

Where Policy Meets Politics

RAISING THE RETIREMENT AGE FOR THE PURPOSES OF SOCIAL SECURITY, as well as employer-sponsored pension plans, is good public policy. It's logical when one considers demographics such as increased life expectancy, and no one can dispute the positive cost impact such a change would have. Social Security could come closer to achieving a sustainable solvency, and the prolonged working period would make defined benefit plans more cost effective for employers. Provisions could be introduced into legislation that would protect workers who are in physically demanding jobs, making it difficult to extend working years.

While most people prefer not to work until age 70 or longer, not working long enough can create problems for both the individual and the nation as a whole. Increases in the proportion of years in retirement to working years could result in a lack of sufficient financial resources in retirement. In other words, without adequate planning, people could easily outlive their money, forcing them to rely solely on government programs to survive. I believe I can safely say this is not a desirable result from the perspective of the nation and its economy as a whole. So again, the idea of raising the retirement age reflects good public policy.

With such a logical and persuasive argument, why do such proposals go absolutely nowhere in Congress? The answer: Good policy doesn't necessarily make good politics.

Webster's *New World College Dictionary* (4th Edition) defines politics as "the science and art of political govern-

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telling their constituents they'll have to work longer in an era where retiring early is such an alluring option. Furthermore, the prospect of reducing someone's retirement benefit, which is essentially what raising the retirement age will do, isn't an easy policy to sell. Facing such a politically unpleasant option, it's understandable why most on the Hill shy away from the issue. Even within the Academy's membership, there is robust discussion. While many may understand and agree that an increase in the retirement age would be good public policy and have positive repercussions on the retirement system, there would be some who would disagree, preferring another solution.

So, having pressed a hot-button issue, at least with the public, consider one that seems to have more universal appeal among the pension actuaries with whom I work most often.

For the past two years, the Academy, the Conference



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No, it doesn't sound good, but the practice of politics, at least in our form of representative democracy, allows for an exchange of ideas and debate, ideally ending with a policy that provides the best benefit possible for the most people.

With an issue such as raising the retirement age, Republicans and Democrats alike cringe at the thought of

of Consulting Actuaries, and the Society of Actuaries have cosponsored a symposium at the end of the Enrolled Actuaries Meeting that brings actuaries from different perspectives together to discuss retirement security and possible ways of reinvigorating the defined benefit system. While there are certainly a wide variety of opinions on issues ranging from the application of pension finance (i.e., financial economics) and the use of smoothing to the use of the yield curve, etc., the symposium also offers an opportunity to find issues on which actuaries have common agreement.

One issue that was discussed at both the 2004 and 2005 symposia, as well as frequently in other forums, is Internal Revenue Code (IRC) Sec. 420 transfers. In certain circumstances, surpluses in pension funds can be used to shore

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up retiree health benefits. Most all of the actuaries at the symposia indicated that allowing companies to use super surpluses for other employee benefits, such as active employee health plans, would reflect good public policy. Making such a change to legislation would encourage employers to fund above the minimum funding requirements for their pension plan. Essentially, if the money isn't needed for pensions, it could be used without penalty for these other purposes, providing an additional benefit to employees. It seems like a win-win proposition: Employers fund better while employees, both past and present, feel secure in their pension plans and potentially stand to gain additional benefits.

With such a positive idea, what could possibly stop us from heading straight to the Hill and loudly touting the benefits of such legislation? Well, as evidenced by past events, this issue is one that creates quite a bit of political back-and-forth.

In the '90s, the issue found itself in the political limelight, as Republicans and Democrats battled over specific legislative proposals. Republicans supported a loose proposal that would have allowed employers to access the entire surplus without leaving any buffer and without paying a reversion excise tax. Democrats, however, were incensed at the thought of allowing employers, particularly corporate raiders, to take the money without penalty from pension plans. The political battle resulted in both parties being hesitant to approach the issue to this day, even with a more nuanced, moderate proposal.

As has often been mentioned in these policy briefing articles in *Contingencies*, the Academy has a unique vision of providing nonpartisan, objective information to policy-makers regarding insurance and pension issues. The Academy and its volunteers are consistently faced with the balancing act of providing objective analysis to congressional staff. The Academy has devoted much thought to the development of its mission and public policy strategic directions, which provide guidance to members of the councils and committees as they consider specific initiatives and strive to maintain

that objective balance.

However, given the circumstances described here, practical application of these directions may not always be black and white. What happens when a committee or council wholeheartedly agrees on the benefits of a specific policy objective and strongly advocates action but the politics are stacked against it? Do you move forward and encourage the consideration and/or implementation of the policy? Or do you take a step back because the most likely outcome could be widespread criticism for getting mired in politics, with still no change in policy?

No matter what the political landscape, the Academy would discuss its ideas privately with members of Congress and their staffs or include a detailed analysis of the concept in written statements addressing pension legislation. This is good public policy we're sharing. And yet, there are times when politics, the other side of the coin in the public arena, will squelch the discussion and make our good policy proposals moot.

In the case of the expansion of Sec. 420 transfers, neither side of the aisle will raise the issue. While providing education on the issue is fine, we may not affect policy at this time. Does this mean that we should stop brainstorming and developing potential policy solutions? What happens when there are issues that arise in legislation that could potentially result in the further decline of the defined benefit pension system? If there is strong agreement but the issue is highly political, how should the Academy respond?

For example, the Pension Benefit Guaranty Corp. (PBGC) is in a precarious financial condition. With an increasing deficit, and more companies in bankruptcy and industries as a whole terminating their DB plans, the burden of paying those debts is being passed on to healthy plan sponsors. Pension actuaries tend to agree that the PBGC, and its premium payers (i.e., healthy defined benefit plan sponsors), shouldn't be burdened with the responsibility of paying for other sponsors' (particularly their competitors') severely distressed pension

plans over and above an actuarially correct premium. It's a reasonable presumption that if healthy plans have to pay for troubled plans, healthy plans will find it easier to simply get out of the voluntary pension plan system.

Given the benefits to participants from defined benefit plans, including a guaranteed lifetime income, one could argue that good public policy would be to encourage plans to remain in the system, not force them out. However, suggesting that weak funding rules from the past and troubled industries have overburdened the PBGC and that Congress should propose a fix using other means—such as government-backed borrowing—would certainly result in a strong political reaction from taxpayers.

The political resources of large companies and lobbying organizations, including members of Congress who represent these constituents, outweigh the Academy's resources. However, we must ask the question: How hard should the Academy fight for issues that have little possibility of acceptance and might even negatively affect our reputation? And if the answer is that we should do more, are we realistic in our understanding of how politics may affect good policy?

Normally, I'd try to sum up this article with a pithy conclusion, answering the questions I'd asked throughout. For example, perhaps the Academy should, when it can present a strong consensus on politically hot positions, just jump in and suffer the necessary burns in pursuit of good policy. Alternatively, maybe the Academy should pull back and soften any message so it doesn't stoke the political fires, risking the possibility that any substantive influence might be limited.

Unfortunately, though, I don't know the answer, and I'm not an actuary. Only you, the profession, can determine the right approach, and I, for one, would be very interested in what you think and where a line in the sand, if any, should be drawn. But while you're thinking, I'll continue my own one-woman mission to convince 20-somethings all over the country that working to age 70 is good public policy! ●