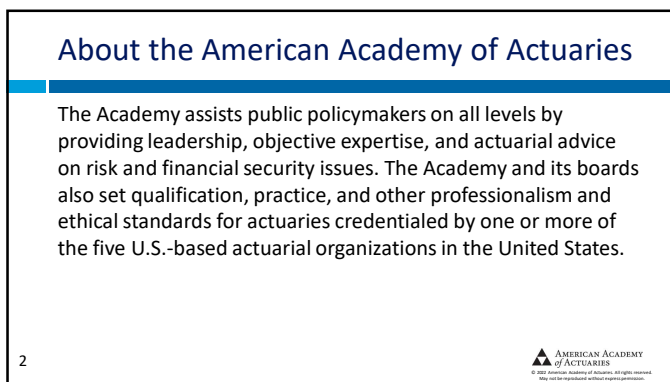
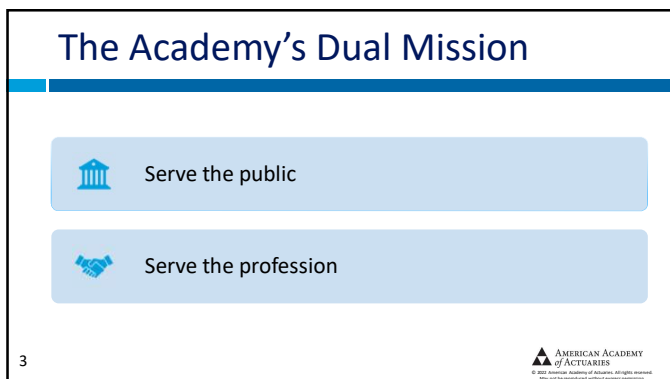


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PAL: A Service to the Public

- 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.

4



4

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?"

6



6

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.

7



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Questions?



8

Pension Derisking

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

1

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

2

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

3

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

4

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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