The Pension Challenge
The Pension Challenge

Risk Transfers and Retirement Income Security

EDITED BY

Oliva S. Mitchell and Kent Smetters
Preface

In the United States, as in other developed nations, the workforce of the future promises to be quite different from that which we have known in the past. The age distribution has morphed from a pyramid shape, with numerous children on the bottom and few elderly at the top, to a rectangle shape, with about the same number in each age bracket up to age 65. Meanwhile companies have been remaking the workplace over this same period, requiring ever-more skilled labor, more flexible and integrated work teams, and redefining what it means to be an employee working at a company, as global markets integrate.

In this book we explore how these workforce and workplace changes are altering the form and design of employee benefits, and what the future portends. Recent major benefit developments include the 401(k), managed care in the medical field, and the opportunity for even less-skilled workers to access company stock participation. The greater workplace diversity has been complemented by nontraditional benefits including child and elder care, flexible medical benefits, employee assistance programs, and investment education. We evaluate these trends and go beyond, by assessing legal and benefits definitions of the word “employee,” along with new ways to design benefit plans. Perspectives from academics, employers, consultants, lawyers, and labor educators offer guideposts for benefits of the future.

Sponsorship for the work leading to this volume was generously provided by the Wharton School, as well as two important University of Pennsylvania institutions, the Boettner Financial Gerontology Center and the Penn Aging Research Center. We are also grateful for support from the Pension and Welfare Benefits Administration of the US Department of Labor. The Pension Research Council benefits from the invaluable efforts of our Senior Partners and Institutional Members, and the careful attention of Victoria H. Jo and Joseph V. Hirniak. On behalf of the Pension Research Council at the Wharton School, we thank each of these collaborators, along with the editors and contributors who brought this work to fruition.
The Pension Research Council

The Pension Research Council of the Wharton School at the University of Pennsylvania is an organization committed to generating debate on key policy issues affecting pensions and other employee benefits. The Council sponsors interdisciplinary research on the entire range of private and social retirement security and related benefit plans in the United States and around the world. It seeks to broaden understanding of these complex arrangements through basic research into their economic, social, legal, actuarial, and financial foundations. Members of the Advisory Board of the Council, appointed by the Dean of the Wharton School, are leaders in the employee benefits field, and they recognize the essential role of social security and other public sector income maintenance programs while sharing a desire to strengthen private sector approaches to economic security.

More information about the Pension Research Council is available at the web site: <http://prc.wharton.upenn.edu/prc/prc.html>
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## Abbreviations

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<th>Abbreviation</th>
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<tr>
<td>ABS</td>
<td>Asset-Backed Securities</td>
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<tr>
<td>ACPM</td>
<td>Association of Canadian Pension Management</td>
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<tr>
<td>AIR</td>
<td>Assumed Investment Return</td>
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<td>AIME</td>
<td>Average Indexed Monthly Earnings</td>
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<td>ALPS</td>
<td>Aircraft Lease Portfolio Securitizations</td>
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<td>ARC</td>
<td>Annualized Return on Capital</td>
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<td>AS-Funds</td>
<td>Altersvorsorge-Sondervermögen</td>
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<td>AWI</td>
<td>Averaging Wage Index</td>
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<td>Bakred</td>
<td>German Federal Banking Supervisory Authority</td>
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<td>BIC</td>
<td>Banking Investment Contract</td>
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<td>bps</td>
<td>Basis Points</td>
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<td>CAPM</td>
<td>Capital Asset Pricing Model</td>
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<td>CBO</td>
<td>Congressional Budget Office</td>
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<td>CBOT</td>
<td>Chicago Board of Trade</td>
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<td>CDD</td>
<td>Cooling Degree Days</td>
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<td>CDO</td>
<td>Collateralized Debt Obligation</td>
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<td>CIM</td>
<td>Commercial Investment Mandate</td>
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<td>CLO</td>
<td>Collateralized Loan Obligation</td>
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<td>CMBS</td>
<td>Commercial Mortgage-Backed Securities</td>
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<td>CME</td>
<td>Chicago Mercantile Exchange</td>
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<td>CML</td>
<td>Capital Market Line</td>
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<td>CMO</td>
<td>Collateralized Mortgage Obligations</td>
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<td>CPP</td>
<td>Canada Pension Plan</td>
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<td>CPPIB</td>
<td>Canada Pension Plan Investment Board</td>
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<td>CRRA</td>
<td>Constant Relative Risk Aversion</td>
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<td>CSSS</td>
<td>Commission to Strengthen Social Security</td>
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<td>CTE</td>
<td>Conditional Tail Expectation</td>
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<td>DAX</td>
<td>German Stock Index</td>
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<td>EBRI</td>
<td>Employee Benefit Research Institute</td>
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<td>EETC</td>
<td>Enhanced Equipment Trust Certificates</td>
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<td>EGTRRA</td>
<td>Economic Growth and Tax Relief Reconciliation Act of 2001</td>
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<td>Emerging Market Trade Receivables</td>
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<td>Employee Pension</td>
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<td>EPS</td>
<td>Earnings-Per-Share</td>
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Abbreviations

ERISA  Employee Retirement Income Security Act of 1974
ESOP  Employee Stock Ownership Plans
ETC  Equipment Trust Certificates
ETI  Economically Targeted Investments
EV  Equivalent Variations
FDIC  Federal Deposit Insurance Corporation
FILP  Fiscal Investment and Loan Program
FRN  Floating Rate Note
GAO  General Accounting Office
GDP  Gross Domestic Product
GIC  Guaranteed Investment Contract
GIPF  Government Pension Investment Fund
GMIB  Guaranteed Minimum Income Benefits
HDD  Heating Degree Days
HELOC  Home Equity Lines of Credit
IA  Individual Account
IA  Immediate Annuities
ICI  Investment Company Institute
IFSSR  Investment Fund of Social Security Reserves
IPA  Individual Pension Account
IPB  Irish Pensions Board
IRR  Internal Rate of Return
IRS  Internal Revenue Service
KAGG  German Investment Company Law
LIBOR  London-Interbank-Off er Rate
MAR  Market Value Adjustment
MEL  Mean Excess Loss
MER  Management Expense Ratio
MOHLW  Minister of Health, Labor, and Welfare
NCEO  National Center for Employee Ownership
NEPA  National Energy Policy Act
NP  National Pension
NTMA  National Treasury Management Agency
NZSE  New Zealand Superannuation Fund
OASDI  Old age survivor and Disability Insurance
OECD  Organization for Economic Cooperation and Development
OLS  Online Library Service
OSFI  Office of the Superintendent of Financial Institutions
P&L  Profit and Loss
P-AL-B  Professional, Arms-Length Board
PBGC  Public Benefit Guaranty Corporation
PCS  Property Claims Services
POB  Pension Obligation Bond
PWSPC  Pension Welfare Service Public Corporation
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<td>REXP</td>
<td>German Bond Index</td>
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<td>RMBS</td>
<td>Residential Mortgage-Backed Securities</td>
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<td>S&amp;P</td>
<td>Standard &amp; Poor’s</td>
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<td>SE</td>
<td>Shortfall Expectation</td>
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<td>SERPS</td>
<td>State Earnings Related Pension Scheme</td>
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<td>SPDA</td>
<td>Single Premium Deferred Annuities</td>
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<td>SPIA</td>
<td>Single Premium Immediate Annuity</td>
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<td>Special Purpose Vehicle</td>
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<td>Tail Conditional Expectation</td>
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<td>TSP</td>
<td>Thrift Savings Plan</td>
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<td>Value at Risk</td>
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<td>Variable Immediate Annuities</td>
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<td>YMCA</td>
<td>Young Men’s Christian Association</td>
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