The Pension Assistance List (PAL)

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About the American Academy of Actuaries

The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy and its boards also set qualification, practice, and other professionalism and ethical standards for actuaries credentialed by one or more of the five U.S.-based actuarial organizations in the United States.

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The Academy's Dual Mission

- Serve the public
- Serve the profession

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PAL: A Service to the Public

- The PAL is intended to provide objective, factual information to consumers who have questions about their pension plans.
- It is not intended to provide litigation or expert witness support.

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PAL: A Service to the Public

- PAL volunteers offer a consumer up to **four hours** of free help.
- 90 Academy members currently volunteer for the PAL.

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PAL Help Topics

Illustrative examples of what PAL volunteers may be able to help consumers with include:

- "Are my benefits available now, or do I have to wait?"
- "I think my monthly benefit amount may not be correct. How can I check?"
- "I received an offer to take a lump sum instead of the monthly benefit. How is each option determined and how do they compare?"

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Process

1. Consumer submits request via the PAL webpage.
2. Academy staff selects an actuary from the PAL volunteer list who has appropriate expertise.
3. The volunteer contacts the consumer.
4. The volunteer and the consumer each receive a form from the Academy that solicits feedback.

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Questions?

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Pension Derisking

What it is and why and how it is done and what plan participants need to know about it.

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Summary of Topics

- Overview of Retirement Savings Risks
- Regulatory Landscape and the Incidence of Retirement Risks
- What is derisking/categories of derisking activities
- Employer considerations in whether to derisk
- Participant Issues, including consideration of lump sum options
- Derisking and the Future

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Risk and Retirement Savings

- Conventional categorization of risk in retirement saving:
  - Investment Risk
  - Longevity Risk
- In defined contribution plan, these risks are generally borne by participants
  - But Note:
    - Annuitization offers way to purchase individual protection against longevity risk
    - Investment risk generally has potential upside: share in investment gains beyond those anticipated
    - Managing investment risk takes knowledge, skill and attention
- In defined benefit plan, conventional risks are borne by plan/plan sponsor
  - Note on pooling and longevity risk

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Risk and Retirement Savings

- Other participant retirement risks
  - Savings continuity risk
  - Inflationary risk
  - Latter career salary/consumption increases
  - Escalating life costs in retirement
  - Emergency and unanticipated retirement expenses

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Risk and Retirement Savings

- Prior to ERISA, investment and longevity risk nominally borne by defined benefit plan sponsor, but plan termination or failure could transfer risks to participants, because
  - Weak funding standards prior to ERISA
  - Clauses exonerating plan sponsors from responsibility for benefits if plan not adequately funded
  - No PBGC

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Risk and Retirement Savings

- ERISA changed this:
  - Introduced meaningful funding standards
    - Funding rules
  - Created PBGC (and residual plan sponsor liability in event of plan failure)
  - Today, participant risk largely limited to benefits not ensured by PBGC
- But plan termination can still harm participants
  - Responsibility for future periodic retirement savings (and future investment and longevity risk) generally transferred to participants
  - Participants will lose likely "backloaded" financial benefits of defined benefit plans
  - Participants can face difficult choice between immediate lump sum and annuity benefits (if given choice)
  - Derisking in non-ERISA plans (church plans, government plans) present special perils

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Derisking

- What does de-risking mean?
  - Transfer of investment and mortality risk in defined benefit plan away from the plan sponsor.
- Types of de-risking
  - Plan terminations or partial terminations
    - Plan pays some or all benefits by purchasing and distributing group annuity contracts or giving participants a choice of lump sum or receiving an annuity
  - Plan creates a lump sum window, in which it offers certain participants (generally retirees and deferred vested participants, or a class of same) a lump sum benefit if elected within a specified time period
  - Plan freezes or reduces future benefit accruals

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Derisking

- Employer Considerations
  - Relief from future investment and longevity risk
  - Relief from future PBGC premiums
  - Relief from adverse financial accounting consequences
  - Relief from contribution volatility
  - Costs of de-risking dependent on interest environment
  - In general, derisking costs in the aggregate are lowered if participants are offered a lump sum option
    - Why? In most cases, the lump sum is less than the value of the annuity benefit
    - In the aggregate, costs are reduced because too many participants choose lump sums against their economic interests

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Derisking

- Participant Issues:
  - Anxiety when a plan terminates because of uncertainty about the security of an annuity
    - Strength of annuity provider and fiduciary responsibility
  - Loss of valuable late-career defined benefit accruals
  - Possible loss of certain ERISA protections
    - Future lump sum conversions
    - Some loss of protection against creditors
    - PBGC guarantees
  - Plan terminations and partial terminations can result in vesting in benefits

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Derisking

- Choosing between lump sum and annuity
  - Considerations
    - The annuity carries guarantee features not reflected in lump sum
    - Lump sum will generally be insufficient to purchase comparable annuity
    - Individual must manage investment and drawdown of lump sum
      - Subject to investment and longevity risk
    - Lump sum available to creditors if not rolled over and even if rolled over some increased creditor exposure
    - Loss of spousal survivor annuity
    - Elder abuse possibilities when lump sum is chosen
    - Strength of annuity issuer, special protection features, and relevant state guaranty program
  - Situations when lump sum option might be considered
    - Participant terminally ill
    - Participant is wealthy and does not need insurance features of annuity
    - Participant is young and wishes to take on additional risk in exchange for higher expected return
    - But even in these situations, the choice to take a lump sum should be carefully considered
  - Beware conflicted financial investment advice
  - Consider using PAL to obtain information relevant to the choice

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Derisking—What the Future Holds

- Increased interest rates will make derisking less expensive for employers, so expect to see an increase in derisking activity
  - Some employers may defer derisking activity because they expect interest rates to continue to rise over next year
- Inform Act—if enacted, will require plans to provide additional information to help participants decide between lump sum election and annuity benefit
- Possibly increased DOL and state insurance regulatory and enforcement activity with respect to selection of annuity providers

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