November 4, 2008

Emerging Pension Contribution Crisis: MMC/Mercer Analysis and Recommended Relief

Secretary of the Treasury

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Introduction

This report, prepared for the US Department of the Treasury, contains Mercer's initial analysis of the need for and best proposals to provide relief from abnormal increases in defined benefit pension contributions resulting from the current financial crises. The report is divided into three sections:

- **Causes and effects of the contribution crisis.** While pension plans are complex financial entities, and the effects of the current financial situation will be quite diverse across plans, we have drawn an initial picture of the drivers and potential magnitude of increased contribution.
- **Stakeholders and their perspectives on this issue.** The defined benefit pension system has a large number of stakeholders whose perspectives range from complementary to contradictory.
- **Criteria for relief and recommendations.** While some relief can be implemented administratively, effective relief will require legislative action.

Our comments in this report are limited to single-employer, private sector defined benefit pension plans. We do not address private sector multi-employer defined benefit plans nor public sector defined benefit plans since the rules are quite different.

This report also does not address defined contribution plans, of which 401(k) plans are the most common. These plans and their participants face a set of equally serious issues as a result of the current financial crisis, and the significant role of defined contribution plans should factor into any discussion of future retirement policy for our country. [1]

[1] We also note that this report refers only to relief for pension contributions and other consequences of declines in funded status. It does not address the question of increase in pension expense driven by these declines. Although relief from increased contributions will slightly *increase* reported pension expense, the net overall effect on corporate earnings is harder to judge, and will depend of the relative rates of return in the pension trust and the rest of the business.

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Causes and Effects of the Contribution Crisis

The immediate issue is that the current funding rules produce sharply increasing contribution requirements and can force limitations of benefit payments and even suspension of future benefit accruals when markets decline rapidly – even if the market decline is temporary in nature. The level of 2009 plan year minimum required contributions, as well as restrictions on benefits which may be imposed, are based upon asset and liability values fixed at year end, December 31, 2008 for calendar year plans. The higher level of cash infusion produced by the decline in funded status may be required as early as March 2009 to avoid benefit restrictions or as late as April 2010 to meet minimum quarterly contribution requirements. Despite this delay in actual outlay of cash, the impending burden on the plan sponsor organization will be felt immediately. Employers must plan well in advance for contributions, making decisions now on how to balance other business priorities. Employers also need to plan for the employee relations implications due to limitations on benefit payments or suspension of benefits, both of which will harm participants. Taken together in context, these decisions may accelerate the permanent freeze of pension plans, undermining the stability of the US pension system. These issues need to be addressed now.

Direct effects from the Pension Protection Act of 2006

The effects and issues described in this report derive directly from the Pension Protection Act of 2006 (PPA), which first applied to most plans in 2008. The PPA's purpose is to enhance funding of defined benefit pension plans thus strengthening the plans and reducing the exposure of the Pension Benefit Guaranty Corporation (PBGC). The PBGC's exposure derives largely from bankrupt companies that transfer (or sometimes companies that enter bankruptcy in order to transfer) significant underfunded pension liabilities to the PBGC.

The PPA encourages increased funding through a combination of higher required minimum contributions and restrictions/adverse consequences imposed on the plan whose funded status falls below certain thresholds. In each case, declines in a plan's funded status (the difference between assets and liabilities) have more immediate consequences for the sponsor and the participants than before. The simplified description below outlines PPA's main provisions.

Determining minimum required contributions

- Assets and liabilities are measured at or close to market value with limited smoothing. In highly volatile markets, much larger losses must be immediately recognized.
- Recognized losses must be amortized over seven years.
- The PPA allows for very limited asset smoothing within a 90%/110% corridor of market value. A pending technical corrections bill would overturn the current IRS position that smoothed values may not take into account expected investment returns, but would not change the 90%/110% corridor around market value. Without a change in the corridor, the correction to the smoothing method will have little impact in 2009. Furthermore, the measure may not pass before sponsors must act.
- When a plan’s funded ratio falls below a certain threshold, the plan is considered “at-risk” and funding requirements are increased to reflect “worst-case” assumptions regarding termination and the expenses of administering the plan in the future.

Restrictions based on funded status

- *Plans with funded status below 80%:* The plan cannot be amended to increase benefits unless the plan sponsor makes an additional contribution equal to the value of the increased benefits. In addition, the plan is precluded from paying full lump sum benefits (which are common in cash balance type plans and many other pension plans) and certain other accelerated payment forms.
- *Plans with funded status below 60%:* In addition to the restrictions at the 80% level, participants are precluded from earning future benefits (that is, future benefit accruals are suspended and the plan is “frozen”), benefits may not be paid in a lump sum or other accelerated payment form, and shutdown benefits cannot be paid unless immediately funded by an extra employer contribution.
- Some sponsors have contribution policies to contribute enough to avoid the restrictions, but sudden, violent market movements -- as we are now experiencing -- make these policies prohibitively expensive to implement.

Impact of rules in current environment

Attempting to paint an overall picture of the effect of these rules in the current environment is a challenging task. Results for individual plans will vary widely depending on specific plan provisions, demographic profile, investment policy and funded status prior to the current market turmoil. And, no comprehensive, up-to-date, public database tracks information on plans’ assets, liabilities and calculation methodologies for funding purposes.

To assess whether the situation is in fact serious enough to warrant immediate relief, we have used three sources of information:

- A sample plan that provides a good sense of the situation many plan sponsors are facing.

- Publicly available pension disclosure information of the companies in the Standard & Poor's 1500 index.
- Conversations with our clients over the past months as they measure and judge their specific situations.

Effect on a representative plan

We constructed a sample plan that is representative of the benefit structure, funded status, asset policies and financial position of many companies in the S&P 1500 index. The basic facts as of January 1, 2008 are shown in Table 1a.

Table 1a **Sample plan** Amounts as of January 1, 2008 ($ millions)	
Funding liabilities	$ 1,000
Assets	$ 1,000
Funded status	100%
Minimum required contribution[2]	$ 30
Cash flow from operations	$ 900
Contribution as a percentage of cash flow from operations	3.3%

We projected assets and liabilities forward to October 31, 2008 (using average asset and liability characteristics) and used these figures as the basis for estimating 2009 contributions.

Under PPA, there are choices as to the interest rate used to determine liabilities and the averaging period to apply to the plan's assets. Table 1b shows estimated 2009 minimum required contributions under the default choices[3], "segment rates" which use market interest rates averaged over the prior two years and the market value of assets (MVA). We also show the contribution required to get to 80% funded status, which as noted above is a part of many companies' funding policies.

[2] Assumes credit balance is $0.

[3] The default choices apply unless the plan sponsor makes a specific election to use one of the other alternatives.

Table 1b **Estimated amounts** As of January 1, 2009 ($ millions)	
Funding liabilities	$995
Assets	$663
Funded status	67%
Contribution 1: minimum required	$86
Increase in contribution 1 as a percentage of cash flow from operations	6.2% (total 9.5%)
Contribution 1 as a multiple of 2008	2.9x
Contribution 2: required to reach 80% funded status and meet minimum requirements for 2009[4]	$196
Increase in contribution 2 as a percentage of cash flow from operations	18.5% (total 21.8%)
Contribution 2 as a multiple of 2008	6.5x

As you can see in Table 1b, increases in minimum required contributions for this sample company will be substantial, with the minimum contribution increasing to 2.9 times its 2008 level – requiring an *additional* 6.2% of cash flow from operations. Meeting cash flow demands of this magnitude on an unexpected basis is a significant challenge for plan sponsors. The most substantial effect, however, comes if the plan sponsor wishes to maintain a funding level of 80%. If so, the contribution needed will be 6.5 times the 2008 level, or an *additional* 18.5% of cash flow.

[4] By making a contribution to reach 80% funded status, the plan sponsor has a smaller deficit to amortize; thus the difference between contribution 1 and contribution 2 is slightly less than the amount needed to reach 80% funding.

Many of our clients have expressed concern about contribution increases that are driven by the "80% funding effect," particularly among cash balance plan sponsors who do not want to suspend paying lump sum benefits

S&P 1500 funded status

The declines in funded status in our sample case are indeed representative. We have calculated the funded status of 729 companies in the S&P 1500 index that report having a funded defined benefit plan as of January 1, 2008 and projected to October 24, 2008.[5] As shown in Table 2, the median funded status declined from 101% at the beginning of the year to 78% as of October 24. Declines were observed at all ranges of the distribution.

Table 2
Funded status of defined benefit pension plans
(729 companies in S&P 1500)

	January 1, 2008 (actual)[6]	October 24, 2008 (estimated)
25th percentile	90%	70%
50th percentile	101%	78%
75th percentile	113%	87%

From this data we reach these conclusions:

- The issue of significant increases in minimum required contributions, along the lines of those in our sample plan, will be relevant for almost all plan sponsors, with a few exceptions:
  - Plans that were so well funded at the beginning of the year that even the significant declines in funded status through the year will not leave them less than 100% funded.
  - Plans that have introduced investment policies that involved a significant "hedging" of liabilities through fixed-income instruments whose value moves in parallel with the value of the liabilities. Exact hedging of the liabilities is not practically possible, but Mercer has several clients whose funded status has gone up after introducing significant hedging strategies.

[5] With approximate adjustments from publicly disclosed financial statement numbers to the basis used for funding calculations, and asset experience based on market indices for major asset classes.

[6] Actual funded status of reported accumulated benefit obligation, as reported in company financial statements; assumed to be approximately equivalent to plan funding liabilities.

- Many employers will be subject to very severe increases in contributions if they want their plans maintain an 80% funded level at the end of 2008.

Risks to participant benefit accruals

The sudden need for substantial additional contributions may create a temptation or necessity for companies to eliminate future benefit accruals in their pension plans and/or reduce contributions to defined contribution plans. Such actions, if they become widespread, could threaten the long-term stability of the retirement income system. To test the potential severity of these issues, we looked at the 313 companies included in the S&P 500 that reported both assets and accumulated benefit obligation for US defined benefit plans.[7] Again, we assumed a simple scenario of assets decreasing 25% and liabilities remaining constant – which is not all that far from what has actually happened to date. We then determined what would have happened to their *minimum required* contribution (ignoring any policy of contributing to keep funded status at 80%). This simple test produced the following results:

- Minimum required contributions for 11 companies would increase by 20% or more of cash flow from operations. For these companies --
  - The average increase in contribution as a percentage of cash flow from operations is 65% (median 40%)
  - Freezing the plan would save an average of 37% of cash flow from operations (median 19%)
  - Eliminating contributions to defined contribution plans would save an average of 15% of cash flow from operations (median 13%)
- Minimum required contributions for 31 companies would increase by 10% - 20% of cash flow from operations. For these companies --
  - The average increase in contribution as a percentage of cash flow from operations is 15% (median 15%)
  - Freezing the plan would save an average of 10% of cash flow from operations (median 7%)
  - Eliminating contributions to defined contribution plans would save an average of 5% of cash flow from operations (median 5%)

The data indicates that these companies, which include some of America's premier corporations, may have significant economic incentive to reduce future retirement benefits for their employees. Taking this step may be the only available means for these

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[7] Mercer's existing database for the S&P 500 subset of the S&P 1500 has a finer level of detail needed for this analysis; we have also made adjustments from publicly disclosed financial statement numbers to the basis used for funding calculations.

companies to conserve significant amounts of cash unless the relief from increases in minimum required contributions is substantial. Since many of these companies are considered trend-setters or are often cited by their peers in benchmarking studies, other companies could follow suit to remain “competitive.”

In summary, Mercer’s preliminary analysis suggests that the issue is significant, both from the perspective of plan sponsors facing the need for substantial increases in contributions in what may be a temporary situation, and to reduce the likelihood of sponsors offsetting these increased contributions by reducing future benefit accruals in their plans, further undermining the stability of an already unstable pension system.

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Stakeholders and Their Perspectives on This Issue

In examining possibilities of relief, one must consider the perspectives of plan participants and sponsors, the PBGC, as well as the overall economy.

Plan participants

Participants have a reduced level of benefit security as a result of the decline in both defined contribution and defined benefit plans' asset values. The PBGC does provide some protection for defined benefit plans; however, it may not be complete.

Another significant threat to participants is the loss of future benefit accruals that would occur if employers are forced to freeze plans by law, or choose to do so to reduce cash demands. This loss could become permanent if companies choose to replace their pension plan with a less generous 401(k) plan that shifts all risk to the participant.

From the broadest perspective, the threat of job loss is participants' greatest concern. An unanticipated increase in pension contributions, if substantial enough, would require hard decisions about operational priorities for available cash flow, raising the potential for employers to downsize or declare bankruptcy.

Plan sponsors

Plan sponsors need cash to run their businesses and even more to grow the business. Credit is difficult to find in the current environment so most cash must be generated internally. Cash used to cover asset losses (which may be temporary) is irretrievable and unavailable for other operating needs.

Unpredictable cash flow needs, such as volatile pension contributions, are an impediment to effective management of a competitive business and discourage employers from sponsoring plans.

PBGC

Well funded plans protect participants and the PBGC in the case of employer bankruptcy. But at the same time, the PBGC is well served when employers stay out of bankruptcy (and are not forced into it by having to use cash for pension contributions that could have been used in other ways to stabilize the business). This is a difficult balancing act that primarily depends on differentiating between companies in temporary cash distress and those that are not viable long term.

Overall economy

Society operates far more smoothly when people can plan for retirement and count on a steady source of income in retirement. As individuals are living longer, Social Security is becoming more difficult for the economy to support, and a healthy retirement benefit from employment and personal savings is ever more critical. Our policies must encourage participants and plan sponsors to provide significant, stable amounts of retirement income.

Any relief must take account of all these stakeholders, although no solution is likely, at least in the short run, to satisfy them all.

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Criteria for Relief and Recommendations

The Treasury should act to provide immediate relief to employers facing dramatic contribution increases. Relief will help alleviate business stress and concerns about potential bankruptcy, and will help protect plan sponsors, participants and the PBGC in a time of extraordinary financial turmoil.

Although there are several suggestions for immediate Treasury action that would provide pension sponsors with more planning flexibility, these actions alone provide only marginal assistance and are insufficient to address the current situation.[8] They do not directly address the problem, and can produce unintended consequences. We recommend a more fundamental approach.

Criteria for relief

In structuring relief, the Treasury should consider the following key objectives:[9]

- Relief should not undermine the important PPA reforms and should preserve significant improvements in private pension funding.

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[8] For example, the IRS could amend its proposed regulations to allow employers to choose true asset smoothing, rather than the actuarially inappropriate method of asset averaging described only in proposed IRS regulations. The IRS could also amend its proposed regulations to permit employers, at least for the time being, to switch back and forth from smoothed discount rates to the full yield curve. Given the lack of final PPA regulations two months before the end of the year and companies' planning needs, the IRS could also extend the 2008 "reasonable interpretation of the statute" compliance standard through 2009.

[9] Ideally, the extent of relief would be tailored to some measure of business hardship, such as size of contribution increases relative to business operations. In practice it will be difficult or impossible to formulate and implement such measures.

- Provide sponsors relief from extreme volatility without weakening the integrity of the ongoing funding rules.
- Relief should balance maintaining the financial security of existing pension benefits with participants' expectations to continue to earn future benefits, and society's interest in those benefits continuing to accrue.

Recommendations

The following proposals achieve the needed relief and satisfy the criteria outlined above. ***We urge the Treasury to propose legislative adoption of the following proposals and to implement them where administratively possible under Treasury's existing authority.***

1. ***Contribution Volatility Limit*** – Modify and administer the funding rules to explicitly limit the amount by which a company's contribution requirement can increase (or decrease) from one year to the next.

2. ***Relief from mandated plan freezes*** – Suspend, for one year, the current law requirement that plans that are less than 60% funded be frozen; this relief should apply to plans that had a prior year funded ratio exceeding 75%.

3. ***Relief from restrictions on accelerated payments*** – Suspend restrictions on accelerated payments if a sponsor makes additional earmarked contributions equal to the amount of the otherwise restricted payment.

We believe that the first of these proposals can be implemented immediately on a temporary basis under current legislative authority for funding waivers but should also be made a permanent feature of the law. We believe the second and third will require legislation. Each of the three proposals is described in more detail below.

1. Contribution Volatility Limit

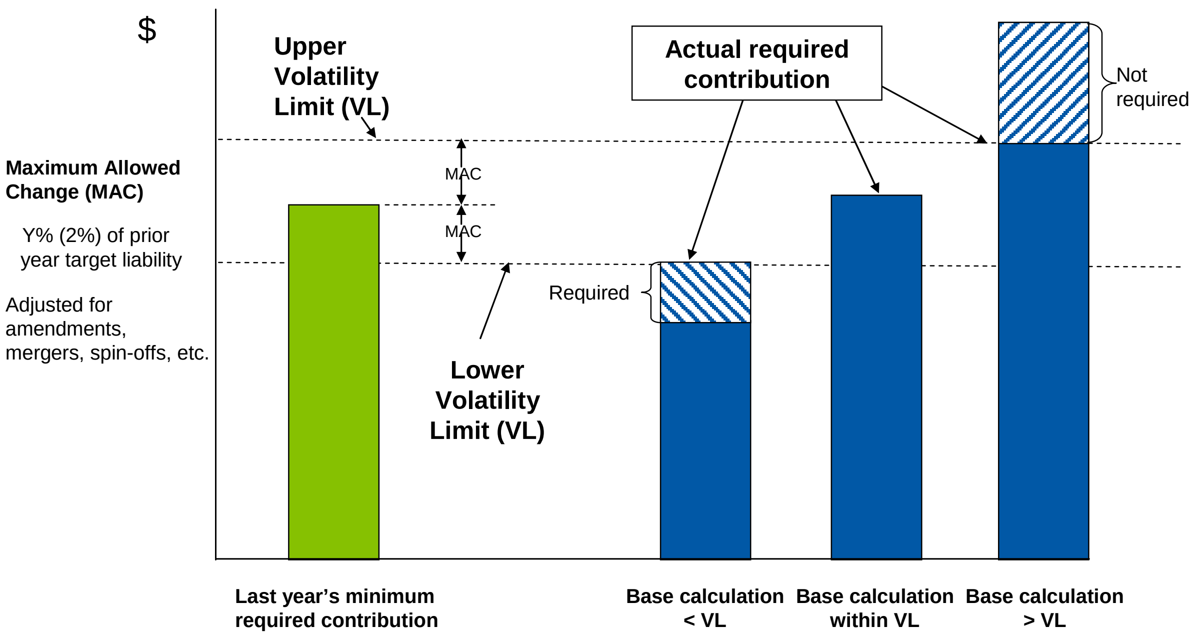
Steep increases in contribution requirements -- contribution volatility -- can be mitigated by addressing the problem directly. We urge the Treasury to propose legislative adoption of a Volatility Limit to the minimum required contribution. In addition, we urge that Treasury exercise its current authority to grant funding waivers to provide *limited* funding relief to companies whose required contribution would exceed the proposed Volatility Limit.

The Volatility Limit would explicitly limit the amount by which a plan sponsor's minimum required contribution can increase (or decrease) from one year to the next. The Volatility Limit can be defined as a percentage of prior year liabilities, normal cost, minimum required contribution, or a combination of some or all of these. For simplicity, we have assumed a limit equal to 2% of total plan liabilities.[10] The exact size and basis of the

[10] A 2% liability limit would generally apply if losses exceeded about 12% of plan liabilities; a 2.5% limit would generally apply if losses exceeded about 15% of plan liabilities

Volatility Limit should be determined though careful analysis of potential gains/losses, their effect on contributions and funded status and other features of the PPA.

Chart 1
Volatility Limit



A Volatility Limit is attractive because it would apply only to the extent that contribution requirements increase dramatically due to large market fluctuations -- it would *not* limit moderate contribution increases that result from more typical market fluctuations. Thus, the proposal does not undermine the key reforms accomplished by PPA. Moreover, because the limit would be triggered only by significant contribution increases (or decreases), it is more directly targeted at companies that are likely to experience business hardship if no relief is provided.[11]

An important aspect of the Volatility Limit is that it applies in both directions – limiting decreases in contributions from favorable experience as well – so it is not just a device to weaken funding. If done in both directions, the Volatility Limit can mitigate the perennial pension funding issue of correlation of economic stress with increased contributions. However, since the primary focus in the current circumstances is on limiting increases, the following discussion is written in those terms.

[11] Contribution increases resulting from plan amendments, expansion of coverage, or other unusual events would not be limited by the Volatility Limit.

Continuing with our example of a sample plan as presented earlier, we can illustrate how the Volatility Limit would not apply in a typical down market, but would apply when market conditions deteriorate significantly.

The plan initially has liabilities and assets of $1 billion making it 100% funded, and has a normal cost requirement of $30 million a year to fund ongoing accruals. Under the PPA funding rules, there is no underfunding to amortize, and the total required contribution would be $30 million.

If asset values fell by 10% (not an unusual circumstance), the plan's unfunded liability would be approximately $100 million, which would be amortized over seven years at approximately $17 million per year. Since the increase -- $17 million -- is less than 2% of plan liabilities ($20 million), the Volatility Limit would not apply and the company would be required to make the entire $47 million contribution ($30 million normal cost, plus $17 million amortization of the deficit).

If however we look at actual 2008 experience (Table 1b), the plan's unfunded liability increased to $332 million. The minimum contribution more than doubles, from $30 million to $86 million. Since this $56 million increase is more than 2% of plan liabilities, the Volatility Limit would apply. In this arguably unusual year, the company's required contribution would be $50 million.

As this example shows, the Volatility Limit would not apply in years where there is a market downturn within normal expectations. However it would apply when there is an extreme market downturn.

Another important advantage of the Volatility Limit is that it provides only temporary relief and does not operate to keep the required contributions artificially low for a sustained period. Thus, it does not undermine the key reforms accomplished by PPA. In the example above, if asset values did not recover in the next year, the company's required contribution could increase by another $20 million to $70 million, and increase again by another $20 million – to $90 million – in the following year.[12] To make up for the deferred contribution payments in the early years, the total contribution might eventually rise to more than the $86 million it would have been without the Volatility Limit, but the increases would be more controlled and easier to plan and budget. The Volatility Limit does not postpone company contributions for a long period of time; if market conditions do not improve, the minimum contribution will increase in a predictable pattern from year to year. Thus, the Volatility Limit mitigates the immediate contribution shock that can result from rapid, unforeseen market deterioration and enables a company to better manage and budget for future contribution increases.

We urge that the Treasury immediately propose legislation to adopt a Volatility Limit to the minimum required contribution, effective no later than January 1, 2009.

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[12] For simplicity of illustration, we have assumed no growth in liabilities or the cost of benefit accruals. In actual operation, each year's Volatility Limit would be adjusted to take these effects into account.

We also urge the Treasury to implement this Volatility Limit immediately through its authority to grant funding waivers. The Treasury has authority to waive a company's minimum required contribution if making the contribution would result in a temporary substantial business hardship. We recommend Treasury immediately announce that a plan sponsor that requests a waiver for the amount by which the minimum required contribution exceeds the Volatility Limit will be presumed to satisfy the substantial business hardship criteria. Any waiver request that exceeds this amount would need to qualify under existing procedures.

2. Relief from mandated plan freezes

Current law requires that a plan sponsor freeze its pension plan if the plan's funded ratio falls below 60%. Thus, employees stop earning additional pension benefits. Many more plans will be affected by these restrictions than might have been expected before the significant market decline. However, suspensions required due to extreme but potentially temporary market conditions are damaging to the pension system.

To address this situation, we recommend that the Treasury propose legislation that would waive the plan-freeze requirement if the plan's prior year funded ratio exceeded 75%. This provision would allow sponsors to continue benefit accruals for one year. If markets recover within that year and the funded ratio returns to over 60%, benefit accruals will not have been interrupted. If markets do not recover, or the company does not make sufficient contributions and the funded ratio remains below 60% at the end of 2009, the plan would be required to be frozen at the start of the second year.

This policy change would enable many plans to continue benefit accruals and avoid a loss of benefits for participants. The cost is additional liability exposure to the PBGC, but that exposure is limited to one additional year of benefit accrual. We believe that exposure is far outweighed by the potential benefits of encouraging sponsors to continue to maintain their plans and work out of the current financial situation. As a practical matter, if plans are frozen in 2009, many will not be unfrozen when their funded ratios return to over 60%. This sharp blow to the pension system may be avoided by not triggering the suspension rules due to what may turn out to be a temporary market downturn.

3. Relief from restrictions on accelerated payments

Certain other benefit restrictions are required if funded ratios drop below 80% or 60%. Most immediately relevant is the partial limitation on payment of lump sums or other accelerated distributions[13] when a plan's funded ratio drops below 80%, and a full limitation if the funded ratio drops below 60%. Far more plans will be affected by this restriction – particularly the 80% level – than might have been expected before the current significant market decline.

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[13] In general terms, an "accelerated" distribution pays benefits more quickly than evenly over a participant's lifetime.

These restrictions affect participants, not plan sponsors. Although participants will ultimately receive the full value of their benefit, either through the accelerated payment when restrictions are withdrawn or through a life annuity, the restrictions may frustrate participants who have planned their retirement expecting to receive a lump sum. The restrictions also pose an issue for employers that have adopted cash balance plan designs where the “portability” of the benefit as a lump sum is a significant feature valued by participants. Some relaxation of this restriction is thus appropriate, but not to the overall financial detriment of the plan.

The Treasury should propose relaxing the lump sum benefit restrictions while providing safeguards to ensure plans’ ongoing financial health. For example, the benefit restrictions could be relaxed to the extent that the plan sponsor makes an *additional earmarked* contribution equal to the amount of the otherwise restricted benefits. This additional contribution would not be subject to the Volatility Limit and would be in addition to the otherwise required contribution.

Plans whose funded ratios fall below 80% or 60% must provide participants with a notice about the funded status and file additional reports with the PBGC. While these requirements are troublesome and perhaps unnecessary if the market declines prove to be temporary, we do not believe they create a degree of hardship that must be dealt with immediately.

Conclusion and summary

As a result of the current financial crises, pension plan sponsors must shoulder the immediate burden of sudden, unexpected large increases in plan contributions. At a time when cash may be difficult to generate internally or to obtain in the credit markets, plan sponsors need immediate relief. In the absence of relief, plan sponsors may have a significant economic incentive to reduce benefits for their employees as the only available means of conserving significant amounts of cash that might be urgently needed for other business priorities.

This report describes a three-part approach for delivering immediate relief: limiting contribution volatility, granting a one-year grace period before a plan must be mandatorily frozen due to funded status and easing the rules restricting payment of full, lump sums. These recommendations take into account the points of view of all the stakeholders, and meet three key principles:

- Preserve the overall funding improvements included in PPA
- Provide sponsors relief from extreme volatility without weakening the integrity of the ongoing funding rules.
- Balance financial security with expectations of future benefit accrual.

At this difficult moment immediate solutions to severe short-term problems are essential. However, the short-term problems – the focus of this report – also expose serious, fundamental long-term issues that merit significant discussion and debate. We would expect such a debate to cover topics such as:

- The role of retirement plans in accumulating capital

- The advantages of voluntary versus mandatory retirement systems
- Ways to encourage diversity of financial assets in retirement including both asset accumulation and lifetime income approaches
- Appropriate ways to invest retirement savings (both corporate and individual) and manage financial risk within the system, and how that risk should be allocated amongst companies, individuals, and the government
- Effective programs to pool risk and enhance value rather shift risk amongst stakeholders

In the long run we need an effective retirement system to support a diverse and vibrant economy. Properly managing the short-term challenges of the current financial crises will help ensure that there is enough of a retirement system to even make long-term planning a viable exercise.

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