

### Sweeten the Carrot

Mark Shemtob ("The Truth About Defined Benefit Pension Plans," July/August 2007) misses one solution to the problem of encouraging the formation of new DB pension plans. That would be to change PBGC premiums so that flat-rate premiums are charged only on employees who are *not* covered by a DB plan that provides them with a pension of at least 1 percent of pay per year of future service. That would encourage employers to adopt DB plans and to fund them adequately, so as to avoid variable premiums.

I emphasize this suggestion is my own opinion and not necessarily that of my employer.

JAN HARRINGTON  
NEW YORK CITY

### Spare the Rod

I am happy to respond to Lawrence Johansen's request in his ABCD article in the May/June *Contingencies* for views on whether the ABCD administers "justice appropriately." Based on my personal experience relative to a complaint I made to the ABCD about the work of two actuaries, I'm firmly in the camp of those who believe that the ABCD is, to be polite, too lenient.

My complaint was based on Precept 8, which requires an actuary to ensure that misuse of an actuarial work product doesn't occur. (I also indicated that Precept 1, "skill and care," had been violated.) The complaint was dismissed on the basis that it really wasn't the actuaries' job to make sure that the assignment was proper. Precept 8, where is thy sting? Ultimately, with formal legal support, a settlement was reached that rejected the conclusions of the actuarial work product.

In retrospect, I realize that I was naïve to expect that the ABCD would expend the effort to dig into the case to determine that the actuaries' principals relied exclusively on the actuaries' work prod-

uct to reach a wrong conclusion. My clear impression from the disposition of the complaint is that the ABCD stretched to find an excuse, feeble though it was, to avoid censuring the actuaries involved. I believe that, if an evenhanded investigation had been undertaken, the result would have been quite different.

A telltale sign that the ABCD process is skewed in favor of the accused is contained in Mr. Johansen's description of the process: "At each step in the ABCD process, the actuary is afforded an opportunity to provide the ABCD with additional information, if any, in support of a contention that there hasn't been a material violation of the Code warranting a recommendation for discipline." Missing in the description is a similarly expressed zeal to ensure that all aspects of the complaint are investigated.



You will recall that the recent CRUSAP report recommended the introduction of individuals from outside the profession to participate in the ABCD process. As long as the ABCD continues to operate without oversight, I expect the number, both inside and outside of the profession, who believe "that the ABCD has been excessively lenient and that more actuaries should be publicly disciplined to preserve the profession's good reputation" will continue to grow.

WILLIAM SCHREINER  
ARLINGTON, VA.

### Conspicuous Conservation

I would like to respond to the article in the May/June issue written by Gail E. Tverberg entitled "Our Finite World." I was really pleased to see that she looked beyond the symptoms of the problems we're having with reaching our global limits by pointing out the flaw in the main economic tenet of infinite growth.

I would add, though, that the picture illustrating the article was somewhat incomplete. It shows an obese man literally eating himself out of house and home. I'm not referring just to the fact that there are women and children as well as men, or that we have animals and plant life that also inhabit the earth. There is a huge inequity in what we humans consume. The richest 20 percent of humanity consumes 86 percent of all goods and services used, while the poorest fifth consumes just 1.3 percent. That leaves the middle 60 percent with the remaining 13 percent of the resource pie. (United Nations Development Program, *Human Development Report*, 1998, New York: Oxford University Press, 1998) So rather than showing one obese man, we could have shown four other people, one of whom was starving, and the other three who were barely sustaining themselves.

I think it's imperative for the richest 20 percent of humanity to cut down on its consumption, not only because we're reaching our ecological limits and we want to leave an inhabitable planet for future generations, but because we're shutting out the majority of humanity in a just share of the world's resources. Although this sounds radical, the 20 percent of humanity that consumes 86 percent of the resources should be striving to cut its consumption down to one-quarter of what it is today, in order to enable everyone to have the necessities of life: adequate food, education, housing, and health care.

CATERINA LINDMAN  
KITCHENER, ONTARIO

**Debt Generation**

I don't usually do this, but I wanted to write and say I was very impressed with Tip Parker's "Shrinking America's Middle Class" (July/August 2007). While I may not agree with all his assertions, I was very intrigued with his overall contrarian view of the stock market and its participants. It was a thought-provoking and well-written piece.

**FRANK CHECHEL**  
NEW YORK CITY

Well, I read Tip Parker's article, and some of it is information I've seen before but most of it is new. So, you succeeded in scaring me. My first question is, what can an individual do? Is it like King Canute commanding the tide? I'll probably die of old age before the government will do something constructive.

**J. HARTFIELD**  
NEW YORK CITY



**TIP PARKER RESPONDS:** My purpose was not to scare, but to get people and organizations with analytical skills, particularly actuaries, to do their own analyses of what appear to be serious risks. If they conclude that the risks are as I believe they are, they should then find ways to mitigate them. I don't think that most individuals will be able to do much for themselves by acting

alone. The country needs new financial institutions and instruments to channel capital to productive uses to create jobs and real-world value instead of parasitic speculation. For a start, you might also read *Deep Economy, The Wealth of Communities and the Durable Future* by Bill McKibben. He doesn't pretend to have all the answers, but I think he's on the right track.

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I think that both individual and organizational retirement accounts should concentrate on investments that are designed to tap into future earnings streams, not securities that will have to be sold into what may be declining markets. One of the absurd but undiscussed aspects of the Dubai ports deal was that they saw the ports as long-term cash cows that could be bought with their oil money. The former U.S. earners saw them as assets to be sold for quick gains. If you watch the papers, I think you will see many examples of this country relying on immigrant capital to do what its own investors won't do, much as it's relying on immigrant labor.

My goal is to get people, particularly of [the baby boom generation] to think seriously about what may be coming and what to do about it. As I see it, the country needs new financial institutions and instruments

that funnel capital into productive, or as some would say, "direct" investments that will develop a sustainable, productive economy that meets real-world needs, creates genuine rather than paper wealth, and creates secure jobs. In other words, a modern replica of the economy that built this country in the first place.

The country needs new types of financial instruments and institutions that channel retirement and other savings into uses that will expand the productive side of the economy, providing dependable jobs and producing long-term earnings streams to pay retirement incomes. Some of the instruments could be participating so that as businesses grow, the investors would share the profits.

The instruments would allow an investor to recover his or her money, but would not be designed or even useful for trading. I can see REIT-like institutions,

or small-business development companies, as intermediaries that would bundle investments in thousands of small- to middle-market, community-based, private companies and sell the bundles, particularly to retirement plans. These institutions would be long-term partners of the companies and help them meet their own goals, not the exit goals of the investors.

I think a fundamental change is both needed and inevitable. The idea that the country can provide retirement incomes to one generation by having its members buy stocks, expect them to grow several times faster than the economy, and then sell the stocks at inflated prices to the next generation is absurd. That's a pyramid or Ponzi scheme that must eventually fail. The idea that just buying stocks in transactions that don't bring capital to companies will help the productive side of the economy and produce jobs is similarly absurd.

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