

Conference of

Consulting Actuaries

Volume XXVII, Number 1  
March, 2015

THE  
**Consulting Actuary**



**THE  
PROCEEDINGS  
ISSUE**

THE JOURNAL OF THE CONFERENCE OF CONSULTING ACTUARIES

# CONTENTS

## CCA NEWS

2014 CCA ANNUAL MEETING RECAP.....	3
2014 CCA ANNUAL MEETING BUSINESS SESSION.....	3
CCA WELCOMES NEW DIRECTORS TO THE BOARD .....	6
ADDRESS BY JOHN SCHUBERT, CCA PRESIDENT 2013-2014.....	6
WOULD YOU LIKE TO BE A SESSION ASSISTANT AT THE NEXT ANNUAL MEETING? .....	8
2014 CCA ANNUAL MEETING SESSION SUMMARIES.....	9
CCA DEBUTS NEW MEMBER BENEFITS BROCHURE .....	39
CCA PUBLIC PLANS COMMUNITY RELEASES WHITE PAPER ON PUBLIC PENSION FUNDING POLICY .....	39
CCA GOES GREEN .....	39
NEW CCA WEBSITE .....	39
CCA WELCOMES NEW MEMBERS AND NEW FCAS.....	40

## CONTINUING EDUCATION

2015 HEALTH REFORM MEETING.....	41
CCA AUDIO/WEBCASTS .....	42
CCA’S REMAINING 2015 AUDIO/WEBCAST SCHEDULE .....	43
REGISTER NOW FOR THE 2015 ENROLLED ACTUARIES MEETING WITH PRE- AND POST-MEETING SEMINARS....	44

## OTHER PROFESSION-WIDE NEWS

NOTES FROM INTERSECTOR MEETINGS WITH IRS/TREASURY AND PBGC .....	45
CCA MEMBER MATCHING GIFT TO THE ACTUARIAL FOUNDATION.....	45
READ THE LATEST FINANCIAL SMARTS.....	46

## THE CONSULTING ACTUARY

Published by

The Conference of Consulting Actuaries

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## CCA NEWS

### 2014 CCA Annual Meeting Recap

Over 500 actuaries and guests attended the 2015 Annual Meeting of the Conference of Consulting Actuaries from Sunday, October 19 to Wednesday, October 22, at the Westin Mission Hills Golf Resort and Spa in Rancho Mirage, California.

Conference sessions provided timely and relevant continuing education to ensure consulting actuaries are informed on issues impacting specific areas of interest that impact their practice or the profession. A popular session was a dialogue session during which representatives from PBGC offered insights and perspective for participant questions.

Equally important, participants enjoyed the opportunity to network with colleagues, exchange ideas, and catch up with long-time friends.

The CCA Annual Meeting is the only meeting designed to address the day-to-day issues facing consulting actuaries. Mark your calendar for the 2015 Annual Meeting, October 25-28, 2015 at the Hyatt Regency Coconut Point Resort and Spa in Bonita Springs, Florida and watch for registration announcements.

### 2014 CCA Annual Meeting Business Session

#### 2014 Treasurer's Report

Ellen L. Kleinstuber delivered the Treasurer's report. Ms. Kleinstuber reported that The Conference of Consulting Actuaries remains in a strong financial position, and that the CCA's Board of Directors decided to present to members the vote for a dues increase of \$10 for 2015 to \$400 per year. The vote presented to members was approved by the members. The CCA has not raised dues in seven years; the last increase was in 2008.

#### Vote by the CCA Membership on Bylaws

By an overwhelming margin of almost 97% in favor, the CCA's membership has endorsed the Bylaws amendments proposed by the Board of Directors. The Bylaws vote covered certain changes within Article X Discipline:

Section 2 (Matters Covered by a Joint Discipline Agreement) regarding the Special Review Panel,

- Section 3 (Other Disciplinary Matters) regarding exact vote requirements;
- Section 4 (Notification of Public Discipline) regarding minor changes in verbiage; and
- Section 5 (Suspension) regarding addition of section explaining eligibility for reinstatement post-suspension.

To view the newly amended bylaws please visit our site, at <http://www.ccactuaries.org/governance/bylaws.cfm>.

## CCA Awards

### Lifetime Achievement Award

Carol R. Sears is honored with the 2014 Lifetime Achievement Award. This is awarded to a volunteer for contributions made to the CCA, or the actuarial consulting profession in general, during his/her professional career.

Ms. Sears has tirelessly volunteered for many activities for the CCA: Board of Directors, Executive Committee, Professionalism Committee. She led the CCA into branching out to be its own entity by establishing the CCA's independence with setting up CCA employees' benefits, and has led the Benefits Committee since its establishment in 2009. Ms. Sears has led numerous sessions over the years at Enrolled Actuaries Meetings and CCA Annual Meetings, and has been a presenter at many seminars. She has served the profession for many years by serving on the ABCD (Actuarial Board for Counseling and Discipline, and also serving as their chair); she currently serves on The Actuarial Foundation's Board where she is an extremely dedicated volunteer, leading by example.

The award, presented at the CCA's Annual Meeting, included a plaque, a small gift, and waiver of registration fees for that meeting. Although nominations are accepted throughout the year, nominations made by June 1 of each year are considered for presentation at the upcoming Annual Meeting. [Follow this link for details about the Lifetime Achievement Award or to submit a nomination for 2015.](#)



*2014 LIFETIME ACHIEVEMENT AWARD  
RECIPIENT CAROL R. SEARS AND  
2014 CCA PRESIDENT JOHN SCHUBERT*

### Most Valuable Volunteer Award

Lance J. Weiss is honored as the 2014 Most Valuable Volunteer. This is awarded to a volunteer for contributions made to the Conference of Consulting Actuaries, or the actuarial consulting profession in general, during the past 12 to 24 months.

Mr. Weiss has been truly outstanding as a volunteer for the Conference of Consulting Actuaries for the last several years beyond his service as President. He has continued to serve on the Annual Meeting Committee (where he serves as co-section head of the Public Plans section) and actively chairs one of the CCA's most important groups—the Seminar Committee, that develops the audio/webcasts held throughout the year. Mr. Weiss consistently builds some of the top rated Annual Meeting sessions. He has been the moderator for many of CCA's Annual Meeting closing general sessions, working with actuaries within the CCA, as well as actuaries and lawyers external to CCA's membership, to create these sessions. He jumps in time and again with speaker suggestions or to serve as a speaker, provide alternative session ideas and works seamlessly with CCA staff to put together great programs of high quality continuing education. He has a commitment to the CCA, and ensures we produce high quality continuing education that provides value to the membership.



*2014 MOST VALUABLE VOLUNTEER AWARD  
RECIPIENT LANCE J. WEISS AND  
2014 CCA PRESIDENT JOHN SCHUBERT*

The award, presented at the CCA's Annual Meeting, included a plaque, a small gift, and waiver of registration fees

for that meeting. Although nominations are accepted throughout the year, nominations made by June 1 of each year are considered for presentation at the upcoming Annual Meeting. [Follow this link for details about the Most Valuable Volunteer Award or to submit a nomination for 2015.](#)

## Wynn Kent Public Communications Award

Frederick W. Kilbourne is honored with the 2014 Wynn Kent Public Communications Award. The recipient of this award can be recognized for a single event or for a lifetime of making the public aware of the profession.

Mr. Kilbourne has a keen ability to communicate with influential groups and the public at large. He has been very instrumental in providing the public with actuarial guidance regarding the solvency of social insurance programs. Fifty years ago, Mr. Kilbourne began warning the public about social insurance program solvency and was a key contributor to and leader of the CRUSAP report and effort in 2005.

In 2005, a prize was established by family and members of the CCA Board in memory of Irwin I. "Wynn" Kent (CCA President 1989-1990) and his contributions to financial risk and the profession's work product. The Wynn Kent Public Communications Award is given to members of the actuarial profession who have contributed to the public awareness of the work of the actuarial profession and the value of actuarial science in meeting the financial security of society in the fields of life, health, casualty, pensions and other related areas. Any actuary is eligible for the Award.

[Follow this link to The Actuarial Foundation website for details about how to submit a nomination for this award for 2015.](#)

[Click here to contribute to the Wynn Kent Public Communications Award through The Actuarial Foundation](#) (select "other," and indicate "Kent Award" to designate your donation to support this Foundation initiative).

## John Hanson Memorial Prize

Stéphane Levert is awarded the 2014 John Hanson Memorial Prize. The John Hanson Memorial Prize is awarded for the best paper on an employee benefits topic. Mr. Levert's paper, entitled, "Sustainability of the Canadian Health Care System and Impact of the 2014 Revision to the Canada Health Transfer," selected for this designation. His paper best fits the timeliness of topic and practical application to employee benefits.

CCA members may view Mr. Levert's paper by logging into the CCA website using this link: ["Sustainability of the Canadian Health Care System and Impact of the 2014 Revision to the Canada Health Transfer"](#)



*2014 WYNN KENT PUBLIC COMMUNICATIONS AWARD  
RECIPIENT FREDERICK W. KILBOURNE AND ACTUARIAL  
FOUNDATION REPRESENTATIVE DALE H. YAMAMOTO*



*2014 JOHN HANSON MEMORIAL PRIZE RECIPIENT  
STÉPHANE LEVERT AND ACTUARIAL FOUNDATION  
REPRESENTATIVE DALE H. YAMAMOTO*

Up to three authors may be awarded with the John Hanson Memorial Prize each year. The author need not apply to be considered for the prize, and need not be a member of the CCA. The prize consists of a cash award, waiver to the CCA's Annual Meeting where the award is presented, and a plaque. [Click here to access the submission form through The Actuarial Foundation web site for 2015.](#)

## CCA Welcomes New Directors to the Board

CCA welcomes four new members to the Board Justin N. Hornburg, Kathleen P. Lamb, Maria M. Sarli and David M. Tuomala will each serve three year terms. Second term Board members serving for an additional three years are: Lawrence J. ("Mac") McCarthy and Alan W. Milligan. The CCA Board also welcomed Paul Zeisler in December of 2014. He fills the remaining term of Board member John Stokesbury who resigned effective in December of 2014.

Special thanks and appreciation go to retiring board members Gerard C. Mingione, Carol R. Sears, P. J. Eric Stallard, John Stokesbury and Dale H. Yamamoto for the time and commitment they dedicated to the CCA through their Board service.

## Address by John Schubert, CCA President 2013-2014

PRESIDENT JOHN SCHUBERT: Good morning! I hope everyone has had a fantastic experience these past few days as we wrap up another successful CCA Annual Meeting. I would like to start my remarks with some thank you's. First I would like to thank Joe Strazemski and his Annual Meeting Committee for their efforts to make this meeting a valuable learning and networking event. I also want to thank Rita DeGraaf and her staff for another outstanding effort to manage this wonderful event and for all of their efforts throughout the year. And a special thanks to Keith Stewart for his 20 years at the CCA. We will all miss his talent, energy and dedication to our organization. Finally, I also want to thank Pat Rotello, Phil Merdinger, Dale Yamamoto, Adam Reese and those who came before them for their efforts to make the CCA a great organization. They have certainly made my job much easier and I do appreciate all of their support.

Here are a few highlights from this past year:

- A year ago, the Board authorized a new Association Management System so the CCA staff has researched, interviewed, selected and recently begun working with a software consulting firm to implement a new association management system. This system's platform is flexible enough that it will grow as the CCA moves forward and also support our new website; both are expected to roll out in the Spring of 2015. Later on next year, an additional enhancement will be rolled out to our Communities and a few of our Committees. We are excited about these investments and we believe they are a smart business move for the CCA to more effectively service our members.
- We have continued to gather feedback from members and non-members to enhance the CCA. We want your input and to hear from you so even if we have not asked you recently, let us know how we are doing and what you would like to see from your CCA.
- We have expanded our Communities from 3 to 5 by adding the Emerging Leaders Community and the Health Provider Consulting Community. If you have an idea for a new community, please let us know.

A year ago, I spoke about the importance of volunteerism and asked that you consider taking a risk and step forward for the good of your career as well as the CCA. Our volunteer award winners, announced on Monday, are great examples for us. So a huge thank you to all who did step forward, as we added new volunteers to the committee which planned this meeting as well as to our Seminar committee. Please take a look at the 2015 Audiocast schedule which is out at the front desk and on the website and sign up again for next year.

Those of you who have studied or read about Abraham Lincoln know that he was quite the story teller, often recalling his life experiences as a way to approach a situation or a problem. On leadership, he would relate it to his years as a surveyor, saying that a compass will tell you true north, but it cannot tell you about the swamps and difficult terrain that may lie in your path. Leadership is how well you navigate through those challenges while you remain committed to your True North. As consultants, we understand this as our clients often call when the going gets tough.

Right now, as some of you have heard or read, the actuarial profession finds itself headed into the swamps. Each of the U.S. actuarial organizations is searching for their True North path and needs to balance that course with what is good for the entire profession. The CCA leadership is fully aware of this situation and working hard to find that balance. At our Board meeting last Sunday, we invited each of the other actuarial organizations to make a presentation in an effort to make some progress. As Actuaries, we are very fortunate to have common standards of practice, discipline process and a code of professional conduct. We are self-regulated, one of the few elite professions entrusted with that responsibility. Wondering further into the swamps will only squander our good fortune and the hard work of our predecessors. Let us not take this for granted and then one day realize how foolish and shortsighted we have been. This is all the more reason to volunteer and get involved in the organizations you belong to and help determine the path forward and to protect your future and the future of our profession.

I again want to thank all of you for your support and for this opportunity to serve as President over the past year. I have enjoyed my year and feel fortunate, as all of you should, to turn to Phil Merdinger as our next President. I will now call on Pat Rotello to start the leadership transition.

Thank you.

## Would You Like to be a Session Assistant at the Next Annual Meeting?

Duties include writing a brief description of specific sessions, collecting continuing education forms, and other duties as requested by the moderator.

New actuaries are especially encouraged to consider serving in this capacity as it is an excellent way to network into other continuing education opportunities, gain exposure within the profession, and potentially participate in speaking opportunities.

[Sign up now to volunteer for next year's Annual Meeting.](#)

### A special thank you to our 2014 session assistants who provided the following summaries:

Brad Armstrong – Gabriel Roeder Smith

Geoff Bridges – OneAmerica

D. Vincent Cassano – Burke Group

Sonja J. Coffin – Fidelity Investments

Randy Dziubek – Gabriel Roeder Smith

Randy A. Gomez – Nyhart

Justin Hornburg – American Benefits Consulting

Jonathan Joss – Fidelity Investments

Joseph A. Kim – Deloitte Consulting LLP

Veronique Marchand – Towers Watson

Jesse Nichols – Towers Watson

Philip M. Parker – Buck Consultants, A Xerox Company

Irina Pogrebivsky – Towers Watson

Casey Shork – Deloitte Consulting LLP

Sameer Khalid Siddiq – Towers Watson

Amelia L. Williams – Gabriel Roeder Smith

Lawrence Wilson – Gabriel Roeder Smith

Paul Wood – Gabriel Roeder Smith

Nathan Zahm – The Vanguard Group



# 2014 CCA Annual Meeting Session Summaries

## Session 103

### HEALTHCARE REFORM FOR PENSION ACTUARIES

#### Speakers:

- Sameer Siddiq – Towers Watson
- Amy Whaley – Towers Watson
- Anne Crumlish – Aon Hewitt
- Session Recorder: Sameer Siddiq – Towers Watson

#### Overview

The purpose of the session is to provide a general understanding of various topics related to healthcare reform with respect to pension actuaries and the client issues and concerns that they are facing.

#### ABCs (Acronyms, Basics, and Common Terms)

The first portion of the session focused on many of the acronyms used when discussing the topic of healthcare reform. There is often confusion when using the terms ACA (Affordable Care Act), PPACA (Patient Protection and Affordable Care Act), HCR (Health Care Reform) and Obamacare. Many people don't realize that these all are referencing the law that was enacted on March 23, 2010. To illustrate the point, a video clip from the Jimmy Kimmel Show was played showing people from the general public being asked whether they support Obamacare or the Affordable Care Act. All who were asked were embarrassed by not realizing they were referencing the same thing.

Many other acronyms and common terms related to healthcare reform were also briefly reviewed, including TRF (Transitional Reinsurance Fee), Cadillac Tax, Exchanges and Pay-or-Play.

#### Timeline

Next, the timeline for healthcare reform was reviewed outlining when certain provisions are expected to be implemented. To summarize:

- 2010-2013
  - \* Various plan design mandates and requirements implemented (children covered until age 26, elimination of lifetime maximums, etc.)
- 2014
  - \* Public marketplaces opened in 2014 through [healthcare.gov](http://healthcare.gov)
  - \* Individual mandate penalties effective
- 2015-2017
  - \* Employer penalties begin in 2015 for "pay" or "play"
  - \* \$2,000 per full-time employee for failing to offer coverage to at least 95% of FT employees (70% in 2015)
- 2018
  - \* Non-deductible "Cadillac Tax" of 40% to be paid by employers whose costs exceed the excise tax threshold

#### Health Care Reform from an Individual Perspective

There are many ways in which healthcare reform has influenced the healthcare landscape for individuals. For example, employers must now offer medical coverage to all employees who work 30 or more hours without any pre-existing condition limitations, lifetime maximums, or waiting periods longer than 90 days. Also, employers must provide coverage to dependent children up to age 26 regardless of whether they are full-time students or not. In addition, certain states have adopted more liberal eligibility rules for Medicaid. The public exchange or marketplace was opened in 2014 with enrollment exceeding 8 million, where over 80% of these enrollees obtain federal subsidies for premiums and/or cost sharing.

#### Penalties (Pay or Play) and Measurement

Starting in 2015, employers must comply with the healthcare reform's "employer shared responsibility" requirement (aka the employer pay or play mandate). This means that employers must offer minimum essential coverage (MEC) to at least 70% of full time employees in 2015 and 95% in 2016 and beyond. Employers failing to meet the minimum standard can face penalties of \$2,000 per year for each full time employee. Employers who offer MEC to the minimum share of full time employees may still face penalties of \$3,000 per year per FT employee either not offered MEC or offered coverage that fails to meet minimum value or affordability standards.

Measuring and reporting of these requirements can be tedious and cumbersome. Employers are responsible for determining who is full time, and there are lots of unique situations that make this process difficult (e.g., variable hours, special situations, changes in status).

#### Donut hole

Healthcare reform has tried to address the issue of the "donut hole" as it relates to the Medicare Part D plan. Previously, for expenses between \$2,960 and \$7,062, the member was responsible for 100% of the cost. Now, the member pays 65% of the cost of generic drugs and 45% of brand drugs in the donut hole, with it to be filled by 2020.

As a result, we need to consider the retiree medical valuation implications from this change: Will people choose part D plans rather than employer plans? How are participation rates impacted?

### Excise Tax

In 2018, if the cost of health coverage provided to an employee or to a family exceeds pre-determined cost levels, employers will pay a 40% non-deductible excise tax on amounts over the thresholds. An example was shown to point out the fact that since excise tax thresholds grow with CPI, and health care costs grow with medical trend which is generally higher, excise taxes may grow rapidly due to “leveraging.” As a result, all plans will eventually hit the excise tax limits.

### Health Care Reform and Strategy

Given all of the stipulations from healthcare reform, employers may feel like they’re getting boxed in. For example, with the upcoming excise tax acting as a ceiling, the minimum value requirement of 60% acts like a floor. There are also coverage requirements, cost-sharing requirements, and maximum out of pocket requirements which act like walls.

Given all of these constraints, employers are feeling increased pressure to manage these requirements while offering value to their employees. For example, they are more willing to look into non-traditional strategies for offering benefits, such as using private health exchanges.

### Exchanges

There are generally two types of exchanges now being offered–

public and private.

Public exchanges (i.e., marketplaces) were opened in 2014 and are facilitated by either the state or federal government. The target population consists of all Pre-Medicare-eligible un-insureds and individuals without affordable employer-sponsored coverage. Note that options for Medicare-eligibles are not included in the public marketplaces.

Private exchanges on the other hand are facilitated by benefit consultants, administrators and insurance companies. They can be implemented on either a fully-insured or self-funded basis and allow employers to take advantage of offering multiple vendors to their employees while taking advantage of best-in-market discounts. Private exchanges have been set up for the active as well as the pre- and post-Medicare-eligible retiree populations. They have been around for the post-Medicare retiree population for quite some time now and have proven to be effective.

### Future of Health Care Reform

Given Republicans have won the Senate and kept the House, greater prospects exist for Congressional legislation that can change full-time employee definition (30 hours to 40 hours) , repeal AMD tax, and repeal or delay excise tax and/or employer mandate. However, it is more likely that legislation will move to the President’s desk; Presidential vetoes are also likely.

## Session 104

### IN WHAT WAYS WILL THE ACA LIVE UP TO ITS PROMISE?

Speakers:

- Barry Carleton – Towers Watson
- Ward Brigham – United Healthcare
- Trevis Parson – Towers Watson
- Session Recorder: Randy A. Gomez – Nyhart

### Overview

Speakers offer insights on the current impact of healthcare reform relative to its stated objectives and opine as to the legislation’s long-term prospects.

The three speakers provide a look-back perspective as well as future expectations of how health care reform (HCR) has affected employer-provided health plans. The information is organized by the key objectives underlying HCR.

#### Objective: Reduce number of uninsured

So far there has been some success (about 7 million enrollments in 2014) but it is too early to tell if it is sustainable, or if a more significant percentage of the 42 million uninsured in 2013 may be covered through HCR. The impact of the individual mandate could have a lag effect (produce higher enrollments) as those affected begin to understand the penalty increases to the larger of \$695 or 2.5% of income in 2016.

The employer mandate could increase the number of covered employees due to expanded coverage to those working 30-39 hours per week and previously “uninsured” employees electing employer-coverage to avoid the individual mandate penalty. HCR is also said to decrease coverage as some employers elect to eliminate coverage for part-time employees or reduce work hours to less than 30.

#### Objective: Guaranteeing access

HCR has had significant success in meeting this objective by limiting the pricing models to only four factors: age (3:1 ratio), family composition, rating region and tobacco usage.

However, exchange providers still have unanswered questions. It is still relatively early in the exchange market for providers to have a good handle on the risk profile of their enrollees. It may be 3-5 years before creditable data from the exchanges is available.

**Objective: Promote employer role in providing coverage**

So far most employers have chosen to continue providing group coverage. Survey data shows 98% of employers are committed to offering health care in 2015 and beyond. For those employers dropping coverage, the total cost of “not offering” health coverage may be higher than continuing coverage after factoring in the applicable HCR penalties, additional compensation paid to employees and the loss of tax deductions.

HCR mandated benefit changes have led to higher costs in employer plans. As a means to offset the higher costs, employer responses are typically to:

- shift costs to employees via higher employee contributions and benefit cuts;
- shift more employees from full-time status to part-time;
- terminate coverage by smaller employers; or
- shift to HSA high deductible plans as employers feel pressure from the 2018 tax on high-cost plans.

**Objective: Improve affordability**

HCR has a major impact for those exchange enrollees who qualify for the federal premium tax credits and cost sharing subsidies. The premium tax subsidy reduces the price of coverage by about 75%. Most exchange enrollees (80-90%) have qualified for the subsidy. Pre-Medicare retirees may be the big winner due to the premium subsidies.

Survey data shows the average cost for exchange plans in 2015 is only moderately higher than 2014 prices. However, the same data also shows a large price difference within each exchange for the same type of medical plans.

Two long-term affordability issues were presented in the material. First, is the national cost providing the federal subsidies sustainable?

Second, subsidies don't encourage efficient use of benefits which may lead to higher premiums.

**Objective: Foster carrier competition**

HCR has a mixed record for this objective. About half of the exchanges have the same number of carriers participating, with the other half having more or fewer carriers participating. Some carriers chose a wait-and-see approach to the exchange and will be more active in 2015. Participating carriers have a fair amount of risk due to limited pricing data. Another carrier risk is lower than expected participation among younger healthier consumers which would lower the quality of the risk pool.

Nearly 80 new carriers are expected to participate in the exchanges in 2015 (up 25% from 2014).

Factors to consider in improving the predictability of future costs include disenrollment of the young and healthy, overall health status of exchange population, and enrollment changes as rates increase and risk adjusted payments among carriers.

**Objective: Promote integration of care delivery**

So far, HCR seems to accelerate the trend towards accountable care organizations (ACOs) and future integration gains among providers is likely to continue. Financial results have been mixed on ACA's Medicare ACO Shared Savings Program. The Centers for Medicare and Medicaid Services (CMS) estimates ACO implementation will lead to savings of \$470 million from 2012-2015. A little less than half of the 114 ACOs in the CMS program saved money and 29 of those received bonus payments.

There are substantial challenges to providers considering the ACO market. The challenges are the sheer size and complexity of the health industry, comfort level with existing provider payment models, technical barriers and risk of unfavorable unintended consequences.

**Session 107****ASOPS AND THE CODE OF PROFESSIONAL CONDUCT FOR PUBLIC PLAN ACTUARIES**

Speakers:

- Daniel Wade – Milliman, Inc.
- Mita Drazilov – Gabriel Roeder Smith & Company
- Jennifer Senta – Milliman, Inc.
- Carol Sears – Actuarial Consulting Group, Inc.
- Session Recorder: Geoff Bridges – OneAmerica

**Overview**

Session focuses on two key aspects: what has changed in recent ASOP updates, and guidance in the ASOPs that is particularly pertinent to public plan work.

**ASOP 1**

The introduction to the ASOPs is now ASOP 1. It has guidance

that applies to all of the ASOPs. ASOP 1 defines must, should, should consider and may, which carry different weights in the ASOPs. Some terms used in the ASOPs are not defined, such as “actuarially sound,” a term which actuaries need to define if they use it. ASOP 1 defines many other terms used in the ASOPs. If a term is not defined in ASOP 1 but is used in other ASOPs, the

meaning may be different from one ASOP to another. A few recent ASOPs use a bold font for defined terms, and it is anticipated that this practice will be continued.

#### **ASOP 4**

A revision of ASOP 4 will be effective for measurement dates on or after December 31, 2014. The ASOP provides new guidance when a funding status is communicated, as well as additional disclosure requirements for a number of other situations.

#### **ASOP 23**

While ASOP 23 is not new, pension actuaries should keep in mind that it applies to pension work and is a good reference if you have less than perfect data.

#### **ASOP 41**

This ASOP provides guidance on many disclosures that are needed for an Actuarial Communication.

#### **ASOP 44**

This document provides guidance on the selection of asset valuation methods. This ASOP may be updated soon. One concern is that after the economic turndown in 2008, in some cases the actuarial value of assets deviated significantly from the market value of assets.

#### **Risk ASOP**

A Discussion Draft from June 2012 provides guidance with respect to assessing and disclosing risks inherent in pension measurements. The scope of the ASOP is any pension plan that is not a social insurance plan. The guidance indicates that actuaries should include commentary on the significance of risks in relation to the plan. Assessment of the risks identified may be qualitative, quantitative or both.

Audience question: Should a contribution holiday be considered a risk? Panel response is no, this is a governance issue and not an actuarial issue.

Audience question: What about withdrawal risks? Panel response is no, not under the normal funding scope, but should be considered.

#### **SOA Blue Ribbon Panel Report**

The Society of Actuaries' Blue Panel Report of February 2014 contains numerous recommendations for the ASB to consider relating to the role of the actuary and risk measures, analyses and discourse.

The Blue Ribbon Panel Report suggests that there are things that plan sponsors should be doing, but then these tasks are transferred to the actuary.

As a result of the report, the Pension Committee of the ASB is charged with performing a high level analysis of those recommendations.

#### **ASOP 27**

ASOP 27 is updated and is effective for valuations with a measurement date on or after September 30, 2014.

The best estimate range is eliminated. More guidance is included on adverse deviation and plan provisions that are difficult to

value, and estimates of future experience or estimates inherent in markets. We need to disclose the rationale for non-prescribed actuarial assumptions. When an assumption is prescribed, we need to disclose whether it is prescribed by law or prescribed by another party.

In order for an assumption to be reasonable, the assumption should be appropriate for the purpose, reflect the actuary's professional judgment, consider relevant historical data, reflect the actuary's estimate of future experience or estimates inherent in markets, and be unbiased (except when explicitly adjusted for adverse deviation or plan provisions that are difficult to measure).

#### **ASOP 35**

A new version of ASOP 35 is expected to be effective for measurement dates on and after June 30, 2015.

The assumption selection process is similar to ASOP 27. The ASOP includes new disclosure requirements, including the assumptions used, the rationale for the assumptions, changes in assumptions and changes in circumstance (for non-prescribed assumptions, similar to ASOP 27).

One discussion relates to the new mortality tables that have been released by the Society of Actuaries. Many public plan consultants are reluctant to adopt the new tables since they did not include public plan experience in developing the tables. When public plan actuaries set mortality assumptions, they should look at specific plan experience.

#### **Code of Conduct**

Once again, definitions are very important, including Actuarial Communication, Actuarial Services, and Principal.

In the context of Precept 4 and Precept 8, Actuarial Communications can be tricky for public plan actuaries because actuarial reports may be used by many parties beyond the Principal.

Precept 4 directs actuaries to ensure that Actuarial Communications are clear, appropriate to the circumstances and intended audience, and satisfies applicable standards. Discussion included what constitutes an Actuarial Communication for public plan work.

Under ASOP 41, we have no obligation to communicate with anyone other than the intended users, but we still must strive to ensure that our work is not misleading to other parties.

## Session 201

# CONVERSATIONS WITH THE PBGC

### Speakers:

- Jonathan E. Joss—Fidelity Investments
- Cindy Travia – Pension Benefit Guaranty Corp.
- Dana Cann – Pension Benefit Guaranty Corp.
- Christopher Bone – Pension Benefit Guaranty Corp.
- Session Recorder: Irina Pogrebivsky – Towers Watson

### Overview

The discussion focused on three main areas: regulatory, plan terminations, and current PBGC policy projects.

### Regulatory

The first topic discussed was PBGC's Technical updates: 14-1 (premium filings) and 14-2 (4010 filings) in response to HATFA. Under 14-1, plans that meet certain conditions are not required to file an amended premium filing and no additional premium and late penalties are payable. However, if a plan sponsor redesignates a 2013 contribution to apply to 2014, they should amend the 2014 premium filing to reflect the higher premium. Penalties are assessed on amended premium filings that are filed after the original due date as a result of HATFA, although the PBGC indicated that sponsors can apply for penalty waivers.

Technical guidance 14-2 follows the same basic guidelines as provided under 12-2 (which provided guidance on how MAP-21 affects 4010 reporting) with the following additions:

- 4010 filings need not be amended solely to revise actuarial information as a result of HATFA.
- Valuation reports related to the 4010 filing may be filed by the alternative due date (15 days after 5500 filing) based on either MAP-21 or HATFA without regard to what is included in the 4010 filing
- If a 4010 filing is no longer required, due to HATFA, but is filed, then valuation reports do not have to be submitted. However, plan sponsors will most likely get a letter from the PBGC the following year asking why the report was not submitted. Plan sponsors can respond by saying plan filing was not required or to avoid the letter, they can send email this year to [ERISA.4010@pbgc.gov](mailto:ERISA.4010@pbgc.gov) explaining the situation.

The speakers discussed other information about PBGC's "myPAA" (My Plan Administration Account online premium filing) changes which include: (a) new electronic payment option (same system as used to process enrollment fees); (b) new mailing instructions; and, (c) a new certification option (a designated person can attest electronically in lieu of plan administrator so plan administrator only needs to certify in hard copy). Premium information for 2015 is being released after the meeting.

### Plan Terminations

Plan terminations cycle with the economy. There is a marked drop in underfunded plan terminations for 2013 and 2014 fiscal

years overall. However, distress terminations (those initiated by the plan sponsor) are reasonably level over the last 5 years, rising in 2013 and falling again in 2014. Most distress terminations since 2011 are based on the "can the business continue?" test, which is very complicated to evaluate due to the quantity of financial data required coupled with the lack of its availability. In order to streamline the distress termination process, PBGC has revised the forms and instructions. For terminations on or after 5/31/2014, new forms must be used. PBGC expects these forms to reduce review time because more financial information is requested upfront. However, PBGC does not offer any specific timing for evaluations saying that, especially for small companies, the financial information is not readily available and is generally not very sophisticated which results in processing delays. To speed up the process, they recommend providing lots of financial information, especially business projections, upfront and having someone at the company be able to clearly articulate the business issues so PBGC can better understand the business reasons for the terminations. Mr. Cann reiterates that it is in the PBGC's best interest to keep the plans with the company so there is some flexibility from the PBGC in lien subordination during bankruptcy. Also, if PBGC has access to other lenders, they can step in and try to help, but oftentimes that access is not available. There is an increase in standard terminations starting in 2013, which is somewhat impacted by plan sponsor derisking actions.

Early warning program is a good tool for the PBGC in terms of risk mitigation. Under the program, PBGC monitors companies to determine possible risks and steps to prevent losses before they occur. Current criterion for an early warning program is 5,000 participants and \$25M in underfunding (not \$50M). In 2014, PBGC settled with 6 organizations worth \$462M as a result of the program. Mr. Cann presents two case studies of such settlements. Another risk mitigation tool is enforcement of 4062(e). However, PBGC has announced a moratorium on the enforcement cases until 12/31/14. PBGC is awaiting new legislation, but it is unclear what's happening with it in Congress. As of right now, they indicated they are proceeding as if the moratorium will expire at 12/31/14.

### Policy Projects

The final topic—current policy projects—includes lump sum transfer issues, review of actuarial and economic components of the PBGC regulations, continuing Pension Insurance Modeling System (PIMS) peer review, and review of multi-employer (ME) program.

1. Lump sum transfer issues: PBGC is concerned that participants don't have enough information to make good decisions. PBGC will work with advocacy groups to increase understanding. They are proposing adding two questions to the premium filing with regard to lump sum windows and annuity purchases.
2. Actuarial and economic assumption review: They would like to establish a schedule for reviewing of assumptions periodically. The review starts over the next 5 years. Aside from a review of interest rates and mortality, the focus is to simplify 4044 calculations.
3. PIMS peer review: PIMS is the PBGC modeling system. They continue to work on improving PIMS and encourage voluntary estimates of the system as a whole through peer reviews.
4. Review of ME program: The system is projected to be at risk for failure in the near future. Until recently, the system was stable. The economic downturn caused significant underfunding and subsequent economic recovery has not helped. There is limited ability for ME plans to recover due

to downward pressure on contributions. This is a result of negotiations and low likelihood of plan freezes since they need active participant contributions in order to sustain the plan. Thus deficit is expected to increase and PBGC has insufficient funds even to pay current guarantees. Once the ME fund expires, PBGC needs to ask Congress for more money; if it is not granted, PBGC has to decrease its guarantees.

Several questions are raised with respect to ME:

- Do ME participants know that their pension could drop? PBGC is working on a series of reports that will explain what's happening. Also participants do receive funding notices. PBGC has less of a link to participants in MEs so they have less of an influence.
- Can Single Employer trust fund assets be used to pay ME participants? No, the two trust funds are segregated by law, but legislation could change that. Single Employer (SE) trust fund is doing better but still not in surplus.

Projection reports and PIMS can be found on the PBGC website.

## Session 202

### A RETIREMENT PROGRAM BUILT TO LAST

Speakers:

- John Dowell – Nyhart
- Dan Cassidy – P-Solve
- Coordinator/Recorder: Sonja Coffin – Fidelity Investments

#### Overview

Both DB and DC plans have their flaws. Traditional DB plans provide a dependable lifetime income security, but create substantial cost risk and volatility for employers. A stand-alone DC plan encourages savings but does not provide an affordable lifetime income guarantee. The speakers believe a sustainable retirement system does not depend on the type of plan (DB or DC) as a well-run DC plan can look and feel like a well-run DB plan (and vice versa).

The presenters discussed possible outcomes if we combined the best of both DB and DC plans to provide a more secure retirement for participants at a lower cost for employers. We also looked at whether providing benefits at age 85 in a DB plan might be key.

This session was divided into two parts. Part I explored an employer retirement plan of the future and the cost structure of three (3) retirement programs. Part II reviewed a sustainable retirement system and how to make retirement income last a lifetime using a DCDBTM Benchmark for the distribution phase.

The speakers noted at the beginning of the session that the retirement program designs are conceptual only, as current tax rules do not allow for deferring to age 85 as a normal retirement benefit

in a DB plan.

#### PART I—Employer Retirement Plan of the Future

The objective of a new retirement program is to provide more dependable lifetime income security for participants while providing a lower cost to employers. A retirement program with shared risk between employer and employees may be key. For example, a matching DC plan bundled with an annuity deferred to age 65 could be one such plan.

The presenters compared three retirement programs scenarios.

##### Program 1 – Traditional DB is primary vehicle

- Traditional DB of 1% of career average pay, payable at normal retirement age of 65
- Supplemental DC plan (matches 50% up to 4%)

##### Program 2 – Standalone DC

- 5% non-matching contribution
- Supplemental DC plan – matches 50% up to 4%

##### Program 3 – DC is primary vehicle

- 3% non-matching contribution
- Supplemental DC plan (matches 50% up to 4%)

- Deferred DB – 1.5% of career average pay payable at normal retirement age of 85

Program 3, while not allowable under current tax rules, provides longevity protection and the lowest expected cost. Cost, based on a 6% return on assets, is 10.24%, 11.00% and 9.54% of pay for Programs 1, 2 and 3, respectively. Program 3 significantly reduces retiree concern of outliving their assets since the DC plan balance only needs to provide income until age 85. The traditional DB plan (Program 1) is roughly 8 times more costly than the DB plan that is deferred to age 85 (Program 3), despite the benefit accrual being 1.0% compared to 1.5%. Even if we make the investments safer with a 5% return on assets, the increase in cost is only 0.23% of pay in Program 3 versus 0.83% in Program 1.

From a participant perspective, the DC plans (Programs 2 and 3) have a difficult time competing with the traditional DB plan (Program 1) as the traditional DB plan provides the ultimate longevity protection and no need for a spending strategy. The standalone DC plan requires establishing a spending strategy where most participants do not know how to convert from a balance to a payment stream in retirement. The DB plan that is deferred to age 85 (Program 3) simplifies the spending strategy as payments can be withdrawn levelly until the DC balance is exhausted at age 85.

**Projected Cost Adequacy** — The DC only plan (Program 2) provides a slightly better retirement income than the DB plan that is deferred to age 85 (Program 3) of 33% versus 31%. Assuming death at age 90, Program 2 assets would be depleted at age 85. While the DC only plan (Program 2) would provide a larger death benefit, there is a 30% chance a 65 year-old would outlive their account balance using the applicable 2014 IRS mortality table. Should a participant survive to age 100, the DC only plan (Program 2) would cost more, but provide 10% less retirement income for the first 20 years of retirement.

**Comparison of Distribution Strategy** – If a retiree annually withdraws 6% of the DC balance, the difference in retirement income is much more significant. Program 2 has almost 50% chance of leaving a significant balance at death of over 2 times final pay. Annually withdrawing 4% of the DC balance (the most common) creates even greater disparity in retirement income at death. If the retiree dies at or before age 100, Program 2 has a 97% chance of leaving at least 5 times final pay at death which means the retiree loses and the beneficiary wins.

Alternatively, a participant could purchase an age 65 annuity in the DC only plan (Program 2). In practice, few retirees purchase immediate annuities because they are expensive today and the retiree does not know if they will live long enough. Also, purchasing an individual annuity today that is deferred to age 85 costs a lot more than a DB plan with group risk-pooling that is deferred to age 85.

**Conclusion** – DC only plans are inefficient at providing an adequate retirement income due to longevity risk. By risk-pooling with a DB plan, retirement income can be provided at a lower cost with a combination of a deferred to 85 DB plan and a supplemental

DC plan with very little risk to employers.

## **PART II—Sustainable Retirement System and Making Retirement Income Last a Lifetime**

This portion of the session discussed what we have learned with retirement plans and an approach for making retirement income last a lifetime.

Lessons we have learned with DC plans are (a) voluntary contributions do not work, but plan design does with auto enrollment, auto increase and creative matching schedules; (b) investment education does not work due to dominance of default investment options such as target date funds; and (c) employers do not want the fiduciary responsibility to offer robust retirement income solutions.

Ways actuaries can help employers and participants by improving default options within plans (current target date funds are targeted at just age, not salary, account balance, etc.) and by soliciting more governmental guidance. We need more from the government before employers are willing to take on more fiduciary responsibility and augment retirement income solutions at the institutional level.

There are three major stages for account management: accumulation, stabilization during pre-retirement and distribution at retirement. The distribution phase was the final focus of this session.

To make a distribution strategy work, it must be doable in today's marketplace, executable by individuals and measurable. A defined contribution decumulation benchmark can do these things.

A defined contribution decumulation benchmark enables investors to spend down their DC plan assets more easily and has two components. The portfolio is comprised of a self-liquidating, laddered portfolio of TIPS for the first 20 years (consuming 85% of available capital) and a deferred, inflation-adjusted life annuity purchased with the remaining 15%. The deferred annuity is expected to be the same, in real terms, as the last cash flow with the TIPS portfolio using current breakeven inflation. This type of benchmark also provides a "low risk" yardstick for developing a distribution (spending) strategy.

**Conclusion** – A defined contribution decumulation benchmark tool can help an individual plan for the distribution strategy in retirement by choosing a low-risk lifetime income, high degree of inflation protection and substantial liquidity preservation.

## Session 206

# INTRODUCTION TO NON-U.S. DC PLANS

Speakers:

- Mitsu Nishiwaki – Towers Watson
- James Davies – Towers Watson
- Nadine Orr – Royal Bank of Canada
- Session Recorder: Véronique Marchand – Towers Watson

Moving to a DC plan is no breaking news in the U.S. The idea is, however, a bit more recent everywhere else in the world. Even where not permitted to implement a pure DC, some very close alternatives are being used. During the session, the speakers discussed the global trend towards DC, why companies make the move, and how they can manage DC plans as the amounts involved grow. They then discuss some general country (mainly Germany and India) specifics and go over a few case studies from the Royal Bank of Canada.

### Why do companies move to DC?

Initially the speakers touched on the major reasons why companies move to DC, emphasizing the trends and legislative aspects. They also discussed risk management – implementing or moving to a DC plan does not free companies from any risk.

As indicated earlier, in some countries limitations apply. Germany, for example, does not allow pure DC plans and mandates a guaranteed return on the accumulated contributions. Australia and the UK are highly DC regulated.

In regards to retirement risk management issues, many familiar DB elements are relevant to DC. Equity among employees is reviewed in the context of the Royal Bank of Canada. The speakers illustrated and discussed the change of the DB/DC asset split over time on a global basis. During the last ten years, DC assets have grown at a rate of 8.8% per annum (p.a.), while DB assets have grown at a slower pace of 5.0% (p.a.). Also illustrated was the DB/DC asset split per market. In some markets like Australia (84% DC), the UK (28% DC) and the U.S. (58%), the results are not surprising considering the legislative environment and latest trends. The low DC percentage in Canada (4%) is, however, a bit surprising for some.

### Questions companies are starting to ask themselves

The presenters indicated that as DC plans start to mature, companies better understand how to manage the associated risks. The following questions were raised in regards to the growing amounts of money involved:

- Is enough care and attention applied to our DC plans?
- Do we understand the risk involved in our DC plans?
- Do our employees perceive our DC plans well enough?
- Have we made enough use of our global scale and experience?
- Is there a role for regional or international pension plans?
- Are our approaches coherent when viewed across countries?

- What should we do with our expatriates?

While discussing the above, fiduciary exposure was briefly touched on as well as regional, cross border and international plans. Interestingly, the speakers explored the question of what is a “good” DC for a multinational from these perspectives: (1) Align with “Employee Deal” (Business Strategy); (2) Protect the Business (Employee Dissatisfaction and Company Reputation); and (3) Operational Efficiency.

### Country Specifics

**Germany** – The “DC – Germany Style.” Since 2006, approximately 90% of new pension plans are “DC – German Style,” which means there are some guarantees. However, 45% of existing pension plans are still of DB nature. Economic and demographic changes continue to weigh on the private sector and force companies to seek advice on shifting from DB to DC-type promises. Funding pensions used to be uncommon, but is now increasing. Approximately 40% of DAX (Deutsche Börse AG, the German Stock Index) companies remain unfunded. Also briefly reviewed was the “traditional” book reserves approach in Germany, including the Pensions-Sicherungs-Verein or PSV, which is similar to the PBGC in the U.S. and stands for mandatory insolvency coverage. Finally, there is a spectrum of pension plan design opportunities in Germany, but the DC plans with guaranteed returns are gaining more and more traction. Accounting wise, these plans are technically DCs; on grounds of materiality, some auditors accept the DC treatment as well.

**India** – The general benefits structure in India is composed of social insurance and mandatory benefits, various allowances and company-sponsored supplemental benefits. Allowances can represent 20% to 100% of basic salary, while retirement generally represents 30% of salary with insurance. Mandatory programs consist of a gratuity scheme (DB in nature), Employee Provident Funds (“EPF,” which are DC in nature), an Employee Pension Scheme (“EPS,” also DC in nature), sickness benefits, bonuses, annual leave and severance. The company-sponsored supplemental benefits include voluntary superannuation (usually DC), among other benefits such as health care, sick leave, etc. The Gratuity Scheme typically provides a lump sum based on a number of days of salary multiplied by service with a tax free benefit up to INR 1m (one million Indian Rupees), financed either via book reserve or funded in-house or externally. EPF/EPS are in practice universal DC plans with employee and employer tax deductible contributions. It was explained that the National Pension System or NPS (set up in 2004 and expanded to all citizens in 2009), is DC in nature



and was implemented in response to the not very well regulated superannuation. The various arrangements together with their pros and cons were discussed.

Other countries were also discussed at a very high level.

### Royal Bank of Canada Case Studies

Next, a few recent Royal Bank of Canada (RBC) case studies in the UK, Germany and Canada as they relate to DC plans were presented.

RBC recently agreed to close the current UK RBC DB plan to future accrual and provide for future service employees the already in place UK RBC DC Group Personal Pension Plan (GPPP), along with a one-time lump sum payment to eligible members GBBP account (for equity purposes). Some of the main drivers for this change and its considerations are UK specific and some not. Some of the drivers for the change were a declining active DB population, recent legislative changes making the plan more costly, and market trends. The RBC international benefits principles taken into consideration in the decision are mainly around the recognition of benefits as being an important element of a total reward package, RBC's desire to be competitive in the markets where they compete for talent, and affordable and financially sustainable benefits in the long-term for RBC. Employee equity is also an important factor in the analysis. In regards to UK specific considerations, items like individual pension consultation and the current budget changes are taken into account, as well as the fact that DC contributions by employer in the UK are much higher than in North America.

In Germany, RBC needed to find a pension solution easy to administer, and one that encouraged recruitment of key employees,

but with no intention to expand a lot further. These limitations were in addition to RBC's international benefits principles described above in the UK case. The current pension arrangements included a closed DB with individual pension contracts for only the handful of retirees left in the plan. After analysis, RBC decided to join an industry wide (financial sector) multiemployer DC plan with a flat contribution level. The benefits of this arrangement are that it is in line with market practice, easy to administer, and allows some flexibility to set contribution level. However, although DC plans may be market competitive in Germany, they could also hamper the ability to recruit key employees. There was a need to consider rewarding high earners in a different way than other employees.

In Canada, RBC became the first bank among its main local competitors to offer a DC plan in 2012. As a result of this change, RBC was faced with a new challenge – the need to manage a workforce that will have different financial and retirement planning needs. The response to this challenge was the implementation of a Financial Education Wellness program. An overview of key considerations during the analysis consists of: (1) employee engagement/ownership of their retirement savings; (2) whether an employer can afford not to provide advice to your employees in DC plans; and finally (3) how employees manage the de-accumulation phase.

In closing, an umbrella of items should be looked at before making the move to DC. It is not a decision to take lightly and all considerations discussed above should be taken into account, among others. The local/global market environment and trends should be looked at together with meeting global/local business objectives and philosophies.

## Session 207

# FINDING COMMON GROUND – ECONOMISTS AND ACTUARIES LOOK AT PUBLIC PENSION PLANS

Speakers:

- Lance J. Weiss – Gabriel Roeder Smith & Company
- Paul Angelo – Segal Consulting
- Andrew Biggs – American Enterprise Group
- R. Evan Inglis – The Terry Group
- Session Recorder: Paul Wood – Gabriel Roeder Smith & Company

The purpose of this session was to search for common ground between those in the public sector actuarial community that advocate for a level cost allocation model that includes a discount rate equal to the long-term expected return on plans assets and economists that prefer a market pricing model that includes a discount rate equal to current market yields for debt of comparable risks.

Details of the differences between the Level Cost Allocation Model (LCAM AAL) and the Market Pricing Model (MV PBO) were

outlined. The LCAM AAL measures the accrued portion of the expected long term level cost generally using a “cost allocation” method such as the Entry Age Normal Method. The discount rate used is generally equal to the long-term expected return on plan assets. The MV PBO measures the market price of the accrued obligation generally using a “benefit allocation” method such as the Tradition Unit Credit. The discount rate used is generally equal to current market yields for debt of comparable risks.

Early financial economics used a “reference portfolio” to value

a stream of payments. As time went on, financial economics for pensions did away with the reference portfolio and market yields were observed. The first presenter clarified what he called a crucial difference between the LCAM AAL discount rate and the MV PBO discount rate. That is, the Level cost expected return on plan assets is an assumption and the market pricing current market yield is an observation.

Following this initial review, the treatment of discount rates in the new GASB Statement Nos. 67 and 68 and the Actuarial Standards of Practice (ASOPs) were discussed. For financial reporting purposes only under GASB Statement Nos. 67 and 68, the market discount rate is used only for payments after plan assets are projected to be depleted. According to the ASOPs, it is important to consider the purpose of the measurement. "Market consistent measurements" are both a type of measure and a purpose of the measure.

It was stated that risky investments remain risky over time and we were referred to the "time diversification fallacy." Investment risk eventually filters through to contribution volatility, and plan stakeholders do not like that contribution volatility. Our speaker observed that the current accounting disclosures do not convey much information with regards to volatility and that essentially more risk implies better funding. In a critique of the new GASB accounting standards, it was suggested that better information can enable stakeholders to make policy choices that better match their preference. Also cited was the fact that many organizations endorse the market value pricing approach such as the Congressional

Budget Office and the Federal Reserve.

Sample employer contribution rates were presented for a stylized plan. A chart showing ten different possible contributions paths demonstrated a significant amount of volatility and it was stressed that this type of contribution volatility information is extremely important to policy makers. The reality is that a plan that invests in risky assets can expect contributions to be volatile. How should we convey these important facts to plan stakeholders?

One presenter shared his opinion that the application of the discount rate makes no sense in the new GASB Statement Nos. 67 and 68. He suggests that using a variety of measures such as those found in the SOA Blue Ribbon Panel report would improve stakeholder knowledge. These measures include stress testing and use of different discount rates to illustrate how much the plan depends on risk. In closing, He stated the market value liability number is key. The contribution rate implied by a risk adjusted discount rate should approximate the steady rate funders would accept in lieu of variable rates implied by risky investments.

The final speaker presented the idea that the market value is not equal to the expected value. He used an example in which a coin is flipped. If the coin is heads, then he pays you \$100,000 and if the coin is tails, he pays you nothing. He then asked the audience how much they would pay to participate in this coin flip game. Various answers were given thus illustrating that the market value is not equal to the expected value. In his opinion, most can agree that the market value measurement is a useful piece of information.

## Session 208

# ACTUARIES ON THE FRONTIER: TRADITIONAL ACTUARIES IN NON-TRADITIONAL ROLES

### Speakers:

- Nathan Christopher Zahm – Vanguard Investment Strategy Group
- Melissa Kemmer Verguldi – Lockheed Martin Corporation
- Ian G. Duncan – University of California, Santa Barbara
- Nick Blitterswyk – Urban Green Energy
- Session Recorder: Nathan Christopher Zahm – Vanguard Investment Strategy Group

### Overview

As the actuarial community works to extend its areas of impact, many actuaries find themselves in non-traditional roles. In this session, we hear from actuaries on the frontier of the actuarial practice, including actuaries in corporate, energy, and investment industries. Additionally, we discuss current initiatives underway to extend the reach of the actuarial practice. Attendees learn what work is done in these frontier roles, the challenges actuaries face, and which skills from their actuarial tool box are highly valuable and which ones need further development.

### Summary

Ms. Verguldi kicked off the session discussing her role as a corporate actuary. In her previous role at an actuarial firm, she gained experience conducting actuarial valuations for pension and OPEB plans. Now as a corporate actuary, she partners with multiple parties including the Accounting, Tax, Investor Relations, and Financial Planning/Reporting departments as well as the CFO. The rise in awareness regarding pension and OPEB benefits and costs by both companies and investors alike has made her corporate actuary role a very prominent one in the firm. There is frequent discussion about the risks associated with these benefits, and it is

the corporate actuary's role to ensure all parties understand the risks and costs associated with them. In fact, the discussions are so prominent that senior management now talked more about pension and benefits at a recent investor meeting than their signature product.

Ms. Verguldi noted that her technical expertise is highly valued in her role and the ability to forecast and discuss the results at a high level with senior leaders is a key skill. Being able to incorporate the results into larger business issues for the corporation has been an important area as well.

Mr. Blitterswyk shared his experiences in launching an energy firm. In his previous roles, he was an actuary at several different companies before launching his firm in 2010. He shared that while his current role doesn't have an actuarial component, his past experience of doing deep, analytical risk based work has allowed him to apply that same type of thinking in making decisions for his new business. In fact, the actuarial approach to problem solving and model building has led Mr. Blitterswyk to frequently recruit actuarial students as employees.

Similar to Ms. Verguldi, Mr. Blitterswyk notes the need to see a bigger picture as a key skill in his role. Narrowly focusing on particular details is important, but often the impact needs to be expressed more broadly. Additionally, communication skills are

critical in growing a business and gaining traction for a new firm.

Mr. Duncan concluded the session by discussing his career path as an entrepreneur in health data analytics, as a researcher, and currently as Adjunct Professor of Statistics and Applied Probability. He also chairs the SOA initiative on cultivating new opportunities for actuaries. In his review of this initiative, Mr. Duncan notes that there are an increasing number of actuaries with the potential for more limited job growth in the future, and additional challenges are presented by high actuarial pay scales that make entrance into other professions more challenging. Expanding the actuarial scope is challenging when these two trends are combined with an increasing number of quantitative professionals competing for non-traditional roles.

To combat these challenges, the SOA is hiring a staff person to manage external relationships with employers and industry groups to seek new opportunities. Additionally, efforts are being made to track actuarial students that become "lost" to the profession by not completing the exams, but perhaps leverage their experience in other areas.

#### **Final Comment:**

Three areas with potentially immediate growth for actuaries include: predictive modeling, "big data" management and analysis, and enterprise risk management.

## **Session 307**

### **NEWS FROM THE LEGAL EAGLES**

#### Speakers:

- Alex Rivera – Gabriel Roeder Smith & Company
- David N. Levine, Esq. – Groom Law Group
- Terry A.M. Mumford, Esq. – Ice Miller LLP
- Session Recorder: Randall J. Dziubek – Gabriel Roeder Smith & Company

#### **Overview**

The presenters provided information regarding recent and pending court decisions relating to public retirement plans, municipal bankruptcy cases, and the presenters' views regarding various legal issues facing public retirement plans such as IRC 415 limits, IRS determination letters, and pick-ups.

#### **Public Plan Litigation**

The speakers discussed several specific recent court decisions as well as pending court decisions in connection with U.S. public retirement plans. In general, the cases involve changes to certain benefit provisions of the plan. Several of the cases involve reductions to COLAs. Other plan changes involve changes to "gain-sharing" provisions, future benefit accruals, member contributions, and pay definitions.

Court decisions vary by state as each state has its own laws regarding benefit protection. In some cases, benefit reductions are

allowed while in others they are not.

The speakers suggested that if a plan change is under consideration, review past similar cases, look at the related disclosures associated with plan benefits, and review state law.

#### **Municipal Bankruptcy**

The speakers then presented issues regarding municipal bankruptcies as well as specific recent municipal bankruptcies. Some of the issues are: to what extent can pension obligations be impaired, when can a participating employer withdraw and what is the cost of withdrawing, and how do courts characterize unfunded actuarial liability.

Specific bankruptcy cases in the discussion included Prichard, AL, Central Falls, RI, Vallejo, CA, Stockton, CA, San Bernardino, CA, and Detroit, MI. In some of these cases members receive reduced benefits (Prichard, Central Falls). In others, pension benefits are not reduced.

The speakers provided an overview of the fact that states determine whether municipalities can file bankruptcy. In states that allow bankruptcy for municipalities, judges take the position that remedies under Bankruptcy Code cannot be limited by state law. In states that do not allow municipal bankruptcy, non-profit entities (e.g., charter schools, hospitals) may seek to file as a private entity.

Some comments by the speakers include: 1) it was suggested that the public sector should look at the private sector for bankruptcy lessons, 2) trends seem to indicate judges are unwilling to say a municipality is not eligible for bankruptcy if application is made, and 3) parties have been willing to accept “haircuts” in order to avoid the nuclear option.

#### **Miscellaneous Issues (IRC Section 415, DROPs, Determination Letters)**

A Qualified Excess Benefit Arrangement (QEBA) provides members benefits that exceed section 415 limits. Taxation of QEBA benefits is similar to taxation of private sector nonqualified plan benefits. Determination letters do not cover QEBAs. The only

method of IRS approval of a QEBA is a private letter ruling.

Issues of concern with regard to the IRS are 414(h)(2) pick-ups, and Deferred Retirement Option Programs where interest credited to member accounts is based on actual returns of the fund.

#### **IRS Enforcement**

An IRS examination generally consists of the IRS making contact and requesting documents. Agents then generally make site visits. Plans should get their advisors involved. The volume of requested documents may be negotiated with the IRS to reduce the workload of the plan’s staff. Plans should be responsive and work with the IRS as best as possible. Extensions can be granted by the IRS if needed by the plan.

It was noted that in 65% of cases, plans that used the Employee Plans Compliance Resolution System received no penalty.

The speakers commented that even though the IRS is currently understaffed, it is a matter of time before more compliance checks are initiated for public retirement plans.

## **Session 401**

### **SOA MORTALITY STUDY – FINAL REPORTS**

Speakers:

- David Kausch – Gabriel Roeder Smith & Company
- Timothy Geddes – Deloitte Consulting LLP
- Session Recorder: Jesse Nichols – Towers Watson

#### **Overview**

During this session, two members of the Society of Actuaries’ Retirement Plan Experience Committee (RPEC) commented on the as-yet-unreleased final reports on the RP-2014 mortality tables and the MP-2014 mortality improvement projection scale.

#### **Summary**

Mr. Kausch began the session by commenting that the primary purpose of the RPEC’s mortality study leading to the new mortality tables and projection scale was to look at private pension plan data for US Treasury purposes. This is due to requirements under §430(h)(3) to review the applicable mortality at least every 10 years.

While performing this study, the RPEC discovered that the most commonly used projection scale, Scale AA does not appropriately track historical improvement. For this reason, the RPEC released Scale BB to be a temporary response to this finding. In particular, Scale BB was intended to allow the actuarial community time to ensure they could appropriately incorporate a two-dimensional mortality improvement scale, as the RPEC identified a strong cohort effect that could not be captured using age-only scales.

The RPEC excludes public plan retiree data because the relative risk “RR” factors indicated that the data is statistically significantly different from the private plan data. The RPEC indicates that these

tables may, therefore, not be appropriate to use for public plans.

The RPEC study presents separate tables for employees and annuitants. No combined table is provided, as with the RP-2000 tables. Mr. Kausch notes that the combined annuitant / non-annuitant RP-2000 tables use an average retirement age of 62, and that constructing an appropriate combined table using the RP-2014 base tables should be on a plan-by-plan basis and also on the basis of the population’s expected retirement ages.

The RPEC’s analysis shows that disabled mortality has improved at approximately the same rates as healthy mortality. The RP-2000 study declines to reflect on the decision of whether mortality improvement applies to disabled mortality; however, the RP-2014 study indicates that mortality improvement should not only be applied, but to use the same scale as that for healthy mortality may be appropriate.

Mr. Geddes focused his portion of the session on the MP-2014 improvement scale. An analysis of the actual mortality improvement over the period 2000-2014 has shown that Scale AA has not predicted improvement very well.

In developing a new improvement scale, the RPEC held three key concepts: Near term improvement rates should be based on recent experience; long-term improvement experience should be based on

expert opinion; and the near term rates should blend smoothly into the long term rates.

The RPEC issued a research review of public opinion of long-term mortality improvement that is discussed with the Social Security lead actuary. The consensus the RPEC finds is a “sweet spot” around 1% long-term improvement rates.

When determining how to blend into the long-term rates, the RPEC first uses horizontal blending which overstates period effects, and then uses vertical blending which overstates cohort effects. Ultimately they opt to average the two blending methods.

Mr. Geddes commented that generational improvement scales have been around for a long time – at least since 1994. The RP-2000 tables are recommended to be used with generational improvement, but this idea does not gain traction in the actuarial community. Mr. Geddes indicates that use of static projections is a computational shortcut that is not justifiable today.

Mr. Geddes ended by commenting that, while the language in the final SOA reports would likely be less prescriptive than that in the exposure drafts, the RPEC still firmly stands behind their original recommendations.

## Session 407

### EMERGING GUIDANCE FOR PUBLIC PLAN ACTUARIES

Speakers:

- David L. Driscoll – Buck Consultants
- Kim M. Nicholl – The Segal Company
- Session Recorder: Brad L. Armstrong – Gabriel Roeder Smith & Company

#### Overview

Speakers at this session summarized the defined benefit pension guidance for public plan actuaries provided in five recent publications from 2013 and 2014. The publications are:

1. “Objectives and Principles for Funding Public Sector Pension Plans” (February 2014) by the American Academy of Actuaries Public Plan Subcommittee (Academy PPS)
2. California Actuarial Advisory Panel (CAAP), “Actuarial Funding Policies and Practices for Public Pension and OPEB Plans and Level Cost Allocation Model (LCAM)” (February 2013)
3. “Core Elements of a Funding Policy” issued in March 2013 by the Government Finance Officers Association (GFOA)
4. “Actuarial Funding Policies and Practices for Public Pension and OPEB Plans” Discussion Draft issued in February 2014 by the Conference of Consulting Actuaries Public Plans Community (CCA PPC)
5. “Report of the Blue Ribbon Panel on Public Pension Plan Funding” issued in February 2014 by an independent panel commissioned by the Society of Actuaries (SOA)

These publications do not impose rules or standards. Rather, they offer guidance and recommendations and in some cases put forth best practices and suggest next steps to meet objectives. It is noteworthy to observe the considerable consensus among all of the aforementioned publications.

There is considerable overlap among both the authors and content of the CAAP and CCA publications. Therefore, this summary takes advantage of this by avoiding unnecessary duplication.

#### Summary

The actuarial guidance focuses on three main areas for pay-related public pension plans:

- a. Actuarial cost method
- b. Asset valuation method
- c. Amortization policy

In addition, two common themes are to enhance transparency and to identify, anticipate and communicate risks to meeting objectives.

The Academy PPS publication has the stated objectives of contribution stability and predictability, and generational equity. In cases where actual contributions are not based on an actuarially determined contribution, they should be compared to one anyway. The guidance is not binding, merely advisory, and no further steps are noted.

The CAAP publication was a “quantum leap forward” in providing guidance specific to public plan actuaries. The CAAP was established by State law in 2008, consists of eight actuaries, and is the only body of its kind in the U.S.A. The guidance provides a rank ordering of five categories starting with best practice (Model), Acceptable, Acceptable with Conditions, Non-recommended, and ending with worst practice (Unacceptable). Items that should be considered in formulating a funding policy are identified, including agency risk specific to public plans. Among actuarial cost methods, level percent-of-pay Entry Age Normal is Model practice and Traditional Unit Credit for pay-based plans is Unacceptable. For asset smoothing methods, fixed periods with maximum corridors is Model practice while smoothing periods over 15 years is Unacceptable. For amortization policies, layered fixed periods, level percent-of-pay over less than 30 years (30 years for surplus) is Model and layered fixed periods by source greater

than 30 years is Unacceptable. Direct rate smoothing is discussed, although there is no Model or Unacceptable practice; phase-in of assumption changes over a period no longer than the time until the next experience review is Acceptable; other phase-ins are Non-recommended. The guidance is not proscriptive or binding, merely advisory. An exposure draft for benefit changes was issued in December 2013.

The GFOA publication provides guidance to every state and local government that offers defined benefit pensions. It sets forth recommendations to develop an actuarially determined contribution (ADC) at least biennially, to make a commitment to fund the ADC, and to demonstrate accountability and transparency through appropriate communication. For actuarial cost methods, the GFOA notes the level percent-of-pay Entry Age Normal is especially well suited to meeting objectives. For asset smoothing methods, the preference is for an unbiased method relative to market and for smoothing over a fixed period of five years or less. For amortization policies, the preference is to use layered fixed periods of 15–20 years with level percent-of-pay or level-dollar installments. For closed plans, the aggregate actuarial cost method is considered well suited, asset smoothing and amortization periods should be shorter, and asset allocation should reflect a shorter time horizon.

The CCA PPC publication is strikingly similar to the CAAP publication. A level-cost allocation method (LCAM) is developed, similar conclusions are reached and the same policy objectives are used to establish a rank ordering of the funding policy elements. For asset smoothing methods, 10 year periods are downgraded from their rank given in the earlier CAAP guidance. For amortization policies, rolling periods and negative amortization are discouraged to a greater extent than in the CAAP guidance. For direct rate smoothing, Acceptable practice limits the phase-in of assumption changes to the lesser of the next experience review or five years. The guidance is not binding, merely advisory. A final version, which removed OPEB guidance, was issued in October 2014.

The SOA publication describes three funding principles and

makes three recommendations. Of the three funding principles, adequacy is listed as most important followed by intergenerational equity and lastly cost stability and predictability. Contribution stability is thought to be limited by investment in risky assets. The first recommendation is expanded use of additional risk measures, analyses and disclosures. The broad categories within this recommendation are to show trends in financial and demographic measures, measures of risks to plans' financial position, stress testing, and undiscounted cash flows. One likely controversial measure is a stress test projecting a sample plan's projected financial position under the assumption that employer contributions are only 80% of the ADC. The controversy arises because in some cases the projections do not appear to be as dire as one might expect, particularly in the short term. The second recommendation is to set forth a definition of the role of the actuary and set limits on the spreading of costs. This recommendation includes limiting amortization periods to 15–20 years, limiting asset smoothing to 5 years, and giving consideration to direct rate smoothing. The third recommendation speaks to plan governance. Of particular note are recommendations against pension obligation bonds or promissory notes and in support of sunset provisions when plan changes are proposed. The guidance is not binding, but the recommendation regarding the role of the actuary includes a suggestion that the Actuarial Standards Board consider revising the Actuarial Standards of Practice in light of the Panel's recommendations.

The CCA PPC and Academy guidance includes discussion of all common objectives introduced by the five publications, i.e., fund the cost, intergenerational equity, contribution stability, balance competing objectives, identify risks to objectives, communicate accountability and transparency, and establish and enforcement mechanisms. The SOA guidance is most stringent with regard to balancing objectives and identifying risks and is the least stringent in the communication of accountability and transparency. The GFOA guidance is the least stringent in the area of identifying risks.

One concluding remark from the session is "too many disclosures have a risk of leading to poor public policy."

## Session 501

### IRS CORRECTIONS PROGRAMS – EPCRS, SCP, VCP AND AUDIT CAP

Speakers:

- David Godofsky – Alston & Bird, LLP
- Joe Strazemski – Buck Consultants, A Xerox Company
- Mark S. Weisberg – Thompson Coburn, LLP
- Session Recorder: Phil Parker – Buck Consultants, A Xerox Company

#### Overview

Sponsoring a qualified retirement plan is a complex responsibility for Plan Sponsors. Even the most diligent Plan Sponsor may occasionally make an error in the administration of the plan. It may

be a technical error such as incorrectly collecting deferrals from employees in a 401(k) plan, a plan interpretation error in a Defined Benefit Plan, or a failure to provide required communications. When an error does occur the plan sponsors need guidance on what to do

to correct the error, whether to self-report the error, and how best to negotiate with the IRS to minimize any penalties. The presenters' primary purpose was to discuss the various IRS correction programs and how they might apply to plan sponsors.

### Summary

The Employee Plans Compliance Resolution System (EPCRS) offers three programs for correcting plan errors: Self-Correction Program (SCP), Voluntary Correction Program (VCP) and Audit Closing Agreement Program (Audit CAP).

While there are a lot of rules built into each of these programs, there is also a chance to get creative with how you correct the error. Typically there are four types of plan qualification issues that plan sponsors need to avoid: plan document, operational, demographic and eligibility issues. Each of these needs to be evaluated and a decision needs to be made whether to self-correct without reporting, or to do so with reporting and to determine what program is correct for the plan sponsor. It's also very important to consider how the issue was discovered and the timing of correction or reporting.

When working on correcting plan errors, look for solutions that satisfy the principals: don't hurt NHCE (Non-Highly Compensated Employees), and fix to as close as possible to where participants would be if the error had not occurred. In order to correct the failure you should be sure to spend time analyzing the error itself before determining the solution.

### SCP

Under the SCP it is required that plans have a determination letter. The IRS is looking for documented procedures that are in place for the administration of the plan, and also that the procedures are followed. It is not enough to have documented procedures but not be following them. The IRS generally feels that there is no statute of limitations for enforcement and often will require correction for issues that occurred well into the past. Corrections for insignificant errors generally must be completed by the end of the second plan year in which the error occurred, for example an error occurring on 2012 would need to be self-corrected by December 31, 2014.

Note in many cases insignificant errors may be corrected without penalties even if found in error. When a plan sponsor is presenting errors to the IRS they need to put them in the appropriate context to the plan compliance as a whole. For example, present to the IRS the number of people affected by the error, and the number that were not affected by the error and thus were handled correctly. The IRS tends to use 5% as a de facto measure of significance.

### VCP

The VCP is voluntary and is often an excellent option for plan sponsors. There is a compliance fee required, which is between \$750 and \$2,500 and is based on the number of plan participants. Corrections fees apply for certain situations such as non-amender failures. Under EPCRS there are certain errors that can only be corrected under VCP. Note one interesting feature available under VCP is that a plan sponsor may choose to float a trial balloon by the

IRS and submit an anonymous filing. This gives sponsors the ability to discuss with the IRS prior to a formal filing.

If utilizing VCP, if the standard solutions are not amenable to you, get creative with your proposed solutions. VCP is often entered into as the result of mergers and acquisitions or leadership turnover. A company with new leadership wants to clean house so that errors are not determined on their watch.

### Audit CAP

This program covers errors that are found by the IRS in audit, or while doing other examinations of the plan. Errors under VCP or SCP would not be considered under Audit CAP, in most cases. This program has higher sanction fees than VCP would typically. Note that even if found in audit insignificant errors may be handled under SCP.

### Conclusion

Under the EPCRS there are three programs that can be used to correct qualifications errors within the administration or documentation of a plan. The general correction principals must be followed: the failure must be corrected for all participants, the correction must take into account the plan provisions at the time of the failure and corrections should be reasonable and appropriate for the failure. In many cases the plan sponsor can take into account the general correction principles and get creative with how to correct the plan, the IRS is flexible and open to alternative solutions. Note however that the ERPCS does have standard corrections for some common failures such as failing to satisfy top-heavy provisions or failure to distribute 402(g) excess deferrals.

Plan sponsor should carefully consider the failure, the programs and the solutions before moving forward with correction. There are a lot of options available and each one has positives and negatives.

**Session 502****IAS 19R VS. GAAP**

## Speakers:

- William J. Nickel – Towers Watson
- Stephen N. Eisenstein – The Newport Group
- Suzanne Hughes – Buck Consultants, a Xerox Company
- Doug S. Halley – Deloitte Consulting LLP
- Session Recorder: Casey Shork, Deloitte Consulting LLP

The panelists at the session discussed globalization of financial accounting and reporting standards with focus on the US GAAP convergence with IFRS. The panel also reviewed key similarities and differences between ASC 715 and IAS 19R and provided examples.

**Globalization of financial accounting and reporting standards:**

- Global market for capital reinforces need for global set of accounting standards = Global move toward IFRS.
- Over 110 countries around the world permit or require IFRS reporting; 85 require IFRS reporting for listed companies.
- Australia, India, Japan and Korea are considering or adopting IFRS reporting.
- SEC now accepts IASB reporting by non-U.S. registrants.
- US – state of convergence:
  - \* In July 2012 SEC released a conclusive staff paper emphasizing two main points:
- No policy decision to incorporate IFRS into the U.S. financial reporting system or how it would occur, if implemented.
- Called for additional research regarding the changes that would have to occur before the SEC could make a decision.
  - \* FASB has a number of concerns with the current US retirement benefits accounting model.
  - \* FASB is considering IAS 19R as the appropriate starting point.

**Additional commentary from panelists:**

- There are additional disclosure requirements under IAS 19R:
  - \* Nature of benefits provided,
  - \* Risks specific to plan,
  - \* Significant actuarial assumptions,
  - \* Sensitivity analysis to actuarial assumptions,
  - \* Risk management strategies employed in asset management,
  - \* Funding policy,
  - \* Duration of benefit obligation.
- Since Expected Return on Assets is no longer disclosed under IAS 19R, the companies may be tempted to take on more investment risk.
- Since under IAS 19R gains and losses are not recognized through P&L, it might lead to “I don’t care about gain/loss” attitude from companies.
- Since under IAS 19R plan amendments are immediately recognized through P&L, it might lead to multiple smaller plan amendments rather than one large.
- Balance sheets are comparable under both standards, but expense is not.



### Similarities and Differences: ASC 715 vs. IAS 19R

	ASC 715	IAS 19R
Basic premise	Rules-based and more prescriptive	Principles based and has less guidance
Assumptions setting	Internally consistent, explicit	Unbiased and mutually conclusive
Discount rate	Yields on high-quality corporate bonds with maturities consistent with duration of plan	
Rate of return on plan assets	Expected long-term rate of return	Generally not applicable
Balance Sheet	AOCI	No amortized amounts
Asset Ceiling	Not applicable	Limits amount of surplus that can be included on balance sheet based on recoverability of surplus
Obligation	PBO/APBO	DBO
Attribution period for OPEB plans	Accrued ratably over service to full eligibility age	
Asset value	Fair or Market-Related (smoothed)	Fair
Service Cost	No difference	
Interest Cost	Liability only	Funded status only
Expected Return on Assets	MRVA based	Not applicable
Recognition of plan amendments	Straight line over average future service of active participants	Immediate through P&L
Recognition of gains/losses	Amount outside of corridor using straight line over average future service of active participants OR immediate through P&L	Immediate through OCI
Settlements	Payment of ANY lump sum can give rise to settlement if threshold is crossed. Impact is recognized through P&L.	Only lump sums that are NOT paid in normal course of business can give rise to settlement. Impact on funded status is recognized through P&L, remeasurement effects through OCI.
Curtailments	Impact is recognized through P&L	Impact on DBO is recognized through P&L, remeasurement effects through OCI
OCI	Recycled through P&L	No recycling through P&L

**Session 505****INSURER PERSPECTIVES ON HEALTH CARE REFORM**

## Speakers:

- Joe Altman – United HealthCare
- Dennis Lum – Kaiser Permanente
- Steve Pontecorvo – MetLife
- Session Recorder: Justin Hornburg – American Benefits Consulting

**Session Description**

Insurers underwrite and/or administer the health insurance plans and policies affected by the ACA. How do they view the changes wrought by healthcare reform? Also, the advent of public and private exchanges impacts how eventually all employee benefits, including group life and disability, are sold and administered. We hear from speakers representing three of the largest insurers in the United States.

**Retiree Medical Needs Perspective**

Mr. Altman is the Chief Actuary for United Retiree Solutions, a UnitedHealth Group Business focused on the retiree medical needs of employer groups. UnitedHealth Group consists of UnitedHealthcare (UHC) and Optum and serves more than 85 million individuals worldwide.

UHC expects to participate on public exchanges in as many as two dozen states in 2015, and its plan is to advance its participation on public exchanges in a measured manner. A recent NBGH (National Business Group on Health) large employer survey on private exchanges revealed that about 14% of Medicare-eligible retirees will get coverage via a private exchange in 2015, and that is expected to grow by another 7 percentage points in 2016. A key provision in the Affordable Care Act (ACA) was funding changes for Medicare Advantage, which created quality bonuses and incentives for plans. The discussion then moved to Medicare Advantage.

The Medicare Advantage Program (previously known as Medicare+Choice) is funded by a combination of funds from the Federal Budget, employer and employee FICA contributions, Part B Medicare premiums and employer and retiree premiums to insurance providers. Enrollment in Medicare Advantage plans has increased from 0.6 million in 1986 to close to 16 million in 2014. UHC sees lots of opportunity for Medicare Advantage, and successful plans will outperform Medicare fee-for-service on both affordability and quality. And, Medicare Advantage is doing just that, based on quality measures such as hospital re-admissions, and offering innovative solutions such as HouseCalls.

**Nonprofit Health Plan Perspective**

Mr. Lum is Vice President of Channel Strategy, and is responsible for leading Kaiser Permanente's national development and execution of channel strategies in the post-HealthCare Reform market. Kaiser Permanente (KP) is the nation's largest nonprofit health plan, operating in California, Oregon, Washington State, Hawaii, Colorado, Maryland, Washington DC, Virginia and Georgia. KP served over 9 million members in 2013.

So far, KP has seen strong membership growth from individual exchanges; however the risk of the new membership is still somewhat unknown. KP believes that the individual exchanges are viable, and that exchanges encourage innovation and reward carrier and provider efficiency, effectiveness, service, affordability and value.

Five observations by KP:

1. Private exchanges started with single carrier model, but momentum is growing for multi-carrier exchanges. Single carrier private exchanges do not offer significantly better solutions from what's in the market today. KP strongly favors multi-carrier private exchanges, which are practically "table stakes" in California.
2. The exchange value proposition is generating group customer interest and is most attractive to businesses who cannot afford annual premium increases.
3. Defined contribution does not mean affordability for some employees, especially when DC models shift costs to employees. Private exchanges have an opportunity to "bend the trend" of premium increases with concentrated purchasing leverage and the power of consumer choice.
4. Group customers are beginning to pay for private exchanges instead of paying for consulting services or some HR/Benefit personnel.
5. Overall, private exchange momentum is building; however KP is concerned that private exchanges will not address the underlying drivers of rising health care costs.

**Group Life Products Perspective**

Mr. Pontecorvo is Vice President and the head of MetLife's Group Life Products organization. In this capacity, he has overall accountability for the Group Life insurance businesses which includes, among other products, Group Term Life, Group Universal and Group Variable Universal Life and Accidental Death and Dismemberment coverages. MetLife is not in the medical business; however in many ways it is the market leader in providing ancillary products such as life insurance and dental. MetLife has more than 50,000 U.S. group customers and over 90 of the Fortune 100 as customers.

Although not in the medical business, MetLife businesses are affected by the ACA in a few ways, such as Vision and Pediatric Dental being considered essential health benefits. Also, insurance filings are to be updated to comply with the ACA. The changing of the dependent age definition to 26 impacts ancillary plans because

many employers wanted alignment between health and other plans' eligibility rules. With respect to life insurance, this brings up questions of insurable interest and imputed income for older "dependent" children. Also, it is not clear whether state laws allow such dependents to be covered under group AD&D plans.

The biggest impact on MetLife comes from exchanges. Are exchanges leading to a move to a Defined Contribution model for life insurance and other ancillary benefits? Multi-Carrier Group Life Insurance on an exchange is particularly problematic because of

the "commodity" nature of the product combined with its step-rated pricing. At each age, employees are likely to choose the lowest priced carrier and thus no carrier will get its expected level of premium across all ages. For this reason, MetLife has declined to participate in any multi-carrier exchanges for Group Life Insurance. MetLife is participating on multi-carrier exchanges for other products, however, where the employee selection is based more heavily on factors other than price.

## Session 507

### GASB: IMPLEMENTATION TALES FROM THE FRONT LINES

Speakers:

- James J. Rizzo – Gabriel Roeder Smith & Company
- Joe Heffernan – Plante & Moran, PLLC
- Session Recorder: Koren L. Holden, Colorado PERA

#### Overview

The accounting standards applicable to public-sector retirement systems are becoming effective:

- GASB 67, Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25, takes effect for fiscal years beginning after June 15, 2013.
- GASB 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, takes effect for fiscal years beginning after June 15, 2014.
- Early application is encouraged.

#### Legal Issues

It may seem simple to state that the attorney makes legal determinations. However, does the plan's actuary or plan auditor need to raise the legal issues referred to in seven areas of the GASB Standards? Does the plan's external or internal attorney provide counsel?

Legal issues may include:

- What is the type of plan: cost sharing vs. agent?
- Is the plan a single plan or, in fact, multiple plans?
- Is the plan's trust GASB compliant?
- Are receivable/payable employer contributions legally required?
- Are there special funding issues where non-participating employers have legal obligations to contribute to the plan?
- Is the plan a pension plan or an OPEB?
- Who is authorized to pay for GASB reporting and disclosure services?

#### Auditing Issues

Management is responsible for GASB compliance – not the plan auditor. This includes responsibility for accuracy of data.

#### Timing and Linkage Issues

What is the best approach for linkage of GASB 67 and 68 results? Dates at issue include valuation date, measurement date and reporting date. Periods at issue include valuation year, measurement period and reporting period. Reporting entities include plan's financial statement and employer's(s') financial statement(s). These dates, periods and reporting entities need to be linked in a manner to establish deadlines for the plan's and the employer's(s') financial statements preparers and auditors. This linkage establishes the actuarial work timetable. The linkage puzzle may or not entail roll-forwards.

#### Discount Rate Issues

Who determines the long-term rate of return on plan assets? Does the discount rate need to agree with the required footnote disclosing the rate of return on each plan asset class? Does the plan auditor have input in setting the discount rate? Will plan auditor accept an actuarial certification of the discount rate reflecting any crossover or will the plan auditor require a demonstration?

#### Census Data Testing

State and Local Governments Expert Panel (SLGEP) whitepapers address testing data in an audit of financial statements. Plan management is responsible for accuracy of data (payroll audits, etc. strongly recommended). Plan management should test sample reported census data with participating employers census data (i.e., coordinate testing with participating employers auditors).

The plan has limited responsibility for agent plans. Census data should be shared with participating employers and their auditors (confidentiality issues). Participating employer auditors should test active employee census data. Plan actuarial valuation is addressed to individual participating employers.

Additional issues include extent of data shared with individual

participating employers and their auditors, privacy of data, coordination with multiple employers and multiple auditors handling of individual employer exceptions.

The majority of Colorado PERA member data from members cannot be sent to employers due to confidentiality restraints. Employers provide limited data including salary, termination/retirement certification and break in service information. Plan auditor will test member provided data. Employer auditors will test employer-provided data.

### **Employer's Allocations**

Who decides allocation methodology for cost sharing plans? GASB encourages allocation based upon long-term contribution of all employers. Issues include employer input to methodology and handling of newly participating and exiting employers.

What is the extent of financial reporting and disclosure provided by the Plan and distributed to participating employers for cost sharing plans? Best method of distribution? Information is to include individual employer's proportionate share of Net Pension Liability, deferred inflows and outflows and collective pension expense and employer amortizations. How are newly participating and exiting employers handled?

Colorado Public Employees' Retirement Association's (Colorado PERA) cost sharing approach is to allocate in proportion to contributions during the fiscal year. Colorado PERA provides reconciliation of contribution data to be used in the employer's proportion. New employers are annualized. The handling of exiting employers is under consideration.

GASB clarifies that the limited approach for cost sharing plans does not satisfy its requirements. Auditors respond by issuing the SLGEP whitepaper.

Examples are presented showing a detailed allocation of net pension liability, deferred outflows and pension expense for each participating employer in a cost sharing plan. An alternate approach would be to show solely the net pension liability, deferred outflows and pension expense totals, and to require that each participating employer allocate their proportionate share. This may not be as helpful as the detailed approach.

The cost sharing information from Colorado PERA is provided. Colorado PERA can only provide contribution reconciliations and employer's proportion at the reporting agency level. Colorado PERA provides collective amounts as described in the alternative approach described above.

Agent plan issues include actuarial assumptions (developed for all employers vs. employer-specific). Is the employer a principal or intended user to the actuarial certification requested by the AICPA (American Institute of Certified Public Accountants)? Other challenges include: small employers may not issue GAAP compliant financial statements; and GASB Statement Nos. 67 and 68 amounts may be the biggest number on some employer's financial statements.

### **First Year Implementation Challenges**

Typical first year implementation challenges include:

communication of information, establishment of beginning year balances (actual or roll-back), restatement of beginning balances in financial statement, and cost sharing plan proportions calculated at beginning of year (same proportion as year-end).

Colorado PERA provides information on their website, including educational videos (overview and employer video series), Q&As, and a fact sheet for employers. They are developing an employer-only webcast to include contribution reconciliation, employer proportionate share, collective Net Pension Liability, pension expense and deferred inflows/outflows, sample employer note disclosures, and are considering an instructional spreadsheet to assist in calculations and tracking of individual employer deferrals.

### **Actuary and Auditor Competency: You Talk'n to Me?**

Audit standards require that an auditor evaluate competency, capability and objectivity of management specialists along with understanding their work. Audit standards suggest the auditor consider retaining their own specialist if the auditor does not possess sufficient expertise to evaluate such subject matter. Colorado PERA actuaries will provide separate GASB Nos. 67 and 68 reports for each division to be shared with auditors to assist with the evaluation of actuarial competency.

### **Conclusion**

Begin dialogue with your clients, involved actuaries and the plan and employer auditors. Encourage clients to involve governing Boards in implementation. Become familiar with AICPA and SLGEP whitepapers regarding employer reporting information and testing of census data. If you are the actuary for a cost sharing plan, learn what level of information the plan intends to report to participating employers or reporting agencies, and offer assistance. Determine whether a roll-forward of the total pension liability is necessary considering employer financial reporting schedules, actuarial valuation schedules and census data testing timing issues.

**Session 601****HYBRID PLAN REGULATIONS – AN OPEN MIKE DISCUSSION**

## Speakers:

- Kathleen Lamb – Mercer
- Maria Sarli – Towers Watson
- Tom Finnegan – Savitz
- Larry Sher – October Three
- Session Recorder: Vince Cassano – Burke Group

**Overview**

IRS released final and proposed regulations on hybrid plans on September 18, 2014. The presenters give an overview of the Pension Protection Act (PPA) regulations and provide a chance for the audience to present questions.

**Background and General Information**

The regulations are split into two parts – final and proposed regulations. The final regulations update those originally proposed in 2010. The new proposed regulations cover, among other items, transition issues to provisions in the final regulations. Both final and proposed regulations are intended to take effect for the 2016 plan year.

The final regulations cover permissible interest credit rates, whipsaw relief issues, age discrimination safe harbor, and the definition of a market rate of return. In addition, the final regulations address future interest crediting rate and annuity conversion rates with respect to plan terminations, and made minor modifications to conversion requirements in general.

The presenters focused mainly on cash balance plans, with some pension equity plan (PEP) items.

**Permissible Interest Crediting Rates and Market Rate of Return**

In general, an interest crediting rate cannot exceed a market rate of return. The regulations finalize a closed list of interest crediting rates that are deemed not to be above market by the IRS. The list is closed in that a plan's rate must be listed to be in compliance – the IRS does not determine whether other rates would be expected to exceed a market rate of return. This list consists of (1) the Safe Harbor Treasury rates as detailed in Notice 96-8, with associated margins, (2) any of the segment rates under IRC §430(h), either 24-month average or one-month average, with or without reflecting MAP-21 or HATFA, (3) certain non-investment rates such as CPI plus up to 300 BP or a fixed rate no greater than 6%, and (4) rates based on actual investment rates of return, either on the plan's actual assets, some subset of the plan's assets, or returns on a specified mutual fund or annuity contract.

The most significant changes from the proposed regulations issued in 2010 include a liberalization of allowable maximum and minimum fixed interest crediting rates. In particular, the maximum fixed interest crediting rate is increased to 6% (this was previously 5% in the proposed regulations) while the minimum interest credit floor increased as well, depending on the underlying crediting

rates – for rates detailed in Notice 96-8, a floor of up to 5% is allowable – increased from 4% in the proposed regulations, while for other non-investment based rates the floor remains at 4%. For investment-based rates, there is no annual minimum allowed, but a cumulative 3% minimum is permissible. In contrast to the preservation-of-capital rule (which is equivalent to a 0% cumulative floor), the 3% cumulative floor only applies prospectively from the date of adoption.

**Whipsaw Relief**

Whipsaw refers to a legal requirement that the lump sum payable under a cash balance plan is greater than the participant's nominal account balance. Whipsaw can arise in a situation where plan provisions require a projection to normal retirement date at an above market rate and a discount back to current age at a lower rate. Such provisions in many cases do not satisfy age discrimination after PPA.

For a lump sum based plan, if the annuity payable immediately is subsidized – either for early retirement or optional forms – it was not clear from the prior proposed regulations whether or not the value of the subsidy needed to be included in the value of the lump sum. The final regulations clarify that annuity subsidies that meet certain requirements are acceptable and won't result in a whipsaw effect. The general requirement for an early retirement subsidy is that the annuity benefit to a younger person can't be greater than for an older person. This rule allows some early subsidies, although not as much subsidy as you'd normally find under a traditional plan. If the plan is not a lump sum based plan, it's still subject to the usual rules. Examples are presented in the presentation to illustrate this effect.

For optional forms, any form subsidies that are greater than the actuarial equivalent of the account balance, using reasonable assumptions, are permissible. Post-NRD (post normal retirement date) benefits must either be suspended or the plan must provide actuarial increases, just as under standard non-lump sum based plan rules. Higher interest credits post-NRA (post normal retirement age) for this purpose will not be considered above market rate.

**Age Discrimination Safe Harbors**

Satisfying the age discrimination safe harbors depends on the type of benefit provided by the hybrid plan. In particular, a lump sum based benefit formula is one that determines benefits based on a current balance of a hypothetical account or current value of an accumulated percentage of final average pay (FAP). For lump

sum based formulas, if a lump sum is available, it must be equal to the current balance or accumulated percentage of FAP. The final regulations clarify that a plan that determines a lump sum at retirement, but not currently, is not a hybrid plan.

A lump sum based benefit must satisfy the three-year vesting, market rate of return rules, and conversion protections. The whipsaw relief applies to these plans. If the plan is a hybrid but *not* a lump sum based formula, then the formula still must satisfy the three-year vesting, market rate of return rules, and conversion protections, but with no whipsaw relief. Normal 417(e) and 411 rules apply to these plans. Non-hybrid plans are subject to the usual 417(e)(3) and 411 rules, but are not subject to three-year vesting, market rate of return rules, and conversion protections.

Note that a hybrid plan generally *must* meet a safe harbor to demonstrate that it does not provide decreasing accruals on account of age. Otherwise accrued benefits, with interest to NRD for cash balance plans, would be considered discriminatory.

The plan benefit accrued to date as expressed in the plan may be any of the following safe harbor formula measures: the annuity benefit payable at NRD or later, the cash balance account, or the accumulated percentage of final average pay for PEP plans. The formula is a safe harbor formula measure only if the plan benefit cannot be lower for an older participant than for a similarly situated younger participant.

Beginning January 1, 2016, a hybrid plan which is not lump sum based won't satisfy the above safe harbor. However, these plans can still satisfy age discrimination by meeting the requirements to use a special safe harbor for indexed plans.

#### **Termination of Hybrid Plans – Interest Rates**

A hybrid plan must include special provisions for post termination interest credit and conversions. In particular, for variable interest rate-based plans, the interest credit after plan termination should be calculated as the average rate for five years ending in the last interest crediting date on or before the date of plan termination. Before averaging, replace investment-based rates, or any rate that could have been negative, with the second segment rate (ignoring corridors) for the last calendar month ending before the beginning of the interest crediting period. This is a change from the prior proposed regulations, which specified the third segment rate for this purpose.

For annuity conversion after plan termination, similar rules apply. The interest rate for annuity and optional form conversion should be the arithmetic average of actual conversion rates for five years ending on the plan termination date, weighted if not in effect for equal periods. And, the segment rates should be averaged individually. In addition, the mortality tables used at the date of plan termination should be used after plan termination. Finally, if optional form factors are tabular and these factors varied in the five years before termination, they should be averaged as well.

#### **Proposed Regulations**

The proposed regulations provide guidance on transitioning from a noncompliant or "above market" return to a market

rate allowed in the final regulations. Absent relief, the change in interest crediting rate would constitute an impermissible cutback of benefits in violation of 411(d)(6). The general approach in the proposed regulations is to permit amendments only to the extent that the resulting interest credit is in compliance. Specific features that would fail compliance under the final regulations must be amended, but other features of the interest credit may not be amended. This approach is somewhat more restrictive than was hoped for.

To qualify for 411(d)(6) relief, the proposed regulations require plan amendments to be adopted prior to and effective no later than the first day of the plan year that begins on or after January 1, 2016. Note that 411(d)(6) relief is granted only if the amendment is in compliance with final regulations; *the proposed regulations may not be relied on.*

The proposed regulations also request public comments, specifically on transition amendments for investment-based rates of returns with impermissible minimum rates.

**Session 603****RETIREE READINESS – TOOLS TO EMPLOYEES / SOCIAL SECURITY / COMMUNICATIONS**

## Speakers:

- Felix A. Okwaning – Prudential Financial
- Philip M. Parker – Buck Consultants, A Xerox Company
- John S. Perara – Towers Watson
- Session Recorder: Joseph M. Kim – Deloitte Consulting LLP

**Overview**

Since their introduction, the 401(k) plans have been one of the major retirement savings vehicles for the Americans. Recent trend shows that more companies are switching from the traditional pension plans (defined benefit plans) to 401(k) plans in order to remove the volatilities in the balance sheet. As the responsibilities of saving for the future go from employers to employees, this session aims to address whether or not Americans are saving enough for a comfortable retirement, what kind of tools/programs companies are putting in place to help employees prepare for their retirement, and key questions employers should consider before putting tools/programs in place.

**Summary**

During the pre-retirement phase, employees are more focused on the accumulation of assets through avenues such as Social Security, company retirement programs, and personal savings. However, when retired, the focus is on sustaining a pre-retirement standard of living while considering other external factors such as taxes, personal health, inflation, and medical cost increases. Accordingly, speakers emphasized that the accumulation phase before retirement and income phase after retirement need to be considered together when employees are planning for their retirement.

Various survey data shows that most Americans do not have an adequate level of savings in order to fund their retirement. Also, most employees are saving below their target, but do realize that they need to save more. However, for most Americans, answering the following questions is no simple task: 1) how much annual income a person will need at retirement, 2) how much money a person will need to accumulate by the time he/she is ready to retire, or 3) what percentage of current income a person will need to save until retirement. Several surveys/benchmarks provide a wide range of answers. Unless the person has a strong financial background, it is a daunting task for the average Joe to figure this one out without assistance.

The speakers presented five key issues that employees and employers should consider together in order to provide secure retirement for the employees: investments, health care, protection, income, and lifestyle. The speakers also discussed potential future legislative changes that may affect the shape of retirement funding vehicles from both the employees' and employers' perspectives.

Continuing, the speakers discussed what employers can do to

help their employees to be retirement-ready. Strategic planning is important because many employees are not comfortable with or do not make time to plan and the result becomes a work force planning issue in the organization (employees staying longer than the employers want or employees choosing better pay/benefits elsewhere and leaving prematurely). Accordingly, having the right retirement program is a strategic decision. Not only does the right level of benefits need to be provided, but the employers need to provide educational tools/materials so that the employees can make the right decision.

Employers may be offering various benefit programs to help employees get ready for retirement, but the employees may not be fully utilizing them. Leveraging HR technology that considers personal information, behavioral economics, and actuarial concepts can help customize the employer's programs to meet the needs of each individual employee. In designing the technology, the deterministic approach may give results that are overly optimistic. Also, the employees may not have the financial-savvy to set the appropriate parameters. Accordingly, the speakers indicate that a stochastic modeling may be a better approach.

The technology also needs to provide flexibility that the employees have an option to choose which variable they are solving for (e.g., retirement income in dollars vs. amount needed to contribute as a percent of current pay). It can also include/exclude a Social Security calculation. In order to optimize the Social Security benefits, the technology can be designed to parameterize the age at commencement (reduction vs. actuarial increase) and timing of spousal benefits in order to maximize the benefits as a couple.

**Conclusion**

The speakers quoted Richard Thaler, an economist and a theorist in behavioral finance, who said:

"For many people, being asked to solve their own retirement savings problems is like being asked to build their own cars."

In other words, even in the defined contribution world, employers are still responsible for helping employees become ready for retirement because most employees are not ready to solve the retirement savings problems on their own. Through strategic planning and offering right technology, employers can help the employees plan for retirement long before they are ready to retire.

**Session 605**

**CAPTIVE INSURANCE COMPANIES IN HEALTH AND WELFARE**

Speakers:

- Paul Johnson – Verizon Communications
- Veronique Grenon – The Risk Authority
- Session Recorder: Justin Hornburg – American Benefits Consulting

**Overview**

Captive insurance companies are bona fide insurers that primarily insure the risks of their parent companies. Captives are increasingly used to help companies gain more control and management of their insurance costs. We hear from representatives of two captives, who discuss, respectively, the uses of captives for U.S. employee benefits and liability insurance for hospital systems.

**A Captive Using Reinsurers**

Mr. Johnson is Director – Captive Operations for Verizon Communications, Inc. Verizon has about 178,000 employees and 66,000 property locations in 150 companies. Verizon is also #16 in the Fortune 500 and is a component of the Dow Industrial, Global Dow and Dow Sustainability indexes.

Verizon’s captives are domiciled in Vermont, New York and New Jersey. Verizon’s Vermont captive is the largest domiciled there. Verizon runs about 20-25 insurance programs through its various captives, and these programs generate about 14,000 claims per year.

In order to grow its captives and book additional third-party, or unrelated, premium income, one of Verizon’s captives reinsures, on a quota share basis, risk taken by Liberty Mutual, MetLife and Travelers in Verizon’s voluntary Group Home and Auto insurance program. This creates an opportunity for the captive to work with Human Resources, who must satisfy themselves that employees are not disadvantaged in any way by the captive’s participation as a reinsurer. In this program, Verizon employees and retirees are given a choice of the aforementioned carriers to purchase home and auto insurance. Premiums are generally paid by payroll deduction. Verizon’s captive reinsures a quota share of the risk that each carrier takes. Each quarter the carrier (the fronting insurer) rolls up premiums, claims and expenses and calculates a new amount due to (from) the captive. The captive holds its share of the reserves, and provides collateral, generally in the form of a letter of credit, to the fronting insurer.

Verizon’s captive also reinsures a quota share of the risk of some of Verizon’s group life insurance plans. This captive program requires a Prohibited Transaction Exemption (PTE) from the US Department of Labor (DOL) at its inception, as the group life programs are ERISA plans and without an exemption, captive reinsurance would be prohibited. Verizon filed for, and received, a PTE that had a number of conditions designed to protect plan participants. Verizon is considering captive reinsurance of additional employee benefits.

**A Self-Insured Captive**

Ms. Grenon is VP of Risk Analytics for The Risk Authority, which exists within the walls of Stanford University Medical Center. In addition to providing services to Stanford, The Risk Authority provides various healthcare risk management consulting services to external clients. Stanford University Medical center has approximately 12,000 employees and averages about 718,000 admissions per year.

Ms. Grenon listed some Pros and Cons of self-insuring via a captive:

Pros	Cons
Cost savings in the long term	Variation in claims experience
Control of claims	Administration
Coverage language	Regulation
Creativity	Capital Requirements
Investment income on reserves	
Escape commercial market cycles	

Stanford created a Bermuda-based captive, SUMIT, managed by The Risk Authority, to provide hospital liability, physician (employees of Stanford University School of Medicine) professional liability and general liability. Having this captive, and the associated Pros (and Cons) helps Stanford with physical recruitment and retention, joint defense and creating a safe place for transparency and safety. The Risk Authority manages SUMIT’s day-to-day operations, including handling funds, making underwriting decisions, making claims decisions, and contracting with third-party service providers.

SUMIT is growing its degree of affiliation with third-party physicians, who were not eligible for coverage via SUMIT. Stanford considered using SUMIT to provide professional liability for third-party physicians, but ultimately decided to create a new captive, this one a Reciprocal Risk Retention Group (RRRG). There are various differences between Risk Retention Groups and classic captives (such as SUMIT), and these include formation under US Federal legislation, being restricted to writing liability lines of insurance and owners and insureds must be one and the same. The RRRG thus



formed is a Professional Exchange Assurance Company (PEAC) and is also managed by The Risk Authority.

These captives (SUMIT and PEAC) facilitate many successful risk management strategies, from risk identification, through loss

prevention, to loss mitigation. One particularly successful program initiative is the Safe Patient Handling program, which has increased patient and employee safety, resulting in fewer liability and Workers' Compensation claims.

## Session 607

### DERISKING PUBLIC PENSION PLANS

Speakers:

- Paul Angelo – Segal Consulting
- Alan Milligan – California Public Employees' Retirement System
- David Kausch – Gabriel Roeder Smith & Company
- Session Recorder: Amy Williams – Gabriel, Roeder, Smith & Company

#### Overview

Public pension plans are subject to many different sources of risk. As actuaries, we need to be able to identify, discuss, and help pension plan sponsors and pension plan trustees implement risk mitigation strategies. Pension plan trustees understand that there are risks and can generally discuss those risks – however, quantifying the risks that pension plans face and taking action items to help mitigate those risks is much more difficult to understand and accomplish.

There are many stakeholders who bear the risks to public pension plans. The stakeholders that the pension plan trustees are most concerned about from a fiduciary standpoint are the pension plan members and beneficiaries. The plan sponsor makes the contributions and therefore bears the risk of high contribution levels and contribution volatility, which in turn gets passed onto the taxpayers for public pension plans and the users of the plan sponsor's services. However, the taxing authority of the plan sponsor is not without limit. Ultimately, this risk gets transferred back to the plan members and beneficiaries and could result in benefit reductions. Additional stakeholders include lenders to plan sponsors, politicians, and union officials. The actuary's perspective on the risks may be different based on who the actuary's client is: the plan and its trustees, the plan sponsor, or the legislature.

#### Sources of Risk

The sources of risk are economic, demographic, catastrophe and plan sponsor risk. Pension plans face the risk that the actuarial assumptions will not be met.

#### Economic Risks

The largest source of economic risk is investment risk (not meeting the assumed investment return). Other actuarial economic assumptions are the inflation rate, wage inflation rate and interest rates (for some plans). Investment risk is driven by the plan's investment policy and asset allocation. Although under ASOP 27 the investment return assumption should be based on the plan's investment policy and asset allocation, many times plan trustees

and investment consultants base the asset allocation on the actuarial assumption for investment return. This doesn't allow the trustees to set a risk tolerance and then have the asset allocation and resulting actuarial assumption set. Rather, the risk that is undertaken is based on trying to achieve, in most cases, a higher return. Understanding and managing economic risks to pension plans is difficult due to turnover of plan trustees and trustees with limited financial background (which makes setting risk tolerances and taking action to align policies with those risk tolerances difficult) and a preference for looking at deterministic analyses instead of probability analyses.

#### Demographic Risks

The sources of demographic risk are mortality, retirement, disability, termination, and anti-selection due to optional forms of payment, subsidized service purchases and other benefit features. It is important for trustees to understand the assumption basis for calculating benefits under optional forms of payment and service purchases and the costs of subsidies (if any), and for the actuary to appropriately recognize these costs in the actuarial valuations and cost studies such that there are not consistent liability losses each year. Items that should be considered are the different ways that cost neutrality or actuarial equivalence could be defined in setting assumptions for service purchases and optional forms of payment and how disabled retirees are treated with respect to electing those options.

#### Catastrophe Risks

Catastrophe risk is the risk faced by pension plans as the result of a catastrophe such as 9/11 for the plan covering the New York Firefighters. Plans should try to evaluate whether they could withstand catastrophe risks and model scenarios to try to illustrate potential future scenarios of catastrophe risk. The ability to withstand these risks may vary based on the size and maturity of the plan.

#### Plan Sponsor Risks

Public pension plans also face plan sponsor risks – maintaining

the promise to fund the plan, maintaining benefits adequate to attract and retain employees, agency risk, governance risk and political risk. Plans may experience agency risk with regards to the timing of experience studies and proposed assumption changes (which often increases costs) and collective bargaining. One public-sector pension plan changed its experience study schedule such that the timing of the assumption changes did not coincide with the timing of collective bargaining. Public pension plans are subject to political risk from the legislature which may change every five years and have different philosophies and agendas on benefits and funding of public pension plans. The speakers indicated that some employers may wish to continue to have higher contributions fund their pension plans (rather than having the money reallocated to other sources) and that the actuary should provide information on how contributions are projected to change so that plan sponsors can make good decisions.

### Risk Tolerances

Plan sponsors and pension plan trustees (with help from the actuary) can identify their risk tolerance by looking at their tolerance for the probability of a low funded status, the probability of a large increase in contributions and the probability of high contributions. If the risk tolerance for these metrics is set too narrow, then mitigating the excess risk might be impossible (without benefit changes or member contribution increases). Three risks that the actuary can work to identify are investment volatility, contribution volatility and adequacy. Investments may be difficult for the actuary to evaluate. Therefore, an actuary may rely on the expertise of the investment consultant to identify/quantify investment risk, including a provision for adverse deviation in the investment return assumption. The actuary may include additional analysis such as alternate scenarios, stress testing and stochastic analysis and recommend action to mitigate risk.

Some measurements to help evaluate risk are the ratio of assets to payroll, liabilities to payroll, the ratio of active members to retired members, and the ratio of payroll to revenue.

As one of the speakers indicated, it is the actuary's job to communicate the hard truths on risks to their clients (plan sponsor, plan trustees, etc.). It is important to look at both the long term and the short term. For example, certain actions, such as lengthening the asset smoothing period, could appear to lower risks in the short term. However, a longer asset smoothing period shifts the risk into the future (and does not lower risks). Stochastic modeling is useful in illustrating risks; however, it is better at looking at the long term instead of the short term. Stochastic modeling may assign a low probability and not focus on an event occurring (such as the market downturn in 2008-2009).

### Risk Mitigation

Ways to reduce risk may be through a risk transfer (to pension plan members or others), or risk mitigation through plan design changes, investment changes or funding policy changes. Some risk transfer options are through lump sum payments, group annuity buyouts, group annuity buy-ins, plan termination, longevity swaps

and plan design changes. However, some of these risk transfer options may be subject to political or headline risk. Some examples of transferring risk to members include the following:

- New Brunswick – risk is shared between the employer and employees
- Utah – contribution caps for the employer and employee
- Wisconsin – risk sharing in the retiree COLAs
- Benefit reductions (COLAs)
- Stack hybrid plan designs

An example of a funding policy change is for the withdrawal liability assessment for a cost-sharing multiple-employer plan. The policy was changed in order to measure the withdrawal liability based on a market value basis, which is consistent with the one-time liability measurement and therefore prefunds the risk once the employer withdraws.

Another risk mitigation example is to establish a schedule to systematically de-risk the plan by identifying the current risk level (portfolio volatility), the target risk level, and the time horizon in which the de-risking is to occur. In the example presented during the session, the risk is decreased from the current 12.5% portfolio volatility to 10.0% portfolio volatility over a 15-year period.

A different risk mitigation strategy is to have de-risking occur depending on certain conditions being met (flexible de-risking). For example, de-risking would occur if there is a "good year" of investment return (with "good year" being defined as a return of at least 18%). The de-risking would be a 25 basis point reduction in the discount rate for each "good year" of investment return. A stochastic projection could be performed in order to assess the likelihood and timing of the de-risking.

### Conclusions

There is a lot of risk in the funding of retirement systems; therefore it is extremely important that actuaries have discussions with system trustees, plan sponsors and other decision makers on risk tolerances. If risk levels are assessed to be too high, there are risk transfer and risk mitigation options available to align the risks with the risk tolerances.

**Session 703****WORLD CLASS DC DESIGN**

## Speakers:

- Jonathan Joss – Fidelity Investments
- Flora Olson – Towers Watson
- David Swallow – Aon Hewitt
- Paul Nawrot – Fidelity Investments
- Session Recorder: Jonathan Joss – Fidelity Investments

**Overview**

The discussion started with the discussion of what is retirement readiness, turned to defining and designing a successful DC plan, managing leakage, and quickly touched on outflow and some legal horizons.

**Retirement Readiness**

David Swallow started the discussion with a survey of the work of retirement readiness buzz words and phrases including replacement ratio and benefit adequacy. He presented an interesting page that highlighted the many different measures from the industry including the 85%, the 100%, the 11.4 times pay and the 8 times pay factors, all having been communicated in the market place. Using Aon Hewitt's most recent survey, he then illustrated full-career contributing employees as a multiple of ending salary; if the targeted need was 11.4 times pay, these participants are at 7.6 times pay with a gap of 3.8 times pay.

Flora Olson covered employee confidence and relayed that while nearly 70% felt confident for 15 years to retirement, by 25 year, over half were not. From an employer perspective, a Towers Watson survey indicated that while nearly 80% said retirement readiness was a top issue and budgets are driving design, 84% also said they are looking to improve savings and investing in education. And while they say it is important, employers are structuring to make significant progress due to financial constraints, analysis of plan design in a silo, and an overemphasis on competitiveness.

In discussing the design of a successful DC plan, she highlighted the important criteria of high/long term employee deferrals, meaningful matching and /or automatic contributions, solid investment earnings over a long period, reasonable administration and investment fees, and rolling over payouts.

Paul Nawrot started the discussion of successful DC designs with a survey of the positive impact of retirement adequacy due to the automation features of the plans. These automatic features appeared in 2006 and have seen significant adoption in plans by employers. From an illustration of the significant account balance growth for 10-year continuous plan participants, to illustrating retirement adequacy of an actual employer example, to deferral rates for those employees using Automatic Increase programs, the story of success is significant. Most importantly, participant rates increase and stay high with the auto-enrollment ("AE") features. There were questions from the audience about the level of opt-out our panel was seeing depending on AE level – and there was

a consistent answer that the level of AE did not impact opt-out rates significantly, in fact, the panel was nearly unanimous with 8 – 14% opt-out. Then the audience was walked through the after-tax to Roth conversion basis that is allowing high savers to get a substantial benefit of the 401(k) / 403(b) plans through tax advantaged savings.

Ms. Olson quickly highlighted many of the driving objects of the DC plan design that often are referred as employers weigh various design options and opportunities. One of the key drivers is fees, and data was reviewed on how high cost fund and administration fees can have a significant impact on participant savings and ultimately retirement adequacy. There was a discussion on how fees and fee structuring is migrating from a bundled approach to more of a fixed dollar pricing.

As a final, yet important component, communication, and primarily targeted and personalized communication marketing and messaging is extremely effective in gaining the engagement employers are asking to see.

A closing exchange discussed the challenges with plan leakage – from loans to hardship and withdrawals. It was suggested that there are ways to reduce these challenges, including adding optional direct debit loan repayment, limiting the number of loans available, disallowing loans on employer money and adding or increasing loan origination fees. Jon Joss completed the discussion on some potential safe harbors that might help employers in strategies to guide participants in the distribution phase of their retirements. These potential guiding principles may be safe harbors around structures and types of retirement income vehicles, standardized communication, options for potential retirement income default(s), and simple administrative rules for employers to follow.

**Session 704****STRATEGIC ALTERNATIVES TO THE EMPLOYER SHARED RESPONSIBILITY PROVISION OF HEALTHCARE REFORM**

## Speakers:

- Edward Pudlowski – American Fidelity Administrative Services
- Mac McCarthy – McCarthy Actuarial Consulting
- Brigen Winter – Groom Law Group
- Richard Bailey – Mercer

**Overview**

The presentations provided information on the Patient Protection and Affordable Care Act's (PPACA) employer mandate provisions, survey of employer reactions to ACA and strategic alternatives considered by employers.

**PPACA Overview**

The session started with an overview of PPACA's employer mandate provisions, the new 2015 reporting requirements for health plans and the 2018 "Cadillac" tax. The employer "shared responsibility" requires employers with more than 50 employees to offer minimum essential coverage to full-time employees or pay an excise tax if at least one employee receives federal assistance to purchase exchange coverage. The two mandated penalties are: a \$2,000 penalty, multiplied by the number of employees less 30, for failure to provide minimum essential coverage (the "big penalty"); and a \$3,000 penalty multiplied by the number of employees receiving premium assistance (the "lesser penalty"). The "big penalty" is triggered if not enough full-time employees are offered coverage. The "lesser penalty" is triggered by failure to provide affordable coverage or coverage that is less than minimum value. The PPACA's regulations provide extensive measuring rules on defining and counting employees for purposes of the penalties and new reporting.

New IRS reporting requirements begin in 2015. The employer information reported will be used to enforce the employer mandate, individual mandate and the premium tax credits for exchange coverage.

The Cadillac tax is effective January 1, 2018. The tax is nondeductible and it applies if the value of employer coverage exceeds statutory thresholds (\$10,000 for single coverage and \$27,500 for family coverage). The tax is equal to 40% of the value of employer coverage in excess of the thresholds. Adjustments to the thresholds are permitted for health inflation, qualified retirees, and industries in certain high-risk professions. Additional guidance is needed for the age/gender adjustments referenced in the original rules. Guidance is also needed on how to determine the value of employer coverage. Employers are beginning to develop compliance strategies such as establishing a "glide path" to avoid significant benefit reductions in 2018.

**Survey Results**

Mercer recently released its seventh survey on health care reform. Seven hundred twenty-three employers participated in the survey

with these demographics: approximately 50% with 500-4,999 employees, 25% with fewer than 500 employees, and 25% with more than 5,000 employees.

Questions addressed in the survey included:

1. Employer response to the delayed 2015 effective dates for the shared responsibility requirements.
  - 89% are already extending or will extend eligibility to all employees working more than 30 hours per week.
  - 97% will offer a minimum value health option.
  - 97% will over affordable contributions.
2. Adjustments to workforce strategy to manage growth in the number of employees eligible for coverage in 2015.
  - 76% of employers are not considering a change in strategy.
  - 10% of employers will have fewer employees working 30+ hours per week.
  - Employers in the hospitality and higher education industries are the most affected by the rule extending coverage to all employees working 30+ hours per week.
3. Employer concerns about employees' spouses who have other coverage available.
  - 8% of employers do not allow spousal coverage and another 12% impose a surcharge on employee contributions if their spouse has other coverage available to them. Use of both strategies is expected to grow in 2015.
4. The actuarial value of plans offered was 79% if only one option was offered. In a multiple-option scenario, the lowest cost option had a 77% actuarial value and the highest cost option had an 83% actuarial value.
5. The survey included information on compliance actions taken to track and record employee hours.
6. 94% of larger employers (those with more than 500 employees) remain committed to offering health coverage. Smaller employers are much less inclined to continue offering health coverage (66% of employers with less than 50 employees remain committed to offering coverage).

**Strategic Alternative**

The last segment of the session dealt with employer strategies for PPACA compliance. Employers are more closely monitoring the work hours for part-time employees to avoid triggering the \$2,000 penalty. Employers are encouraging employees to consider joining exchanges or Medicaid if they can qualify for subsidies. Another

alternative under consideration is a wage-based contribution scheme where those with lower pay are asked to contribute less towards health coverage.

Employers have moved to a private exchange or are considering doing so for different reasons. Some see an opportunity to implement a defined contribution approach to employer subsidies; others see an opportunity to lower costs. Another segment of employers may not actually reduce their health costs but rather desire to free up HR staff time to focus on more strategic issues.

For employers with “affordability” concerns and who are worried about triggering the \$3,000 penalty, an option is to adjust contributions for all employees or certain at-risk populations.

Other strategies deal with coverage for spouses with other

coverage available. Employer options include a spousal contribution surcharge or a total exclusion from the plan. There is also push back on these strategies from a competitive concern—an employer’s ability to compete for talent. As more employers use these spousal strategies, the remaining employers will be forced to implement a similar strategy to defend themselves from other employers who acted first.

Employers are continuing to introduce high deductible health plan designs to their benefit lineup. The high deductible options are being presented as a new option and in some cases as a total replacement to the current plan. Employers also need to consider whether an HRA or HSA individual account is best for their situation.

## Session 706

### CROSS BORDER DUE DILIGENCE IN MERGERS & ACQUISITIONS

Speakers:

- Norman Dreger, FCA, FSA, FCIA, CFA, Dip. IEB – Mercer Deutschland
- Bob Maciejewski, ASA, EA – Deloitte Consulting LLP
- Mitsu Nishiwaki, FCA, FSA, EA – Towers Watson
- Session Recorder: Véronique Marchand, ASA – Towers Watson

#### Overview

Due diligence in Mergers & Acquisition (M&A) situations should account for and/or consider the benefit specifics and environment of each country. Some benefits are required in some countries while in others they are supplemental. Some supplemental benefits are prevalent in some countries while not in others. Different rules around funding and financing of benefits apply in each country even if the benefit type is similar. In the first part of this presentation, the speakers offered an overview of the Mergers & Acquisitions (M&A) transaction types and phases, explored dealing with pension liabilities when setting the purchase price of a company, and discussed the preparation for Day One. In the second part, they discussed country specific considerations.

Employee benefits (in particular, pension) are one of the key issues for companies acquiring a new business. Norman Dreger discussed employee benefits in the context of an asset deal vs. a share deal, i.e., when only the active employee benefits owed to the active members are transferred in an asset deal vs. all the employee benefits (including vested benefits and those of current pensioners) are transferred under a share deal. However, there are situations under an asset deal where benefits must sometimes be maintained or under a share deal where pensioners and deferred employees’ benefits may be transferred out pre-deal (but with possible residual liabilities). He also presented other types of transactions such as joint ventures, outsourcing deals and mergers.

Norman continued with the various phases of a deal including pre-deal planning (strategy), due diligence (data, costs and

risks analysis, pricing), do-by-close (confirmatory due diligence, preparation for day one) and post-deal (implementation and harmonization). Discussions on pensions and other benefits should start as early in the process as possible as employee benefits can be a deal killer.

When time comes to value pension liabilities in the context of setting the purchase price, these two questions come up:

1. How could or should one evaluate the pension/other long-term employee benefits?
2. Which “value” should be set for the employee benefits when acquiring a new business?

Unfortunately, there is no answer to the question “What is the correct approach?”

“When do you normally get involved?” was also a question for the attendees, more specifically those in a Corporate HR position. Answers vary, but most agree that the best practice is to involve HR as early as possible, i.e., during the pre-deal phase.

There are three fundamentals of deal pricing when working with pension liabilities in setting the purchase price of a company: (1) past service liabilities are to be treated differently than future service; (2) past service liabilities are considered a financial debt of the acquired company and are deducted from the purchase price, and (3) future service benefits are considered to impact future company profits.

A large number of methodologies exist in measuring liabilities – the speakers discussed why IAS 19/US GAAP methodologies as a reference in deal pricing has some significant advantages, but also

some recent downsides, especially since the financial crisis.

Before going into some country specifics, the speakers briefly discussed the post due diligence phase and the several steps required for a successful pension implementation (review of legal framework and future plan design and implementation).

### Country Specific Considerations

#### The Americas

Bob Maciejewski discussed his experience in deal situations for Latin/South America, Brazil, Mexico and Canada.

In Latin/South America, it is typically difficult to reduce benefits. Unions are generally present and labor courts are employee friendly. In some countries, specific perks are highly valued (e.g., meal vouchers, cars, transportation vouchers, etc.). Turnover can be very high and expensive to companies. Fast pacing legislation and regulation changes stepping out of pensions, and transition of employees can be complex in Latin America and can cause operational and financial surprises and limitations on the employer's ability to manage the workforce.

In Brazil, FGTS (Fundo de Garantia do Tempo de Serviço, or Government Severance Indemnity Fund—an unemployment guarantee fund) penalty for involuntary termination can result in a significant risk. Key talent shortages impact the benefits being provided. Frequent dismissal challenges can go through the legal system – as indicated above. The labor courts typically favor employees, thus creating a significant risk for employers.

In Mexico, legal entity structure before and after a transaction may influence the level of benefits. Pension funding is not required, but many companies are funding for tax reasons. Liabilities for pension are sensitive to withdrawal assumptions due to long vesting period. The typical pension formula is established with the statutory severance indemnity as a minimum. There are also complexities around coordination of pension benefits/termination indemnities and severance as the typical pension formula is established with reference to the statutory severance indemnity as a minimum. Unions are also common. Liabilities for pension benefits are sensitive to withdrawal assumptions due to long vesting periods.

In Canada, there can be significant opportunities and financial risks in dealing with pensions in regards to a transaction. The main challenges identified are around the fact that treatment of pensions varies by province. Unions also represent a challenge and so are the SERPs with resulting excess benefits.

#### Europe

Norman discusses the key points for Germany, UK, France and Austria.

Germany has a complicated environment with five types of pension financing vehicles, plans often unfunded, and difficulties around reducing employee benefits. Also, past-service benefits and corresponding liabilities typically transfer automatically to the purchaser. Other long-term benefits such as long-service awards, death-in-service, etc., are also present. Work councils are definitely part of the landscape as well.

Some key features of UK pension law are: The Pension Regulator

(TPR), the Pension Protection Fund (PPF) and Section 75 Debt. In practice, in a sale situation, the seller often indemnifies the buyer against the Section 75 debt that would arise.

In France, retirement indemnities are mandatory if the pension plan is set up by collective bargaining agreement. Section 29 applies to DB pension benefits.

In Austria, there is a mandatory lump sum for pre-2002 hires. It is typical to see liabilities to be valued for local GAAP only. We can also find long service awards and jubilee benefits (often not valued) and underfunded external pensions.

#### Asia

Mitsu Nishiwaki discussed briefly the specific items related to China, Korea, Japan, India and Australia. He pointed out that these do not always directly relate to pension.

In China, we see compensation policies for executives during change of control. We also see DB plans including supplementary pension, post-retirement medical, but most likely for local companies. Severance payment, long service awards, early termination indemnities and employee stock plans are also present. Compliance issues in regards to underpayment of social insurance contribution and overtime payment are often seen.

In regards to Korea, the main point is that changes require the consent of the union where applicable or otherwise a majority of employees. Retirement benefits can be provided through either a severance pay scheme or via a funded retirement program.

Japan has a unique environment where custom and practice play a strong role. DB benefits are prevalent, with low funding. Asset transfers are difficult unless the buyer "mirrors" the seller's plan. Director plans are the norm and should be considered. Multiemployer DB plans exist and should be considered (such as Employee Provident Funds, or EPF) – companies are participating but do not realize it.

In Taiwan, employee consent of change in employer is required. A mandatory pension fund account in the Bank of Taiwan is highly unlikely to be transferred, so assets covering liabilities need to be arranged separately.

India has large unfunded/underfunded gratuity liabilities. There is also compensated leave of absence which has not historically been actuarially valued and accounted for correctly, with poor governance.

Finally, in Australia there are no requirements to transfer accrued assets and liabilities to new employer in a corporate transaction. The new employer must provide future benefits that meet legislated minimum.

In closure, parties involved in a multi-country due diligence exercise must be conscious of the differences between transaction types and (and along with) the different employee benefit environment in each country. An oversight could be a deal killer or be very costly.

## CCA Debuts New Member Benefits Brochure

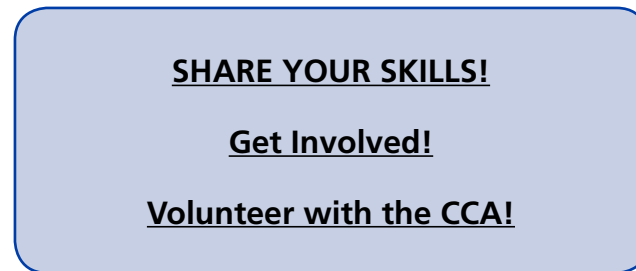
The CCA Board of Directors wishes to thank the Membership Committee for their outstanding work crafting a new brochure to showcase our member benefits. You may view the brochure at [www.ccactuaries.org/go/cca](http://www.ccactuaries.org/go/cca).

## CCA Public Plans Community Releases White Paper on Public Pension Funding Policy

In September, the Conference of Consulting Actuaries' Public Plans Community (CCA PPC) released a white paper titled "[Actuarial Funding Policies and Practices for Public Pension Plans](#)" to provide guidance to policymakers and other interested parties on the development of actuarially-based funding policies for public pension plans. The CCA PPC includes over 50 leading actuaries whose firms are responsible for the actuarial services provided to the majority of public-sector retirement systems in the US. All of the major actuarial firms serving the public sector are represented in the CCA PPC as well as in-house actuaries from several state plans. As a result, the CCA PPC represents a broad cross section of public-sector actuaries with extensive experience providing valuation and consulting services to public plans, and it is that experience that provides the knowledge base for this paper.

## CCA Goes Green

The Conference of Consulting Actuaries is expanding our green initiatives at meetings. The CCA's 2015 Annual Meeting will be a paperless meeting. The Enrolled Actuaries Meeting became a paperless meeting in 2014.



## New CCA Website

The CCA website will have a new look and upgraded functionality to better serve members and meeting registrants. The new CCA website will go live this Spring. Watch for CCA's email announcement for more information.

## CCA Welcomes New Members and New FCAs

The CCA congratulates and welcomes the following new members since our last issue.

Nicholas Mark Allen, FCA

Donald Hendriks, ACA

William J. Nickel, FCA

Todd M. Blazei, FCA

Gregory Joseph Herrle, FCA

David J. Pittman, ACA

Aaron Brunson, ACA

Alice C. Hicks, FCA

Tanya Rizzuto, FCA

Robert M. Beuerlein, FCA

David B. Holland, FCA

Frank P. Rossi III, FCA

Sherry S. Chan, FCA

Matthew Arthur Kersting, FCA

Abednigo Sibanda, FCA

Craig T. Chu, FCA

Sz-Fan Lai, ACA

Gerry Smedinghoff, ACA

James Davies, FCA

Bianca H.L. Lin, FCA

Mike Spetko, ACA

Stephen J. Drake, FCA

Elizabeth Marie Mack, FCA

Emrys Neil Trusler, FCA

Jason Fine, FCA

George W. McCauslan, FCA

Kevin Woodrich, FCA

Eric Lynn Foster, FCA

Matt Mize, FCA

Ruijie Xiao, ACA

James H. Franken, FCA

Yanin Morgan, FCA

Rosalind Gilbert, FCA

Matthew R. Naughton, FCA

**The CCA congratulates the following former Associate members who have attained the status of Fellow of the Conference of Consulting Actuaries since our last issue:**

Shannon Demaree, FCA

Nathan Christopher Zahm, FCA



## CONTINUING EDUCATION

### 2015 Health Reform Meeting

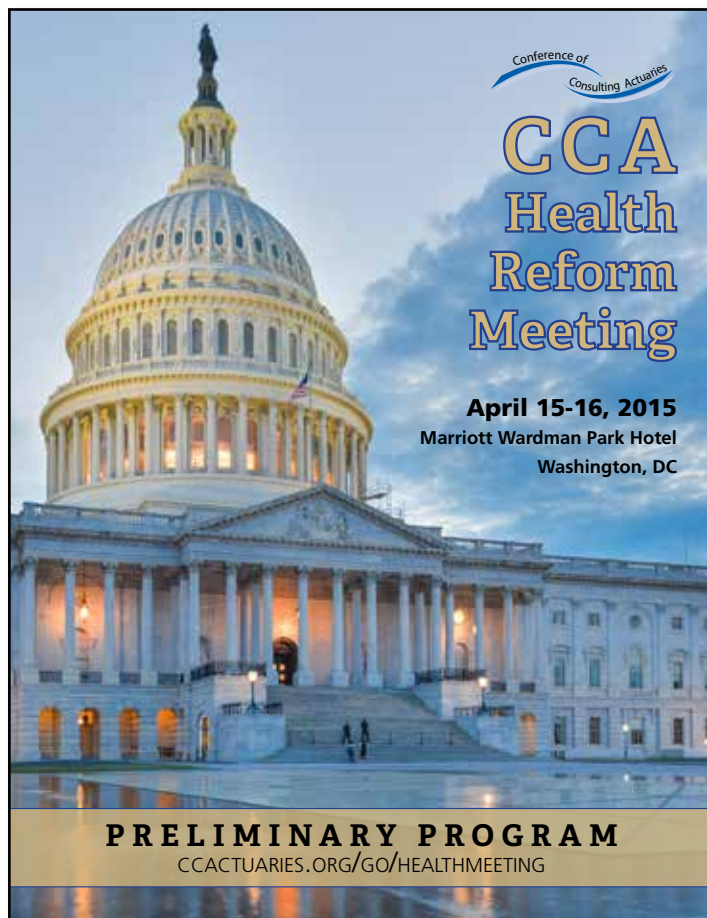
April 12–15, 2015

Marriott Wardman Park Hotel  
Washington, DC

Save the date for the 2015 Annual Health Reform Meeting. This meeting gives health actuaries and other healthcare professionals a chance to hear the latest developments on the Affordable Care Act and network with your peers on exactly what's happening on the home front of healthcare reform. The meeting features sessions on a variety of healthcare reform issues that provide relevant education for providers, carriers and employers. Expected sessions include:

- Medicare OAct and the Health Reform Process
- Perspectives on Healthcare Cost Trends
- The Changing Pharmacy Landscape
- Perspectives on Rate Filings and Review
- Health Actuary of the Future
- Size Matters: Challenges Ahead for Small, Medium & Large Employers
- Cadillac Plan Tax: What You Need to be Thinking About Now in Advance of 2018
- Payment Reform & Quality Measurement: Effective Provider Risk Management

This meeting is planned for April 12, 2015 from 1:00 PM – 6:00 PM with a networking reception in the evening and then resumes at 8:00 AM – Noon on April 15, in Washington, DC at the Marriott Wardman Park Hotel concurrent with the Enrolled Actuaries Meeting. A full schedule and further information are available on the website at: <http://www.ccaactuaries.org>.





Now you can take advantage of significant savings on CCA-hosted audio/webcasts, including all currently scheduled and late-breaking presentations. Register now and you can stay on top of the latest developments, the same way many of your peers do, with a subscription to CCA’s audio/webcast series. As a CCA member (current dues must be paid before or at the same time as purchasing a subscription) your yearly subscription rate is only \$600. All participating CCA members receive a continuing education certificate at no additional charge. A minimum of 10 audio/webcasts are guaranteed. The 2015 schedule boasts a total of 15 audio/webcast programs!

## CCA Audio/Webcasts

### Subscribe for the Entire 2015 Series of CCA-Hosted Audio/Webcasts Exclusive CCA Member Savings with a 2015 Subscription:

As a member you save up to \$100 on each CCA-hosted audio/webcast, or subscribe to the full year to enjoy a members-only deep discount on the full series of 2015 audio/webcasts. Nonmembers should consider joining CCA for just \$400 more to take advantage of these savings and benefit from all the other aspects of CCA membership.

#### 2015 Subscription

**CCA Members – \$ 600**

**CCA Member and U.S. Federal Government Employee – \$ 300**

The cost of any previously purchased session is not applicable toward the purchase of a 2015 subscription.

<b>Single Session Rates</b>	
<b>Individuals</b>	<b>Groups</b> <i>(includes two non-CCA member certificates)</i>
<i>Registrations received one week prior to the event are charged a \$50 late fee. Fees listed are applicable for participants in the U.S. only. Participants outside the U.S. will incur additional phone line charges payable by the participant.</i>	
CCA Members – \$ 160	CCA Members – \$ 360
Nonmembers – \$ 260	Non-members – \$ 720
CCA Member and U.S. Federal Government Employee – \$ 80	CCA Member and U.S. Federal Government Employee – \$ 180
Non-member and U.S. Federal Government Employee – \$ 130	Non-member and U.S. Federal Government Employee – \$ 360

For more details visit the [CCA website](#) or review the document “[Audio/Webcast Options and Fees for 2015](#)”.

Please note: No portion of these live audio/webcasts may be recorded by any third party. Registration for these events acknowledges that you are aware of and agree to uphold the “Code of Professional Conduct.” Member rates are only applicable for those who have paid their 2014 membership dues. Cancellations received in writing more than one week prior to the seminar will be refunded the full fee minus a \$50 processing fee. Within one week, no refunds.



## CCA's Remaining 2015 Audio/Webcast Schedule

Keep up with the latest developments and earn your CE credits by participating in [CCA's Audio/Webcasts](#). You may participate online or by phone. Registration is available by annual subscription—which includes any “pop-up” programs to address late-breaking issues – or à la carte. All sessions are presented from 12:30 PM–1:45 PM ET. In 2015 the CCA has expanded the total of planned offerings to 15 audio/webcasts. Upcoming programs include:

### 2015 Schedule\*

#### **Discipline Process Overview**

April 1–12:30 – 1:45 PM ET

#### **ACO's/ACA Payment Reform/Shared Savings Arrangements**

May 6–12:30 – 1:45 PM ET

#### **Nondiscrimination Rules**

May 20–12:30 – 1:45 PM ET

#### **Incredibly Credible Assumptions**

June 10–12:30 – 1:45 PM ET

#### **Governance Issues**

July 8–12:30 – 1:45 PM ET

#### **Annuity Market Update**

September 9–12:30 – 1:45 PM ET

#### **ASOPs Updates**

September 30–12:30 – 1:45 PM ET

#### **Executive Benefits: Choices and Concerns from the Practical to the Prudent**

November 11–12:30 – 1:45 PM ET

#### **Ethics Call In**

December 2–12:30 – 1:45 PM ET

#### **Transparency in Healthcare**

December 16–12:30 – 1:45 PM ET

*\* This 2015 schedule is subject to change.*

# Register Now for the 2015 Enrolled Actuaries Meeting with Pre- and Post-Meeting Seminars

**April 12–15, 2015**

**Marriott Wardman Park Hotel**

**Washington, DC**

[Click Here to Register Online](#)

The American Academy of Actuaries and the Conference of Consulting Actuaries host the fortieth annual Enrolled Actuaries Meeting, April 12–15, at the Marriott Wardman Park Hotel in Washington, DC. The program features sessions in several formats, covering a wide range of topics and issues relevant to Enrolled Actuaries and other pension professionals. The meeting also includes an exhibit of products and services geared to Enrolled Actuaries.

Access the EA meeting information at: <http://www.ccactuaries.org/go/eameeting>.

The CCA is hosting the following seminars, also at the Marriott Wardman Park Hotel, scheduled before and after the EA meeting:

**Sunday, April 12, 2015, 1:00–5:00 PM**

**[Professional Standards/Ethical Dilemmas Seminar](#)**

EA Core 4.4 Credits (includes 2.6 Credits are EA Core/Ethics)

**Wednesday–Thursday, April 15-16, 2015**

**[2015 Health Reform Meeting](#)**

For more information on these seminars, please visit: <http://www.ccactuaries.org/go/education>.

## OTHER PROFESSION-WIDE NEWS

### Notes from Intersector Meetings with IRS/Treasury and PBGC

The Intersector Group is composed of two delegates from each of the following actuarial organizations: American Academy of Actuaries, Society of Actuaries, Conference of Consulting Actuaries, and ASPPA College of Pension Actuaries. Twice a year the Intersector Group meets with representatives of the U.S. Department of Treasury (Treasury Department), the Internal Revenue Service (IRS), and the Pension Benefit Guaranty Corporation (PBGC) to dialogue with them on regulatory and other issues affecting pension practice.

These meeting notes are not official statements of the Treasury Department, IRS or the PBGC and have not been reviewed by its representatives who attended the meetings. The notes merely reflect the Intersector Group's understanding of Treasury Department, IRS, and PBGC representatives' views expressed at the meeting, and are not to be construed in any way as establishing official positions of the Treasury Department, the IRS, the PBGC, or any other government agency. The notes cannot be relied upon by any person for any purpose. Moreover, the Treasury Department, IRS, and PBGC have not in any way approved these notes or reviewed them to determine whether the statements herein are accurate or complete.

The Intersector Group notes are available on CCA's website at:

<http://www.ccactuaries.org/publications/intersector-notes.cfm>.

### CCA Member Matching Gift to The Actuarial Foundation

Through the [CCA Matching Gift Program](#), CCA member donations to The Actuarial Foundation may be matched, dollar for dollar\*. Your donation can be of any amount. All donations are 100% tax-deductible.

Programs administered by The Actuarial Foundation which may benefit from the CCA Member Matching Gift include: research, awards, prizes and scholarships; consumer financial education; and youth education (K-12) for math skills and financial literacy.

As an example, click here to learn about The Actuarial Foundation's impressive program, [Data Sampling: Making Effective Inferences](#). This program highlights the newest cutting edge digital math program intended to provide extra math practice in important areas for students in grades 6, 7, and 8.

Double your impact and help expand financial literacy; make your CCA matched donation today at <http://www.actuarialfoundation.org/donate/index.shtml>.

\* Donations are matched up to an annual cap approved by the Board of Directors.

## News from The Actuarial Foundation

### Thanks to all who celebrated the Foundation's 20th Anniversary

Throughout this past year, the Foundation has celebrated the passion, enthusiasm and generosity that have made two decades of Foundation achievements possible. The 20th Anniversary Luncheon, held in conjunction with the SOA Annual Meeting, celebrated education and its possibilities. Guest speaker and best-selling author Liz Murray shared her incredible story of overcoming horrible odds to earn a Harvard degree on a full scholarship. Ms. Murray's humor, warmth and authentic delivery inspired everyone in the room.

The 20th Anniversary Monte Carlo Night held in conjunction with the Casualty Actuarial Society's Centennial Celebration was an incredibly fun-filled evening of food, spirits, recreational gaming, entertainment and prizes. The Trianon Ballroom was transformed into a lively casino as attendees reveled in playing recreational poker, blackjack, craps and roulette for chances to win exciting prizes. The legendary sleight-of-hand Bill Malone astounded and entertained guests with his jaw-dropping magic tricks.

Proceeds from both events directly benefitted the Foundation's youth education initiatives.

View more information about the 20th Anniversary Events by visiting:

[www.actuarialfoundation.org/events/past-events.shtml](http://www.actuarialfoundation.org/events/past-events.shtml).

## Read the Latest Financial Smarts

Read the latest release of *Financial Smarts* to find out the questions to consider before purchasing an umbrella insurance policy. Learn how an umbrella insurance policy protects you and your assets and read about some common liability claim scenarios. Proving to be an indispensable, non-commercial resource for consumers, *Financial Smarts* published four issues in 2014, including issues on retirement income, renters' insurance, and investing fundamentals. *Financial Smarts* is a great resource to share with family, friends and colleagues. Consider sharing a copy with your local library or community center.

Read all of the issues of Financial Smarts by visiting: [www.actuarialfoundation.org/programs/newsletter.shtml](http://www.actuarialfoundation.org/programs/newsletter.shtml)