

# Index

- accounting follows economics, 17–20  
 accounting risks, 147–162  
 accounting  
   economic, 4–5  
   market value, 4–5  
 accrual system, economic pension expense  
   in, 73, 122–123  
 accrued liability, 5, 47, 60, 67–106, 110,  
   122, 149, 198, 219, 242  
 accumulated gains and losses (AG&L),  
   119  
 actuarial amortization of *PVFBP*, financial  
   versus, 253  
 AG&L. *See* accumulated gains and losses  
 aggregate methods, 74  
 aggregate plan, analyzing contributions for,  
   129–133  
 amortization, 17–20, 69, 95, 128, 222, 230,  
   245–253, 260  
 arbitrage pricing theory, 30  
 Arnott, Robert D., 289  
 articulation, among accounting statements  
   244  
 asset allocation:  
   surplus, 140–145, 151–155  
   tactical, 136, 145, 158–159  
 asset return distributions, 35–44  
 asset/liability studies, 183–189
- Bader, Lawrence N., 56, 57  
 balance sheet, 100–101, 219, 286  
   augmented, 139–140  
   pension trust and, 254–256  
 benefit prorated, 82  
 benefit security liability, 6, 80, 95, 97–99,  
   108–112, *See also* funding target  
   measure of the liability  
 benefits, prior-service, 119, 128–132, 185,  
   193, 227, 229, 247, 260, 267–268  
 Bernstein, Peter L., 70, 250
- beta factors, 140  
 Biggs, Andrew G., 2, 34, 287  
 Black, Fischer, 166–168, 287  
 Bornstein, Howard, 2, 287
- calculators, handheld, for solving pension  
   problems, 76, 77, 105–106, 129–133,  
   230, 253  
 Campbell, John Y., 19, 137, 287  
 Capital gains and losses in the accrued  
   liability, 5  
 certainty equivalence, 38  
 consumption-based capital asset pricing,  
   137–138  
 contribution policy, 21, 85, 175, 196,  
   215–216, 229, 238, 247, 266, 268  
 contribution risk, surplus risk and, 150, 160,  
   168, 176, 182, 199–210, 250  
 contributions  
   components, 126–129  
   deficit make-up, 16, 43, 49, 81, 92, 95,  
     100, 103, 106, 110, 126, 128, 131, 155,  
     171–175, 200–205, 213, 214, 225, 229,  
     230, 236, 246–248, 251, 252, 264, 278  
   normal costs and, 92–94  
   public policy, 251–253  
   pension expense and, 117  
   volatility of, 133–134, 150, 160–161, 176,  
     199  
 credit risk, of sponsor, 107–115, 123–124,  
   231, 258, 279  
 current employees, allocating pension costs,  
   73–81  
 current liability, 272
- Davis, Rowland M., 57, 288  
 decrements, 34–35, 55–56, 58, 74–77, 85,  
   87, 99, 105–106, 118, 130, 153, 160,  
   186, 230, 253, 267  
 deficit, US aggregate pension, 2

- defined contribution plans, 223–224, 233, 235, 261
- derivatives, 156–158, 177–178, 236
- discount rate, 27–54, 107–116, 195–216
- distributions, asset return, 18, 19, 36–44, 167, 201
- distributions, surplus, 172–176
- distributions, contributions, 205–206
- dollar duration, 147–148
- dollar duration matching, 147–148
- dual durations, 141, 148, 154, 162–163, 178, 188
- duration, equivalent to a beta factor, 33, 141
- Dudley, William, 141, 288
- Dugan, Ianthe Jeanne, 50, 288
- Dutch system, 48, 110, 175, 261
- economic accounting, 3–5
- economic accounting perspective, reasons to adopt, 11–12
- economic pension expense, 6–7, 120–122
- Employee Retirement Income Security Act (ERISA), 3, 12
- equities, holding, 165–168
- equivalence, certainty, 38
- ERISA. *See* Employee Retirement Income Security Act
- EVL. *See* expected value of liability default
- Exley, C. Jon, 6, 101, 288
- expected return, 16, 17, 22, 24, 32, 33, 36, 41–46, 51–53, 60, 114, 142, 167, 185, 188, 195, 197, 198, 200, 203, 206, 208, 212, 214, 215, 228, 229, 268, 286; *See also* required rate of return
- expected value of liability default (EVL), 47–48, 111–113, 124, 172, 190, 217, 222, 231, 257, 278
- Fabozzi, Frank J., 31, 289, 290
- FASB. *See* Financial Accounting Standards Board
- FEL. *See* full economic liability
- Financial Accounting Standards Board (FASB), 12, 52, 104, 241, 253–255, 263
- financial amortization, actuarial versus, 253
- full economic liability (FEL), 6, 31, 44, 47, 55–65, 67–73, 79, 94–98, 100–105, 107–108, 112, 120–126, 176, 181–182, 190, 217–219, 226, 240, 243, 259
- inviolability of, 221–222
- funding method for retirement plans, traditional actuarial approach, 195
- funding target measure of the liability, 5, 71, 80, 91, 94–99, 109, 110, 113, 125, 127, 148, 221, 234, 242, 246, 251, 259, 277, 283, *See also* benefit security liability
- GAAP. *See* generally accepted accounting principles
- GASB. *See* Governmental Accounting Standards Board
- generally accepted accounting principles (GAAP), 3, 12, 23–24, 70, 94, 113, 193, 239, 266
- generational equity, 49, 213
- Gold, Jeremy, 57, 167–168, 215, 254, 257, 287–288
- Good, Walter R., 244, 288
- Goodman, Laurie S., 141, 288
- Governmental Accounting Standards Board (GASB), 12, 23, 48–52, 104, 241
- growth rate of the liability, compared to a return, 142
- Hakim, Danny, 12, 288
- Hanson, H. Nicholas, 289
- happy asset return distributions, 35–44, 167, 199–200, 209, 269
- Harrison, J. Michael, 277, 283, 288
- hedging, 35–39, 136–137, 139–140, 147–149, 155–161, 176–177, 199, 241, 248, 250, 261
- Holden, Sarah, 224, 288
- HP 12C. *See* calculators, handheld
- Hudson, Nick, 167–168, 288
- Ibbotson, Roger G., 19, 40–41, 172, 202, 288
- indifference propositions, 8, 47, 136, 168, 190
- insurance, 16, 35, 22, 61, 82, 161, 241, 257
- intertemporal models, 137–138, 193, *See also* multi-period models
- Jaffe, Jeffrey, 4, 290
- Joint American Academy of Actuaries and Society of Actuaries Task Force on Financial Economics and the Actuarial Model*, 6

- Kaplan, Paul D., 19, 40, 202, 289  
 Khorasanee, Zaki, 6, 287
- law of one price, 12, 25, 28  
 law of large numbers, 35  
 legacy costs, 231, 263  
 Leibowitz, Martin L., 135, 141, 193, 289  
 liability alphas, 118  
 liability hedging, how do you define the  
   relevant liability, 151–158, 165, 174  
 liability matching asset portfolio (LMAP), 88  
   benefits of, 178–180, 236–237, 269  
   contribution volatility and the, 200–210  
   discount rate source, 30–33  
   in combination with RAP, 177–178  
   optimal investment strategy, 137, 141–162  
   risk control via, 110, 148–151  
 liability residual returns, 118  
 LMAP. *See* liability matching asset portfolio  
 Love, Douglas A., 244, 288  
 Lucas, Deborah J., 49, 289  
 Luo, Michael, 31, 289
- Macirowski, Thomas, 288  
 Maher, Kris, 50, 288  
 Markuze, Stan, 287  
 Marshall, William J., 141, 288  
 Martellini, Lionel, 31, 138, 141, 193, 289  
 matching principle, 69–72  
   not relying on, 94–100  
 Mehta, Shyam J.B., 6, 288  
 Merton, Robert C., 135, 137–138, 140, 168,  
   170, 193, 255, 289  
 Michaud, Richard O., 57, 289  
 Miller-Modigliani, 8, 156, 168  
 moral hazard, 12–13, 100, 214, 253, 257,  
   283  
 mortality, 33–35, 56, 74, 75, 85, 87, 118,  
   160, 184, 186  
 multi-period models, 138, 147, 177, 186. *See*  
   intertemporal models  
 Mulvey, John M., 56–57, 289
- normal costs, 7, 67–68, 72–73, 86–90, 118,  
   259–260, 273  
   accruing over time, 69–72  
   as a payment on a debt, 4–7, 71–84,  
     103–106, 122, 129–133, 152, 185,  
     204–208, 229, 240, 246, 251–253, 260,  
     270  
   benefit security and, 94–100  
   contributions and, 92–94  
   methods compared, 90  
   periodic economic normal cost, 69–71,  
     76–85, 92, 94, 100–106, , 121–123,  
     125, 134  
   strict full economic normal cost and  
     pension expense, 68, 72, 76, 88,  
     120–122, 125  
 Novy-Marx, Robert, 2, 44, 290
- PBGC. *See* Pension Benefit Guaranty  
 Corporation  
 Pension Benefit Guaranty Corporation  
 (PBGC), 12, 14, 256–257  
   enforcement power, 260  
   PBGC put, 281–282  
 pension budget identity, 65, 102, 217, 258  
 pension expense, 244–246  
   components of, 117–118  
   contributions and, 117  
   economic, 120–122  
   income statement and, 253  
   risk and volatility, 148–150, 160–161,  
     176, 199–210  
 pension obligation bonds (POB), 231  
 Pension Protection Act (PPA), 3, 14, 24, 238,  
   241, 243, 251  
 Percy, Cameron, 287  
 Pew Center on the States, 1  
 Pickles, John, 6, 287  
 POB. *See* pension obligation bonds  
 PPA. *See* Pension Protection Act  
 Priaulet, Philippe, 31, 289  
 Priest, William W., Jr., 56–57, 139, 291  
 prior-service benefits, 119, 128, 130, 132,  
   185, 193, 227–230, 260, 267, 268  
 projected unit credit method, 77
- RAP. *See* risky asset portfolio  
 Rauh, Joshua D., 2, 44, 290  
 Regan, Patrick J., 56–57, 139, 291  
 Required rate of return, 16, 195–216, 240,  
   241, 245, 265, 269, 270; *See* expected  
   return  
 return of the liability vs. growth of the  
   liability, 142  
 retirement plans, traditional actuarial  
   funding method, 195  
 Richman, Hayley, 288

- risk tolerance, organization's, 168–171  
 risky asset portfolio (RAP), 137, 138, 158–159  
   benefits of, 178–180  
   implementing, 177–178  
   along with liability matching asset portfolio, 177–178  
   holding, 165–168  
 Ross, Stephen A., 4, 29, 137, 140, 290  
 Rubinstein, Mark, 137–138, 193, 290  
 Ryan, Ronald J., 57 290
- Samuelson, Paul A., 19, 290  
 Schlappich, Greg, 19  
 Segal, Donald J., 55, 290  
 service costs, 7, 68, 79, 118–119. *See also* normal costs  
 Sharpe, William F., 21, 30, 135, 137, 140, 177, 193, 277–278, 288, 290  
 Siegel, Laurence B., 32, 40–41, 136, 141, 163, 171, 224, 291, 292  
 Sinquefeld, Rex A., 19, 172, 202, 288  
 Sloan, Matthew T., 57, 288  
 Smith, Andrew D., 6, 288  
 smoothing, 17–20, 22–23, 70, 124, 177, 185, 188–193, 238, 245–250, 260, 267  
 Snippe, Jan, 48, 289  
 Sorensen, Eric H., 289 88  
 Strongin, Steve, 288  
 supplemental costs (SC), 117–123, 123, 139, 150–151, 245, 252–253  
   economic versus conventional, 119–120  
 surplus asset allocation and optimization, 136, 140–145, 158–160  
   adoption hurdles, 155–158  
   benefits of, 178–180  
   liability hedging in, 151–155  
 surplus risk, 37, 137, 139, 142–145, 149–151, 158, 161, 171, 174, 179, 188, 193, 250, 261  
   contribution risk and, 199–210  
   pension expense risk and, 199–210  
 surplus, true, 15, 181  
 surplus tulips. *See* distributions, surplus
- tactical asset allocation, *See* asset allocation, tactical  
 Taft-Hartley plans, 36, 44  
 Tepper, Irwin, 166–168, 291  
 Tobin, James, 137, 291  
 Treynor, Jack L., 56–57, 139, 291  
 tulips, asset returns. *See* distributions, asset returns  
 tulips, surplus. *See* distributions, surplus  
 tulips, contributions. *See* distributions, contributions  
 two-fund theorem, 137–138, 141, 143–144, 158–161, 165, 177  
 Tyrrall, David, 6, 287
- unit-credit method, 77, 82–83, 89, 96, 275
- VenDerhei, Jack, 288  
 Viceira, Luis M., 19, 136, 137, 287, 291
- WACC. *See* weighted average cost of capital  
 wage growth, 31, 31, 118, 184  
 Wallace, Marsha, 161, 291  
 Walsh, Mary Williams, 236, 291  
 Wang, Lisha, 287  
 Waring, M. Barton, 15, 32, 113, 118, 132, 135–139, 141, 163, 177, 224–225, 234, 274, 291, 292  
 Washington Public Power Supply System, 50  
 weighted average cost of capital (WACC), 46–47, 275  
 Wessel, Rhea, 33, 292  
 Westerfield, Randolph W., 4, 290  
 Whitney, Duane, 19, 135, 137–139, 141, 177, 202, 274, 292  
 Winklevoss, Howard E., 21, 57, 85, 292
- Youngdahl, John, 288  
 Zander, Moritz, 287  
 Zeldes, Stephen P., 49, 289