Aetna Retirees Association, Inc
PO Box 280165
East Hartford, CT 06128
www.aetnaretirees.com

News

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Aetna Pension Plan

Much Stronger Position Than Most Corporations

ARA team gets a detailed look at pension funding and policies and comes away "reassured"

During April, participants in Aetna's pension plans received from the company various mandated government forms that resulted in numerous inquiries to ARA concerning the "safety of our pensions." This was not surprising, given the revelation that during the recent financial markets meltdown, the assets of the plans had been reduced by roughly a third to $3.9 billion and that the so-called "funding ratio" of assets to liabilities had dropped to just over 80%.

There are approximately 76,000 participants in the plans, split more or less evenly between active employees, vested inactives, and retirees receiving benefits. That means a large number of "Aetna people" are depending on these funds for their retirement security.

Consequently, ARA contacted Aetna and scheduled a meeting to discuss the status of the funds backing our pensions. On July 24, a team of four ARA Board members, led by President Bob Gilligan, and including former Chief Investment Officer Phil Roberts, former Group VP and Pension Actuary Dick Wenner, and former Aetna International President Ken Veit, met with a high level group of Aetna executives and consultants to review all aspects of the plans' administration and investments.

The Aetna team was extremely open and forthcoming and had provided us with enough advance material to make us all realize that it was good to be retired. The meeting lasted for 90 minutes, and the bottom line result is that we came away reassured about our pensions and the investments backing them.

The most important conclusions that the ARA team reached were the following:

1. The investment policy of the individuals charged with making pension plan investments is sound and professionally implemented.

2. There are no "toxic assets" of any significance, as some had feared.

3. Aetna's pension contribution strategy is to keep the plans very adequately funded. Over the years, they have successfully executed this strategy, maintaining a ratio of plan assets to liabilities generally between 80% and 120%, and averaging over 100% since at least 1995.

4. While the "funding ratio" calculated in accordance with more conservative Government funding rules is just over 80%, Aetna's internal analysis suggests a figure above 85% based on U. S. Generally Accepted Accounting Principles (GAAP). Aetna is, however, required to report to participants using the more conservative Government calculations. Aetna regularly "stress tests" the funding adequacy of the plan using sophisticated modeling techniques to calibrate and plan for potential funding shortfalls and future contribution requirements.

5. No Government mandated contributions by Aetna are required in 2009. Under Government funding rules, the minimum required contribution to a pension plan is generally equal to the value of the benefits participants earn during the year plus an additional payment to reduce unfunded liabilities. The required contribution can be reduced if a company has made contributions in excess of the minimum in previous years. The last year a minimum contribution by Aetna was required under the Government funding rules was 1996.

6. Since 1995, Aetna has contributed to the plan $1.8 billion in excess of what it was required to contribute, and its current policy is to contribute annually an amount that, at a minimum, approximates the benefits earned by participants during the year. This farsighted policy has put Aetna's pension plans in a much stronger position than those of a great many U. S. corporations whose policy has been to contribute only what was required and, therefore, were much harder hit by the financial markets' meltdown.

7. Those who are also receiving or entitled to benefits under the non-qualified, unfunded portion of the old defined benefit plan will be pleased to hear that Aetna's liability for those benefits has been steadily declining. This trend results from the fact that current executives no longer receive those benefits.

Overall, the meeting was positive and marked by candor and a cooperative spirit. The ARA team left with confidence that the pension plan is in good hands and that the Aetna team managing the plan will never put retiree income at unnecessary risk. While all investments involve risk, the risks taken should never involve the possibility that pensions cannot be paid. Obviously, nothing in life can be guaranteed absolutely, but the ARA team left feeling much comforted by Aetna's philosophy and its approach to the funding and investment of our pension plans.

A Big "Thank You" to Aetna
And ARA Team Members

ARA would like to thank the Aetna Pension team for their outstanding cooperation on this project. Reporting rules make it difficult for individual plan participants to gain a full understanding of all of the issues, and the complexity of valuation of investments and actuarial assumptions makes it very difficult for a layman to understand. The opportunity to sit down with those who run the plans and ask key questions went far in assuring ARA that our pensions are in good and responsible hands.

Also, a special "thank you" to the team that represented ARA! Together, they represent many years of experience in working with pensions and investments and were very well qualified for the task. While Bob Gilligan and Dick Wenner were already in Connecticut, Ken Veit flew in from Phoenix and Phil Roberts drove in from Pittsburgh for the session,

CONTACT ARA!

We welcome your comments, questions, ideas and letters to the editor. See mail and website addresses on page 1.

Dave Smith, Editor