Consistent with its philosophy of tackling controversial and timely policy issues, NYU Stern’s Ross Institute of Accounting Research convened leaders from government, financial services institutions and academic researchers on December 7 to probe whether the watchdogs are indeed “watching” our pensions, and if we can sleep tight at night and count on our pensions being intact when we wake up in the future. In his welcoming remarks, Dean Thomas Cooley stated that our pensions are not safe and that pension reform is crucial. In moderating the subsequent panel discussion, Associate Director of the Ross Institute and Clinical Professor of Accounting Seymour Jones cited inadequate funding and corporate deficiencies as factors contributing to the unease.

Mark S. Lilling (BS ’72), Chief Executive and Managing Partner of CPA firm Lilling & Company LLP, and founder of the Audit Committee Consulting Team LLC, argued that we have a social responsibility to provide retirement income, and as people live longer, the need will rise. In 2004, audit records report 75,000 pension plans totaling $4.5 trillion. Yet as early as 2002, 90 percent of defined benefit plans, those for which the employer agrees to pay a specific amount, were underfunded. Moreover, there has been a significant decline in the number of defined benefit plans available—112,000 in 1983 dropped to 11,000 in 2004—resulting in a shift in investment responsibility, and risk, from the employer to the individual. According to Lilling, with the recent advent of the limited scope audit, which doesn’t require pension investments and returns to be audited, $1.5 trillion of the $4.5 trillion in pensions plans isn’t being watched. And with the introduction of the Pension Protection Act of 2006, hedge funds and private equity funds are legally allowed to accept larger investments from pension plans—even though they themselves are not regulated.

Introduced as one of the pension “watchdogs,” Michael Auerbach, Chief, Division of Accounting Services, Employee Benefits Security Administration, U.S. Department of Labor, clarified that his department doesn’t set policy but enforces it, specifically ERISA (Employee Retirement Insurance Security Act), which requires pension plans to be audited. However, the task of having his 13 staff members oversee 75,000 pension plan audits is overwhelming. Auerbach went on to note the complexity of pension plan audits, revealing that while six audit firms conduct 75 percent of all audits, roughly 25 percent are conducted by firms that do only a single audit a year and therefore lack the depth of experience ideally required to perform audits properly.
John Biggs, Former Chairman and Chief Executive Officer of TIAA-Cref and current NYU Stern Executive-in-Residence, moved beyond the micro to more macro pension issues. He noted that pension plan assets have grown significantly—$14.5 trillion year-ending 2005—with IRAs, which are unaudited, holding the biggest percentage of pension dollars. Biggs’ greatest concern about pension safety is that “we”, the American public, are now required to manage our retirement assets on our own. To that end, he expressed concern over the very low contribution rate of young employees while stressing the importance of contributing early to take advantage of compounding. In conclusion, Biggs said, “We’ve found the enemy; and they are us.”

Additional panelists included NYU Stern Professor of Accounting Joshua Livnat, who through his research on employee management of funds, found that one-third of individuals who are offered defined contribution plans do not enroll. He advocates investment in life-cycle funds, which are designed to reap the benefits of the risk/reward tradeoff early in one’s life cycle with a move toward more secure investments as the investor ages. Kenneth Dakdduk, Partner, Pension Accounting, Pricewaterhouse Coopers LLP, underscored the utility of financial reports to assess the safety of pension benefits, noting that as of the end of 2006, balance sheets will report the funded status as either an asset (overfunded) or a liability (underfunded).

Michelle Weldon, Audit Business Advisory Services, Pricewaterhouse Coopers-Boston, provided an auditor point-of-view, arguing that the increased popularity of defined contribution plans as well as the continued growth of derivatives, hedge funds and private equity, has resulted in an inability to report plan assets at fair market values. She also expressed concern that the spiraling cost of audits leads to selection of auditors based on fee instead of expertise. Offering a legal perspective on pension safety, Christopher Sues, Employee Benefits Partner, Pryor, Cashman, Sherman & Flynn LLP, cited that annual filing requirements now include notification to participants of underfunding, material modifications, reduction in rate of future benefit accruals and intent to terminate. In conclusion, Diane Oakley, Legislative Assistant, Office of Congressman Earl Pomeroy (ND), while stating that Congress cannot predict the outcome of pension legislation, admitted that the time spent during this forum discussing pension safety exceeded that spent by Congress debating the same issue on the floor.

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