Since the last BOD/Executive Committee meeting, members of the Pension Practice Council have been actively involved in:

- Responding to requests for information from congressional staff on issues regarding the Pension Funding Equity Act (HR3108), yield curve, lump sums, and aspects of legislation that would impact funding rules.
- Analyzing current funding rules and developing alternatives that would alleviate the current funding crisis for defined benefit pension plans.
- Prioritizing future initiatives, including Hill briefings, issue briefs and consumer guides.

The Pension Practice Council has recently created three new task forces to respond to congressional requests for information and/or to provide actuarial input on specific issues of interest in the pension practice area: Retirement Age Task Force, Stock Options Task Force and the National Retirement Policy Task Force.

**Completed Projects**

- Public statement addressing maximum funding rules – IRC §404 (Funding Reform Task Force)
- Comment letter to Sen. Harkin regarding a delay of the relative value regulations (Pension Committee)
- Testimony before the House Education & the Workforce Subcommittee on Employer-Employee Relations on long-term solutions for reforming/strengthening the DB system (Ken Kent)
- Comment letter to FASB on stock option accounting (Stock Options Task Force)
- Comment letter to IFRIC on D6: Multi-employer Plans (Multiemployer Plans Task Force)
- Educational document regarding Sarbanes-Oxley Section 404 on internal controls (Pension Accounting Committee)

**Ongoing Projects**

- Comment letter to the IRS regarding their annual business plan (Pension Committee)
- Public statement addressing minimum funding rules – IRC §412 (Funding Reform Task Force)
- Update the committee’s analysis of the Administration’s savings proposals (Pension Committee)
- Issue brief on multiemployer plans and funding principles (Multiemployer Plans Task Force)
- Issue brief on cash balance plan conversions (Pension Committee)
- Issue brief on issues related to the advantages and disadvantages of a yield curve (Pension Committee)
- Handbook for actuaries on financial economics (Financial Economics and the Actuarial Model Joint Task Force)
- An intensive educational seminar on FE issues (Financial Economics and the Actuarial Model Joint Task Force)
- Comment letter to FASB on an impending exposure draft related to cash balance accounting (Pension Acct Cmte)
- Issue brief/comment letter on phased retirement issues (Retirement Age Task Force)

**Future Initiatives**

At the August meeting, the council discussed ideas presented at the leadership meeting, including the concept of consumer guides. As a result of this discussion and subsequent brainstorming, the following future initiatives were identified for our public communication efforts:

- Hill briefing on funding reform (tentatively scheduled for September 20, 2004)
- Practice notes on ASB standards (beginning with Data Quality)
- Hill briefing on tax incentives for annuities
- Issue brief and Hill briefing on the relative value of savings vehicles
- Hill briefing on Pensions 101
- Issue brief, Hill briefing, and consumer guide regarding lump sums versus annuities
- Issue brief and Hill briefing on delaying retirement age/phased retirement

**External Relations**

- Ron Gebhardtsbauer and Ken Kent have attended a series of meetings with Sen. Harkin and his staff to examine a variety of perspectives on how to break the cash balance logjam.
- On July 22, 2004, members of the Pension Committee attended the “Conversation on Coverage” National Policy Forum – How Do We Expand Pension Coverage for American Workers? The event was co-sponsored by the Academy and represented a collaborative effort by many experts, from various perspectives, to explore ways to expand pension and retirement savings initiatives.
- Members of the Stock Options Task Force met with FASB staff in June and SEC staff in September to discuss the creation of the task force and the input that the actuarial profession could bring to stock option valuations.
- Ron Gebhardtsbauer, Ken Kent, and Eli Greenblum met with members of AFL-CIO to discuss single and multi-employer funding reform proposals.
I. Issues

A. Strengthening the Private Pension System
The practice council continues to work with policymakers to underscore the importance of defined benefit pension plans and to encourage public policy that preserves and strengthens the private pension system as a whole. Current council activity in this area is summarized below.


2. On June 30, 2004, the Stock Options Task Force sent a comment letter to the Financial Accounting Standards Board regarding their exposure draft on Share Based Payments.

3. On May 25, 2004, the Pension Committee sent a comment letter to Sen. Harkin explaining the need for a delay in the effective date of the Treasury’s relative value regulations.


5. On May 14, 2004, the Pension Committee released a public statement addressing maximum funding rules – IRC § 404. The paper was released in coordination with a letter to Rep. Rob Andrews and Rep. Sam Johnson in response to a question received during the testimony on April 29 for the written hearing record.

6. On April 30, 2004, the Joint Committee on Retiree Health submitted a comment letter to the Government Accounting Standards Board regarding a final exposure draft on financial reporting and accounting for other postemployment benefits (OPEBs).

7. On April 29, 2004, Ken Kent provided testimony on long-term solutions to reforming/strengthening the DB system before the House Education and the Workforce Subcommittee on Employer-Employee Relations.

8. On March 24-25, 2004, the Defined Benefit Revitalization Task Force, in conjunction with the annual EA meeting, sponsored a DB symposium to examine issues related to the future of the defined benefit plan system. The symposium drew approximately 100 participants and featured a combination of actuaries and Washington policymakers discussing a variety of perspectives on the future of the DB system.

Outlook: The practice council will continue to be involved in discussions on the next wave of pension reform. Specifically, the council will continue to participate in discussions regarding a permanent legislative fix for the 30-year Treasury rate problem and more extensive work on the reform of current funding rules.

The practice council and pension committee met on August 8-9 in Santa Fe, NM. The next meeting is scheduled for November 7-8 in Salt Lake City, UT.

B. Social Security
The practice council continues to educate the public and policy-makers about the financial condition of Social Security and the pros and cons of various reform proposals. Recent practice council activity in this area is summarized below.
1. In April/May, the committee held two Hill briefings on Social Security reform. The first briefing focused on proposals that would reform the current Social Security system, while the second briefing focused on proposals for individual accounts.

2. In March/April 2004, the committee updated two issue briefs, including *Social Security Reform: Changes to the Benefit Formula and Taxation of Benefits* and *An Actuarial Perspective on the 2004 Social Security Trustees Report*.

3. On February 26, 2004, the committee met in Washington, DC. The committee continued to work on the update of the benefits and taxation issue brief, discussed the update of the committee’s annual analysis of the trustees report, discussed preparations for two Hill briefings on Social Security (April 16 and May 3), and finalized the Social Security voter guide.


5. In December/January, the Committee on Social Insurance updated three issues briefs, including *Social Adequacy and Individual Equity in Social Security*, *Means Testing for Social Security*, and *Assumptions Used to Project Social Security’s Financial Condition*.


**Outlook:** The date of the committee’s next meeting has not been scheduled.

The Academy’s Social Security game (http://www.actuary.org/socialsecurity/) has received increased media attention recently including features in the *Philadelphia Inquirer*, *CNN.com* and the *Miami Herald*.

The Academy has developed a speaker’s kit that actuaries can use for Social Security presentations to local groups. The kit includes a model speech on Social Security developed by the senior pension fellow, as well as a new combined slideshow/presentation created by the committee as a whole, and several downloadable slides. The kit is available through the Academy’s web site.

**II. People Issues**

**New Committee Members**

*Retirement Age Task Force:* Bruce D. Schobel, New York Life Insurance Company (chairperson); Steven Bland; Arthur L. Conat, Ernst & Young, LLP; Kent A. Mason, Davis & Harman, LLP; Anna M. Rappaport, Mercer Human Resource Consulting; Richard G. Schreitmueller; John Turner, AARP; Thomas F. Wildsmith, Hay Group; John C. Wilkin, Actuarial Research Corp.

*Stock Options Task Force:* Thomas S. Terry, Chicago Consulting Actuaries LLC (chairperson); Todd R. Bault, Sanford C. Bernstein & Co., Inc; Glenn D. Bowen, Milliman Inc; John P. Burke, Milliman Inc; Charles D. Cahill, Aon Consulting; Don Delves, The Delves Group (non-actuary); Carrie Duarte, PricewaterhouseCoopers LLP; Ron Gebhardtsbauer, American Academy of Actuaries; Valentina Isakina, SOA; Albert E. Johnson, Jr., PricewaterhouseCoopers LLP; Kenneth A. Kent, Mercer Human Resource Consulting; Gerard C. Mingione, Towers Perrin; John P. Parks, Principal Financial
III. Board of Directors/Executive Committee Attention

IV. External Contacts


2. On June 16, 2004, members of the Stock Options Task Force met with FASB staff to discuss the discipline that actuaries could bring to the issue of stock option valuations.

3. During May and June, Ron Gebhardtsbauer and Ken Kent attended a series of meetings sponsored by Sen. Harkin and his staff in order to examine issues surrounding cash balance plans.

4. On April 22, 2004, members of the Multiemployer Plans Task Force met with representatives from PBGC to discuss funding issues and questions on the PBGC’s annual and actuarial reports.

5. On February 23, 2004, members of the Pension Committee and Pension Practice Council met with congressional and agency staff as part of the council’s annual visits to Capitol Hill. The primary focus of discussion related to pension funding issues.

6. On February 5, 2004, Ron Gebhardtsbauer and Heather Jerbi met with Neela Ranade (Congressional Research Service) to discuss upcoming projects.

7. On January 20, 2004, Ken Kent, Ron Gebhardtsbauer, Heather Jerbi, and Craig Hanna met with representatives from EBRI to discuss the future of the defined benefit plan system and ways in which the two organizations can work together to promote DB plans.

8. On January 13, 2004, Ken Kent, Ron Gebhardtsbauer and Heather Jerbi met with representatives from AARP to discuss issues similar to the ones addressed in the meeting with EBRI.

V. Senior Pension Fellow Activities

July 2004

- Attended Urban Institute/Brookings conference on Tax Reform, and got them to discuss effects on employers sponsoring pension and health plans. Speaker Michael Graetz (Yale professor and former Asst Treasury Secy. for Tax Policy – 1990 to 1992) said he “agreed with the actuaries” and that’s why he includes a tax on income over $100,000.
- Stock Options TF conference call
- Discussions planning Financial Economics 201 session
- Meetings with Sen. Harkin & Brookings’ Institute regarding cash balance issues
- Intersector meetings with IRS and PBGC
- Pension Funding talk at AFL-CIO meeting of affiliates
- Conversations on Coverage Press Conference at National Press Club (facilitator for a session)

June 2004

- Spoke at Windsor conference on our PBGC (paid for by UK government)
- Wrote issue brief on “How much money is needed at retirement?” (with calculations)
• Lunch discussion with AARP staff
• Writing chapter in book organized by Teresa Heinz on financial issues for women

May 2004
• Hill meeting on cash balance issues called by Senator Harkin
• Financial Economics TF meeting in NYC
• Wrote EAR article on Yield Curve EA session
• Lunch discussion on funding issues for Multi-Employer plans
• Participated in PPC meeting in Boston

April 2004
• Gave talk before ABC Board on pension funding
• Speaker at Academy Hill Briefing on traditional fixes for Social Security (along with Eric Klieber, Bruce Schobel, and Bob Randall)
• Participate in Cash Balance discussions at Brookings
• Moderated at SOA conference on Annuities and Retirement Assets: moderated annuitization session and panelist in wrap up session
• Discussions with AFL-CIO on funding issues
• Attended ASEC meeting on saving, where Anna spoke on risks in retirement
• Testimony advice to a member of Academy task force on stock options
• Spoke for 1 hour on radio program regarding plan terminations and PBGC issues
• Met with Hill staff on lump sum issues
• Met with ABC staff on Funding issues
• Discussed retirement planning issues with Washington Post reporter
• Met AFL-CIO and Center for American Progress people to discuss pension funding
• Gave talk at AARP forum on DB v DC in Brussels (paid for by AARP)

VI. Publications

The following Pension Practice Council public statements have been issued/updated in the past year:

<table>
<thead>
<tr>
<th>Publication</th>
<th>Audience</th>
<th>Publication Date</th>
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<tbody>
<tr>
<td>Educational document regarding Sarbanes-Oxley section 404 on internal controls</td>
<td>Financial Accounting Standards Board</td>
<td>August 2004</td>
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<td>Comment letter regarding the draft interpretation of D6 – Multi-employer Plans</td>
<td>International Financial Reporting Interpretations Committee</td>
<td>July 2004</td>
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<td>Comment letter on exposure draft on Share Based Payments</td>
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<td>Comment letter to Sen. Harkin explaining need for delay of relative value regulations</td>
<td>Sen. Harkin and staff</td>
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<tr>
<td>Comment letter to CRS regarding their report on cash balance plans</td>
<td>Congressional Research Service</td>
<td>May 2004</td>
</tr>
<tr>
<td>Title</td>
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<tr>
<td>Paper addressing maximum funding rules (IRC § 404)</td>
<td>Congress and public policy organizations</td>
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<td>Comment letter regarding other postemployment benefits</td>
<td>Government Accounting Standards Board</td>
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<td>Testimony on long-term solutions for reforming/strengthening the DB system</td>
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<td>Comment letter regarding multiemployer provision in pension legislation (HR3108)</td>
<td>Senate HELP committee staff</td>
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<td>Executive summary of draft paper on pension funding reform principles</td>
<td>Congress and public policy organizations</td>
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<tr>
<td>White paper on pension funding and accounting fundamentals in the private-sector</td>
<td>Congress and public policy organizations</td>
<td>February 2004</td>
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<td>Issue brief (update): Social Adequacy and Individual Equity in Social Security</td>
<td>Congress and public policy organizations</td>
<td>January 2004</td>
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<td>Issue brief (update): Assumptions Used to Project Social Security’s Financial Condition</td>
<td>Congress and public policy organizations</td>
<td>January 2004</td>
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<tr>
<td>Comment letter regarding Notice 2003-62 – request for comments on mortality tables</td>
<td>Internal Revenue Service</td>
<td>December 2003</td>
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</tbody>
</table>
Comment letter regarding recent report on the 2003 Trustees’ Report

Social Security Technical Panel and Social Security Trustees

December 2003

Issue brief (update): *Social Security Individual Accounts: Design Questions*

Congress and public policy organizations

October 2003

Comment letter regarding FASB exposure draft on disclosures for pensions and other postretirement benefits

Financial Accounting Standards Board

October 2003

Comment letter to Sen. Evan Bayh regarding multiemployer plan legislation

Sen. Evan Bayh

October 2003

Analysis of the Administration’s Savings Proposals (LSAs, RSAs, and ERSAs)

Congress and public policy organizations

August 2003

Comment letter regarding 2003-83 – issues related to entry age normal funding methods

Internal Revenue Service

August 2003

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<tr>
<th>Publication</th>
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<td>Internal Revenue Service</td>
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<td>Issue brief on cash balance plan conversions</td>
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<td>Public statement addressing minimum funding rules (IRC § 412)</td>
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<tr>
<td>Handbook for actuaries on financial economics</td>
<td>Profession</td>
<td>TBD</td>
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VII. Key Issues/Priorities for 2004

During their fall planning discussions, members of the Pension Practice Council identified the following key issues/priorities to guide their efforts in 2004:

- Revitalizing defined benefit pension plans as part of strengthening of private retirement systems.
- Addressing the funding and financial reporting of defined benefit pension plans.
- Defining the fundamental issues that Social Security reform should address.
- Advancing retirement income security policy.

VIII. Strategic Plan Activities

**Strategic Direction A: Increase the influence of the Academy and actuaries on the creation of public policy**

- **Identify timely research needs and actively disseminate research results**
  In May 2002, the Pension Practice Council agreed to participate in a joint research project with SOA on defined benefit plans. The survey is designed to provide additional information on the issue of leveling the playing field for defined benefit plans. Results of this survey, as well as one completed on retirement risks, were presented to policymakers as part of a Hill briefing in February.

- **Establish or strengthen relationships with think tanks and other important public policy organizations such as NCSL, NCOIL and NGA.**
  The council has continued to develop relationships with public policy organizations such as the National Academy of Social Insurance, the American Benefits Council, the Cato Institute, the Brookings Institution, the Heritage Foundation, and the Urban Institute.

**Strategic Direction H: Improve the organizational effectiveness of the Academy**

The council has strengthened its Pension Assistance List (PAL) program by soliciting new volunteers for the program and disseminating information about the program through the media and important public policy organizations.