Retirement 2000

Addressing the Future of Pensions

It could be unwise to try to use 401(k) participants' current investment behavior as an indicator of how workers would fare under a Social Security system that included private retirement accounts, Urban Institute researcher Cori Uccello told the Retirement 2000 conference in Washington.

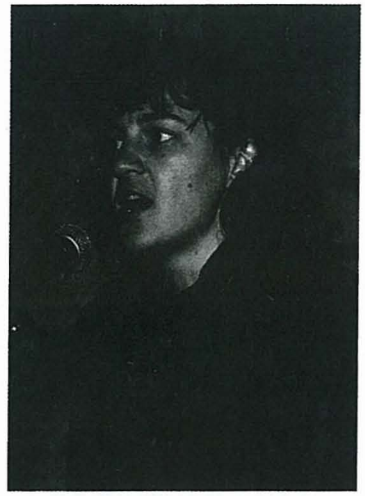
Her research was among the papers presented at the Feb. 23–24 conference, which was sponsored by the Academy, the Conference of Consulting Actuaries, the Society of Actuaries, and other organizations. Retirement 2000 attracted more than 150 participants, including actuaries, economists, demographers and public policy professionals.

Other presentations addressed such key policy topics as phased retirement and cash balance pension plans. In one of two luncheon addresses, David Strauss, executive director of the Pension Benefit Guaranty Corporation, called for policy-makers to strengthen the defined-benefit pension system. In the other luncheon address, Senior Pension Fellow Ron Gebhardtsbauer described the history of the pension system and the direction in which it is going.

From left, Virginia Reno and Heidi Dexter with Retirement 2000 Chair Anna Rappaport

In her research, Academy member Uccello examined 401(k) investment behavior to determine how it might correlate to investment decisions that individuals would be required to make under an individual account system similar to those proposed in several Social Security reform plans. Estimates of some reform proposals have used 401(k) investment behavior as a benchmark for assuming how participants would invest under a privatized Social Security system.

Uccello concluded, however, that using 401(k) asset allocation patterns to predict how people would fare under a Social Security individual account system with reduced guaranteed benefits "might be overstating the returns to these accounts and therefore might be overstating their attractiveness relative to the current Social Security system."



Cori Uccello presenting her findings on 401(k) investment patterns

Uccello found that 401(k) participants who also have a defined-benefit plan are more likely to invest in equities than are those whose primary plan is the 401(k). This suggests, she said, that workers with a guaranteed source of retirement income are more likely to invest their other retirement assets more aggressively.

Removing this guarantee — through, for instance, a company's switching from a defined-benefit plan (in which the company assumes all the investment risk) to a 401(k) plan (in which workers assume all the investment risk) — could lead workers to invest more cautiously, Uccello concluded. And switching from Social Security's current defined-benefit system to a system that reduced guaranteed benefits in order to create individual accounts could have a similar effect, she cautioned.

Anna Rappaport chaired Retirement 2000. Academy members also helped lead discussions at the conference; among them were Judy Anderson, Joseph Applebaum, Heidi Dexter, Ron Gebhardtsbauer, Edwin Hustead, Richard Joss, Patricia Scahill, and Pension Vice President James Turpin.

Papers from the conference will be featured in a future issue of the *North American Actuarial Journal.*

Disciplinary Notice

The Discipline Committee of the American Academy of Actuaries (the "Academy"), acting in accordance with the Academy's bylaws and under recommendation from the Actuarial Board for Counseling and Discipline, hereby reprimands Wil Chong for failure to comply fully with Precept 1 of the Code of Professional Conduct.