STERN IN THE NEWS

Experts Question Whether Our Pensions are Safe During NYU Stern's Ross Institute Forum


Steve Markovitz (left) and Mark Lilling.

Last winter, NYU Stern's Vincent C. Ross Institute of Accounting Research convened leaders from government, financial services institutions, and academia to tackle a timely and controversial issue: Are US pensions safe?

Dean Thomas F. Cooley opened the conference by saying that US 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 society has a social responsibility to provide retirement income, and that the need will rise as people live longer. Moreover, the significant decline in the number of defined benefit plans available has resulted in a shift in investment responsibility and risk, from employers to individuals. 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 pension plans isn't being watched. And the Pension Protection Act of 2006 allowed hedge funds and private equity funds to accept larger investments from pension plans – even though they themselves are not regulated.

Michael Auerbach, chief of the Division of Accounting Services at the US Department of Labor's Employee Benefits Security Administration, noted that overseeing 75,000 pension plan audits is overwhelming for his 13 staff members. John Biggs, former chairman and chief executive officer of TIAA-CREF and NYU Stern Executive-in-Residence, said that IRAs, which are unaudited, hold the largest percentage of pension dollars. Biggs' greatest concern about pension safety is that the American public is now required to manage retirement assets on its own, and expressed concern over the very low contribution rate of young employees. He concluded, "We've found the enemy, and they are us."

Additional panelists included NYU Stern Professor of Accounting Joshua Livnat, whose research has found that one-third of individuals who are offered defined contribution plans do not enroll. He advocates investment in life-cycle funds, which adjust the mix of stocks and fixed-income investments as investors age. 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 assets or liabilities.

Michelle Weldon, of Pricewaterhouse Coopers' Audit Business Advisory Services unit in Boston, argued 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.

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