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Actuarial Risks Facing Pension Plans

Risk is not necessarily a negative concept. As humans, we regularly take risks such as driving in an automobile because we believe that the potential gain (getting there sooner) outweighs the possible negative results. We do, however, take steps to mitigate the risk by looking both ways at the intersection and wearing our seatbelts.

For pension plans, we identify the significant actuarial risks that affect how liabilities are measured, and contributions determined. Some risks, such as investment return for a funded retirement plan, are obvious, but others are not as clear. We must look to the plan design features, such as lump sums based on market interest rates or 13th check COLAs, which may increase or decrease the risk a plan faces.

The more significant risks that we review are as follows:

- Investment Risk
- Inflation Risk
- COLA Risk
- Mortality Risk
- Retirement Risk
- Membership Risk
- Payroll Risk
- Contribution Risk
- Benefit Improvement Risk

Some risks are inherently difficult to quantify, and others are mitigated or exacerbated by plan design and funding policy. For these risks, we often provide a qualitative analysis in our reports, supported by ASOP51. For many common risks, such as significant demographic and economic risks, we provide a quantitative assessment showing the impact on liabilities, contribution requirements, and projected funded ratios. Look to our risk disclosure section of our reports for this information.



Higher Salary Increases Lately?

Many employees, including teachers, are seeing higher than normal payroll increases over the past few years following higher post-pandemic inflation rates. While these larger salaries are increasing liabilities for pay-based benefits in the short-term, these pay increases will provide for more contributions into the plan from employees and employers in the long term, especially for those with fixed-rate contribution plans.

Please contact one of our consultants for an impact statement on the effect of these higher salaries on your plan.



New Branding Launch

We are proud to announce that Cavanaugh Macdonald Consulting is officially changing our name to **CavMac**. We hope our new brand and logo will reflect the experience you will get working with the CavMac actuaries...a personalized touch with a professional and teamwork-based approach. Of course, the tradition of CavMac providing excellent actuarial services to its clients will continue with no interruption.

If you would like more information about CavMac, please check out our website at www.cavmacconsulting.com or call Ed Koebel, our CEO at (678) 388-1706.

Welcome onboard, Amara!



Amara Conte recently joined CavMac as a 2024 graduate from Rowan University in New Jersey. Amara is a two-time National Champion in Track and Field and just missed out in competing in the 2024 Summer Olympic Games as a representative of his home country, Guinea. Amara says that competing in sports has helped him gain discipline to succeed in all areas of his life. He is currently working towards his goal of becoming an Associate of the Society of Actuaries.

Here are some fun facts about Amara:

- He was born and raised in Conakry, Guinea. In 2013, he and his family relocated to Jersey City, New Jersey.
- In his free time he enjoys puzzles, playing soccer and video games.
- The start of his running career actually started with a bet. He made a bet with his friends that he could beat the fastest track record in high school. Guess what... he won the bet!
- He earned the NCAA All-American honor in the 400-meter with a mark of 47.45 seconds.

We are excited to have Amara join CavMac and cannot wait to be a part of his future achievements. We hope to see him at the Los Angeles Olympics in 2028!



But did you know?

1

The Omaha Office Has Moved

Our Omaha office has a new home in Bellevue, Nebraska. The new home provides for more office space as we expand our staff in the Midwest. Our new address is:

3906 Raynor Parkway, Suite 201
Bellevue, NE 68123

2

New Hires at CavMac

Join us in welcoming our four recent hires!

- Devon von Miller – Austin, TX
Senior Actuarial Analyst
- Ryan Thompson – Madison, CT
Associate Actuary
- Amara Conte – Kennesaw, GA
Actuarial Analyst
- Quinn Sweeney – Bellevue, NE
Actuarial Analyst

3

Mary Nelson is Retiring from CavMac

After a 35-year career working in the retirement benefit arena and 15 years with CavMac, Mary Nelson is retiring as of November 1, 2024. As a Senior Consultant, Mary has worked with Mississippi PERS, Alabama Teachers, and the Town of Ocean City, MD. We wish her well in her retirement.



CavMac Comedy

Two actuaries are duck hunting. They see a duck in the air and they both shoot. The first actuary's shot is 20 feet wide to the left. The second actuary's shot is 20 feet wide to the right. The actuaries give each other high fives, because on average they shot it.