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Client Profile

We would like to congratulate Kadant Inc. on ranking #187 on Forbes list of the 200 Best Small Companies in America. Based in Westford, MA, Kadant is a leading supplier of the global pulp and paper industry. Congratulations Kadant!

For more information please visit www.kadant.com.

Upcoming Presentation

Dan Cassidy will be speaking at an upcoming NEEBC

Benefits Club Breakfast meeting on November 13th at Bentley College in Waltham, MA. He will be discussing "The Next Frontier in 401(k) Plan Management - Distribution Management". Topics to be discussed will include: inadequate savings, shortcomings of retirement date funds, investment and longevity risk, and withdrawal options.

For more information, please visit <http://www.neebc.org/programs/nov1307.php>.

Hedgeability - The New Predictability post-PPA

The Pension Protection Act (PPA) takes a giant leap forward in updating the way costs are calculated for a pension plan. By moving to a market-based measure of liabilities and assets, PPA shines a spotlight on the arcane actuarial tools and methods. In one fell swoop, PPA modernized the entire regulatory framework. One major outcome will be that hedgeability - the ability to hedge (i.e. counterbalance) risks - will replace predictability as a key focus of defined benefit plan sponsors. This is a positive step forward and will encourage plan sponsors to have productive

discussions with their advisors about which risks they want to hold onto, and which ones they want to eliminate.

Background

In our work with defined benefit plan sponsors, a common refrain we hear from them is "We want predictability in our pension costs." Pressed for clarification, many CFOs add, "We don't mind that the number is high, we just need to know how high. We don't like the fluctuations - 10% of pay one year, then down to 0%."

The traditional response from actuaries, investment managers, and regulators was to use artificial and mechanical methods to provide a more predictable stream of pension costs. Examples of these methods were using five year averaging of asset values, averaging the 30-year treasury rates over four years, traditional 60% equity/40% fixed income asset allocation, etc. These "smoothing" methods obscured the real risks faced by plan sponsors and perhaps promoted mispricing of past benefit improvements.

New Focus - Risk Management

This new trend has been encouraged by developments in the asset management world - where more sophisticated instruments allow plan sponsors and their asset managers to more explicitly manage their risk exposures. Financial firms are constantly developing new products that provide liquidity to specific risks that a buyer/seller want to manage. Even today, new derivatives based on longevity and mortality are being developed and made available to the marketplace. These new tools should provide plan sponsors with better, more efficient marketplace vehicles to manage all of the risks in their plans.

Also, look to these tools to be deployed in the 401(k) world, especially focused on the risks facing a retiree in their distribution phase. Traditional mutual funds do not explicitly allow retirees to manage their risks in an efficient manner. Using these new vehicles and other guaranteed products, retirees should have significantly more robust options from which to choose. Our goal as advisors is to help plan sponsors understand and deploy these new options appropriately.

Resources

For more information on Cassidy Retirement Group, please visit <http://www.cassidyretirement.com>.