



AMERICAN ACADEMY of ACTUARIES

Pension Practice Council
Vice President: Thomas S. Terry
Staff Liaison: Samuel D. Genson
May 2008

HIGHLIGHTS*

Since the last Board of Directors/Executive Committee meeting, members of the Pension Practice Council have been actively involved in: providing guidance to policymakers and regulators on various provisions in the Pension Protection Act of 2006 (PPA); responding to media inquiries on the passage of the funding legislation and general questions regarding longevity risks; and hosting a practitioner's liaison group to assist government agencies in the prioritization and development of regulations pertaining to the passage of the Pension Protection Act (PPA).

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

- ❑ Practice notes on mortality, investments, and other demographic assumptions (Pension Committee)
- ❑ Issue brief on transparency (Pension Accounting Committee)
- ❑ Issue brief/white paper addressing issues with FAS 158, including ABO v PBO and phase 2 recommendations (Pension Accounting Committee)
- ❑ Issue brief on annuitization (Retirement Security Principles Task Force)
- ❑ Issue brief on *Expected Returns in Individual Accounts* (Social Insurance Committee/Pension Committee)
- ❑ Issue brief on actuarial soundness in public pension plans (Public Plans Subcommittee)
- ❑ Issue brief on MVL in Public Pension Plans (Public Plans Subcommittee)
- ❑ Issue brief on advantages of MVL disclosure in Public Plans (Pension Finance Task Force)
- ❑ Interactive website program addressing longevity risks (Pension Committee)
- ❑ Website program highlighting pension plan funding levels (Pension Committee)
- ❑ Issue brief or articles discussing features of a safety-net DB plan (Pension Committee)

The following is a list of public statements/projects that have been recently completed:

- ❑ Comment letter to the IRS on regulations regarding PPA funding and Hybrid Plans (Pension Committee)
- ❑ Practice Note on Multiemployer practices related to PPA (Multiemployer Subcommittee)
- ❑ Comment letter to the IRS and Treasury Department on using substitute mortality tables (Pension Committee)
- ❑ Comment letter to the IRS regarding combined plan limits in PPA (Pension Committee)
- ❑ Comment letter to the IRS on phased retirement provisions in PPA (Pension Committee)
- ❑ Issue brief on *An Actuarial Perspective on the 2008 Social Security Trustee's Report* (Social Insurance Committee)
- ❑ Comment letter to DOE on Contractor Employee Pensions (Pension Committee)
- ❑ Comment letter to the IRS on cash balance guidance related to provisions in PPA (Pension Committee)
- ❑ Comment letter to CASB on Harmonization of CAS 412 & 413 with PPA (CAS Task Force)
- ❑ Comment Letter to the JBEA on the audit findings related to continuing education credits (Pension Committee)
- ❑ Issue brief on *Social Security: Evaluating the Basic Benefit Structure* (Social Insurance Committee)



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STRATEGIC DIRECTIONS

2.1: Strengthen our reputation as the major source of unbiased technical advice to Congress and the executive branch, on matters within our expertise.

- ❑ For the last few years, the PPC and the Pension Committee have been engaged in discussions with policymakers and regulators regarding the need for pension funding reform legislation. With the passage of the Pension Protection Act of 2006 members of the Pension Committee are discussing technical corrections to the legislation with senior staff in both the House and Senate.
- ❑ With the passage of the PPA, the Academy helped create a work group named the Funding Reform Advisory Task Force (or FRAT Force), which is composed of individuals (actuaries, attorneys, and other employee benefit experts) who identify, prioritize, and make recommendations to policymakers and regulators on guidance with respect to various provisions in PPA. Since its inception, the FRAT Force has written several papers addressing PPA related issues, such as: the lookback rule, yield curve, maximum tax deductions, benefit restrictions, substitute mortality, and multiemployer plan technical corrections.
- ❑ Last summer, the Social Insurance Committee released two issue briefs, *Women and Social Security* and *Social Security: Evaluating the Basic Benefit Structure*. The SIC and Pension Committee are working on an issue brief entitled *Expected Returns in Individual Accounts*.

2.2: Be recognized by certain non-governmental, standard-setting, and policymaking bodies at the state, national, and international level as the major source of unbiased advice on matters within actuarial expertise.

- ❑ In January, the Multiemployer Subcommittee released an exposure draft of its Practice Note on *Multiemployer Plan Actuarial Certifications under the Pension Protection Act of 2006*.
- ❑ The Public Plans Subcommittee is drafting an issue brief that would address actuarial soundness in public systems as well as an issue brief discussing Market Value of Liabilities in Public Pension Plans.
- ❑ The Joint SOA/Academy Pension Finance Task Force has begun work on an issue brief discussing the advantages of disclosing Market Value of Liabilities for Public Pension Plans.
- ❑ With the implementation of phase 1 of FASB's project to reexamine accounting for pension and other employee benefits, the Pension Accounting Committee is now looking toward preparation of a white paper that would address issues pertinent to phase 2 of the project. The white paper will be sent to accountants and users of financial statements, as well as the FASB, prior to any exposure draft on phase 2 recommendations.

3.1: Be an effective voice advocating for the public on appropriate topics in the public interest.

- ❑ The Pension Practice Council held a roundtable at New York University on February 6. The focus of this roundtable discussion was on Financial Disclosures within Public Pension Plans and enjoyed a remarkable turnout.
- ❑ The Pension Committee has begun looking at the next generation of retirement plans. One piece of this general strategy is a project that would look at features of a 'safety net' DB plan. Members of the subgroup working on this project have met with Congressional staff and will pursue further meetings to discuss this and other 'new' DB-type plan designs to revitalize the employer-sponsored plan system. There is also expected to be discussion with members of the Life Practice Council regarding any joint work that might occur on this project.
- ❑ The Pension Committee is working to develop an interactive feature for the Academy's website – a longevity index – that would provide statistics on frequently asked questions regarding life expectancy. Similar to the issue brief on annuitization, the project is designed to respond to a growing concern that workers/retirees will begin to outlive their assets because they are not prepared for the amount of time they are likely to spend in retirement.
- ❑ The Pension Committee is also working to develop another feature for the Academy's website – a pension funding index -- that would show monthly updated average funding levels for S&P500, the total underfunding in those plans, and a percentage of sponsors with funding above a certain level.
- ❑ The Social Insurance Committee has been reaching out to promote the profession and to identify areas in which the committee can work with external organizations. This will be an ongoing outreach effort, and members of the committee have met with AARP, the Urban Institute, the Brookings Institution, the National Academy of Social Insurance (NASI), and congressional staff. The SIC also published an update to its 2004 Election Guide: *The Questions Candidates Should Answer about Social Security*.
- ❑ The Retirement Security Principles Task Force is working on an issue brief to address issues associated with annuitization (primarily from DC accounts), for example: voluntary versus mandatory, tax incentives for annuities, pros/cons of lump sums, the problem of selection, and treatment of IRAs. The brief will serve to outline the importance of annuitization as part of a strong retirement plan so that workers will not outlive their assets in retirement.

2008 KEY PRIORITIES

During its November 4 planning session in New Orleans, the Pension Practice Council identified its 2008 Key Priorities:

- Advance Pension Actuarial Practice through:
 - Practice Notes
 - Case Studies
 - Webinars
 - Dialog with other actuarial and pension focused groups
- Raise awareness of longevity:
 - Advocate for the raising of the "normal" eligibility age for both corporate pensions and Social Security
 - Educate the public on longevity risks
 - Discuss with lawmakers opportunities to mitigate financial longevity risks

NEW MEMBERS/NEW SUBCOMMITTEES

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

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

- Dale Yamamoto (Red Quill Consulting) has joined the Pension Practice Council

SENIOR PENSION FELLOW REPORT

- The PPC is currently without a Senior Pension Fellow