lifetime Income Initiative* website.

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