Actuaries Can Help Employers Manage DB Plans

By Ben Berger, FSA, CERA, MAAA

There was a time when, as young folks entered the workforce, a ubiquitous part of any benefit package offered to them was a rich defined benefit (DB) pension plan to support them after they wrapped up their careers. Benefits based on your highest three-year average compensation? No problem. Eligibility for your full benefit starting at 62? Of course! A three-percent cost of living adjustment every year once you retired for the rest of your life? Naturally. This was the norm, something any company worth its salt would provide. From the company perspective, it was an easy decision – attract great talent by making promises it wouldn't need to worry about until long after the current management team retired (and was enjoying their lucrative retirement benefits, by the way). The environment at the time, particularly interest rates high enough to make your nose bleed, ensured that. All this led to a time when workers were promised more than adequate financial security in their old age. The best part? They didn't even have to do anything extra to get it – just keep their heads down and do good work and the company will take care of you for your whole life.

Juxtapose that environment to today. A combination of costly regulatory oversight and rates that steadily declined for decades caused the cost of defined benefit pension plans to skyrocket. (You thought interest rates in the 80s caused nose bleeds? Wait until you see your cost per participant in 2019!) This, then, caused many employers to close their DB plans to new entrants and freeze benefit accruals for existing members. These were largely replaced by defined contribution (DC) plans, in which participants put their own money, often with a match from the employer, and are responsible for what happens to it over the course of their careers. What they have at the end is what they can afford to live on for the next 20-30 years. Rather than having retirement savings handed to them on a silver platter, workers now have not only to fund their own retirements, they have to understand how to manage their money successfully over 40 years so they can maximize their retirement savings. Daunting much?

This leads me to the conclusion that, as a society, we expect too much from the average worker. The looming retirement crisis is of our own making. We tell people to manage their own retirement savings, but we know most don't have the skills to do this well. Then, we blame their severe lack of retirement funds on their inability to save enough, or to invest it in the right way. Is it any wonder there are issues?

I believe this is where actuaries step in. We're experts in being future-oriented and have helped employers manage their retirement-related liabilities for decades. While we still do this, we have the potential to take it a step further. Actuaries are used to getting creative within the bounds of regulation. Actuaries can help employers manage DB plans, which allows employees to take advantage of financial expertise they may not otherwise have access to. Actuaries are perhaps best positioned to tackle the challenges facing social security and ensure it's around for generations after us. In short, I believe actuaries are a key part of solving the coming retirement crisis, and I believe we have a responsibility to do just that.