



SOCIETY OF
ACTUARIES®

2019 **ANNUAL
MEETING**
& EXHIBIT

October 27-30
Toronto, Canada

Session 028: Best of Both Worlds: Combining DB and DC Plans

[SOA Antitrust Compliance Guidelines](#)

[SOA Presentation Disclaimer](#)

Best of Both World: Combining DB and DC Plans

Moderator: Arin Bratt

Presenters: Jillian Kennedy
Lisa Canafax, ASA, EA

October 29, 2019



SOA Antitrust Compliance Guidelines

Active participation in the Society of Actuaries is an important aspect of membership. While the positive contributions of professional societies and associations are well-recognized and encouraged, association activities are vulnerable to close antitrust scrutiny. By their very nature, associations bring together industry competitors and other market participants.

The United States antitrust laws aim to protect consumers by preserving the free economy and prohibiting anti-competitive business practices; they promote competition. There are both state and federal antitrust laws, although state antitrust laws closely follow federal law. The Sherman Act, is the primary U.S. antitrust law pertaining to association activities. The Sherman Act prohibits every contract, combination or conspiracy that places an unreasonable restraint on trade. There are, however, some activities that are illegal under all circumstances, such as price fixing, market allocation and collusive bidding.

There is no safe harbor under the antitrust law for professional association activities. Therefore, association meeting participants should refrain from discussing any activity that could potentially be construed as having an anti-competitive effect. Discussions relating to product or service pricing, market allocations, membership restrictions, product standardization or other conditions on trade could arguably be perceived as a restraint on trade and may expose the SOA and its members to antitrust enforcement procedures.

While participating in all SOA in person meetings, webinars, teleconferences or side discussions, you should avoid discussing competitively sensitive information with competitors and follow these guidelines:

- **Do not** discuss prices for services or products or anything else that might affect prices
- **Do not** discuss what you or other entities plan to do in a particular geographic or product markets or with particular customers.
- **Do not** speak on behalf of the SOA or any of its committees unless specifically authorized to do so.
- **Do** leave a meeting where any anticompetitive pricing or market allocation discussion occurs.
- **Do** alert SOA staff and/or legal counsel to any concerning discussions
- **Do** consult with legal counsel before raising any matter or making a statement that may involve competitively sensitive information.

Adherence to these guidelines involves not only avoidance of antitrust violations, but avoidance of behavior which might be so construed. These guidelines only provide an overview of prohibited activities. SOA legal counsel reviews meeting agenda and materials as deemed appropriate and any discussion that departs from the formal agenda should be scrutinized carefully. Antitrust compliance is everyone's responsibility; however, please seek legal counsel if you have any questions or concerns.

Discussion Topics

- Introduction
- A Canadian Perspective, Jillian Kennedy
- An American Perspective, Lisa Canafax
- The Impact of DB Plans on Target Date Design, Arin Bratt

A Canadian Perspective – Jillian Kennedy



Defined Benefit vs. Defined Contribution

10%

ESTIMATED ASSETS IN DC PLANS RIGHT NOW

70%

ESTIMATED NEW SAVINGS DIRECTIONED TO DC PLANS

30%

ESTIMATED ASSETS IN DC PLANS BY 2025

DB TO DC SHIFT BEGINS IN 1990s

- Belief that risk and responsibility associated with the pension is shifted to the employee

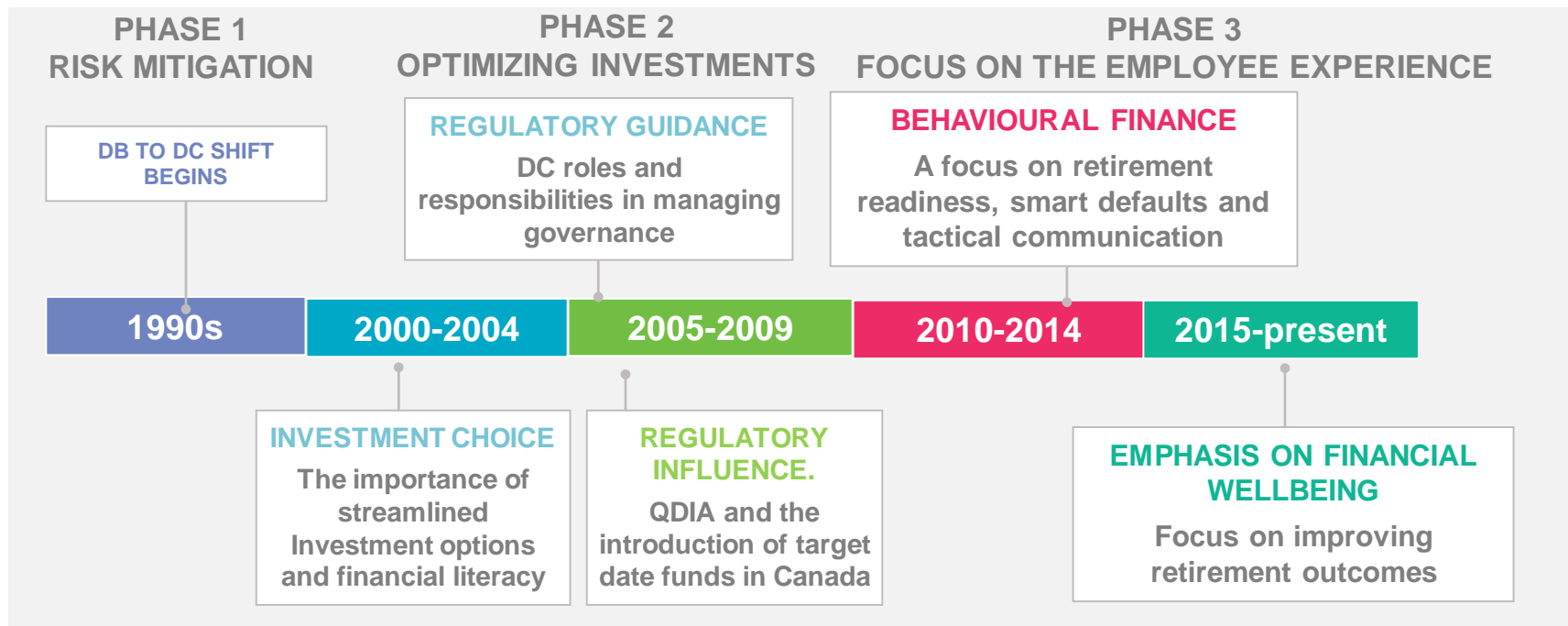
SLOW TRANSITION

- DB Plan closed to new hires
- Choice offered to remaining DB members
- Transition of existing members

CHANGING WORKFORCE

- 5,000 retirees each week now and will increase to 8,000 by 2020
- New employees will rely on DC Plans for their retirement

EVOLUTION OF WORKPLACE SAVINGS



RISKS AND OPPORTUNITIES



HIGH FEES
WITH A LACK OF
TRANSPARENCY



EMPLOYEE
INERTIA



LACK OF
STRATEGIC
FOCUS



EMPLOYEE
RETIREMENT
TRANSITION



RESTRICTED
INVESTMENT
OPTIONS

RETIREMENT TRANSITION



2 out of 3 workers over 50 don't have a strategy for saving for retirement

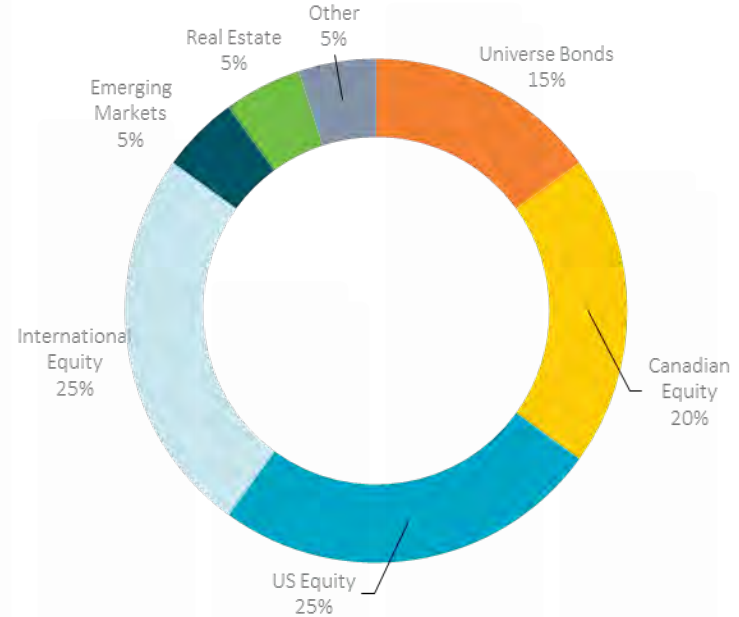
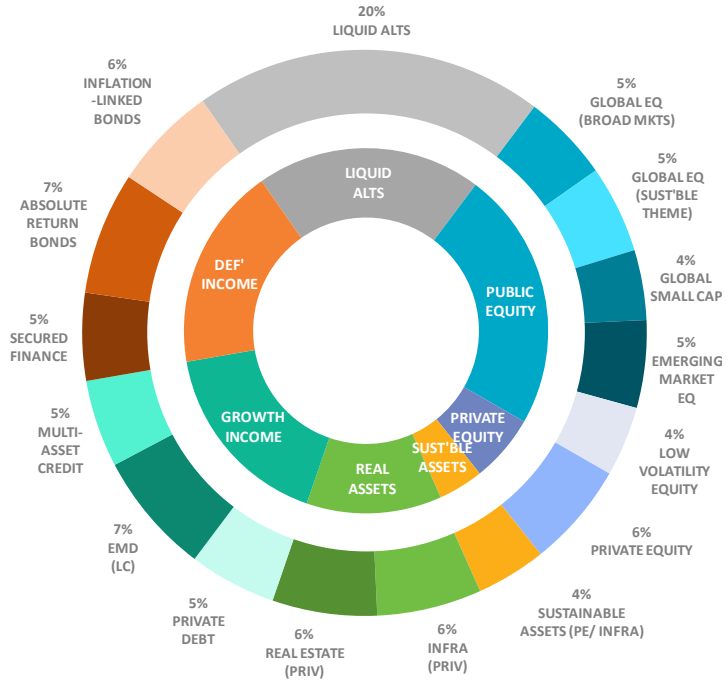


20% of employees describe retirement savings as their biggest financial worry



64% of employees agree that they should have started saving for retirement sooner

INTELLIGENT DIVERSIFICATION



THE BEST OF BOTH WORLDS

Develop a Broader
Range of Retirement
Products

Let's respond to
retirees

Provide a More
Holistic Picture of
Retirement Savings

Including DB, DC and
Savings

Improve Member
Engagement at All
Ages

Personalized

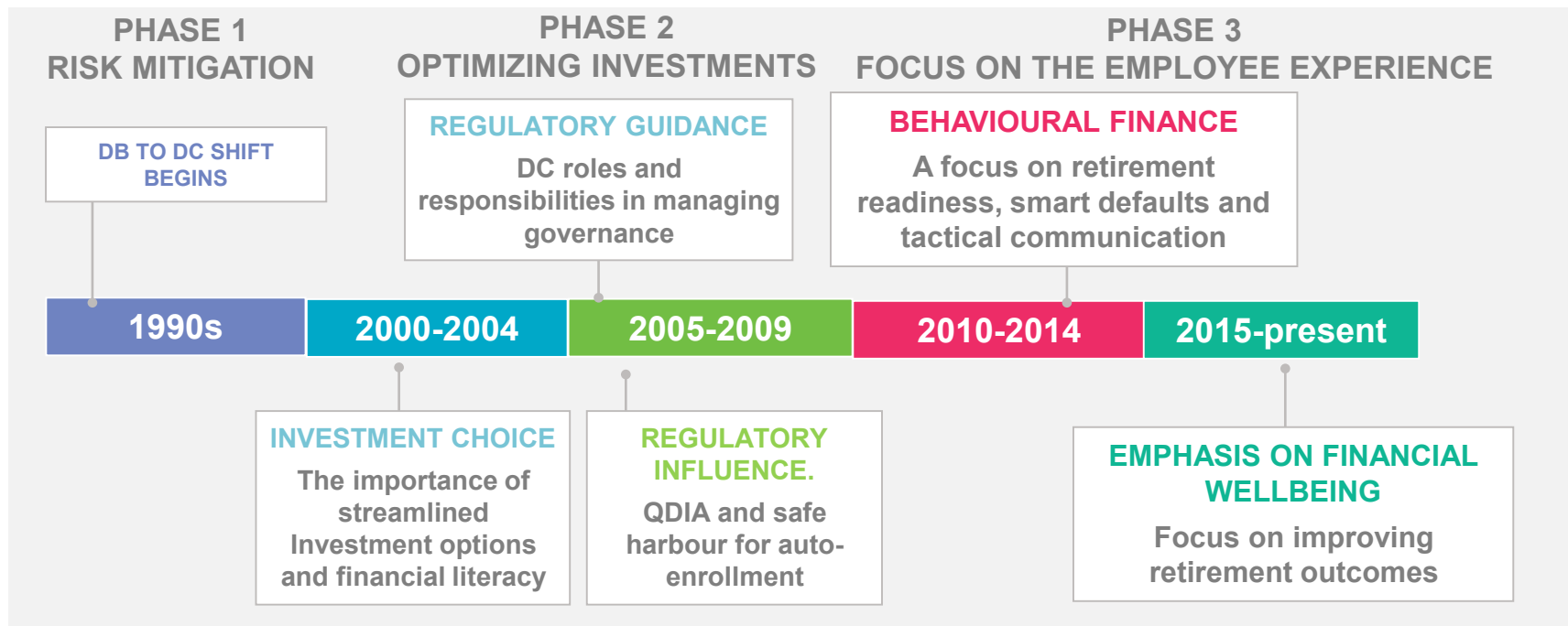
DEVELOP A RANGE
OF TOOLS AND
EDUCATION

Financial Confidence

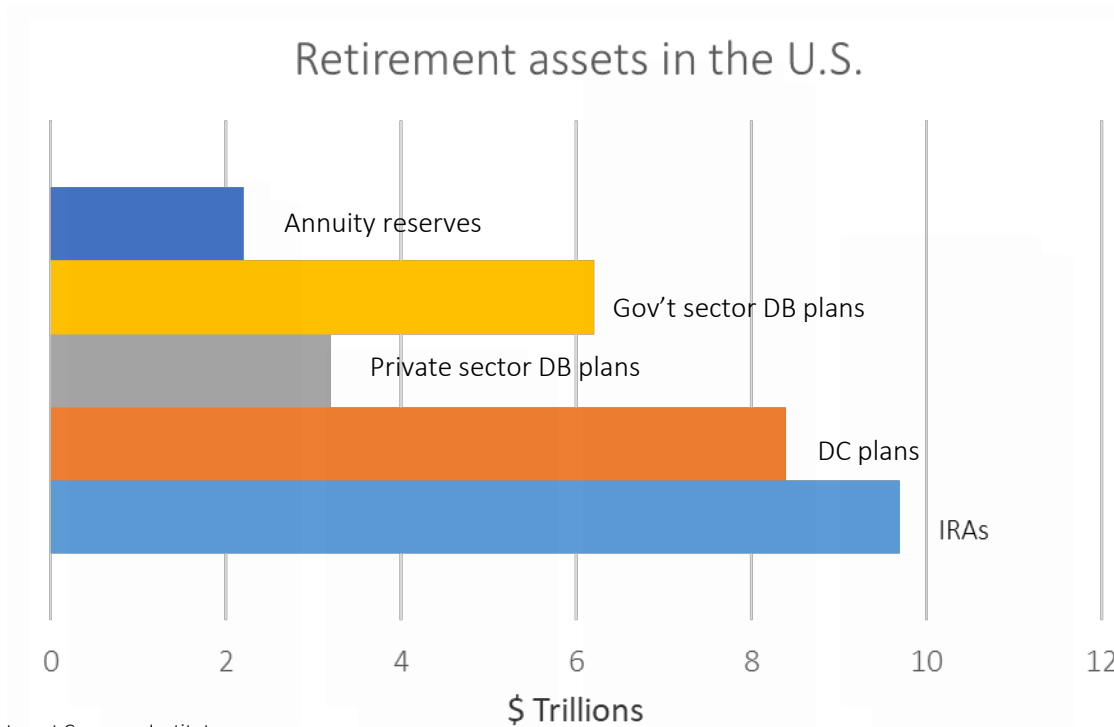
An American Perspective – Lisa Canafax



EVOLUTION OF WORKPLACE SAVINGS



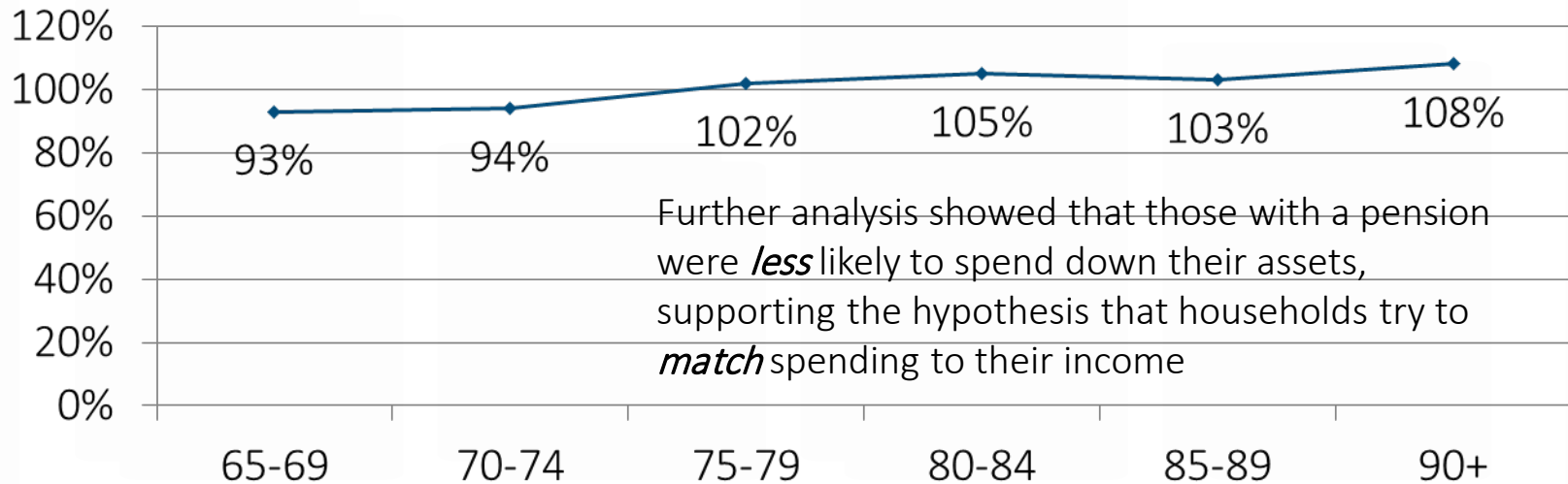
Defined Benefit vs. Defined Contribution



June 30, 2019 per Investment Company Institute

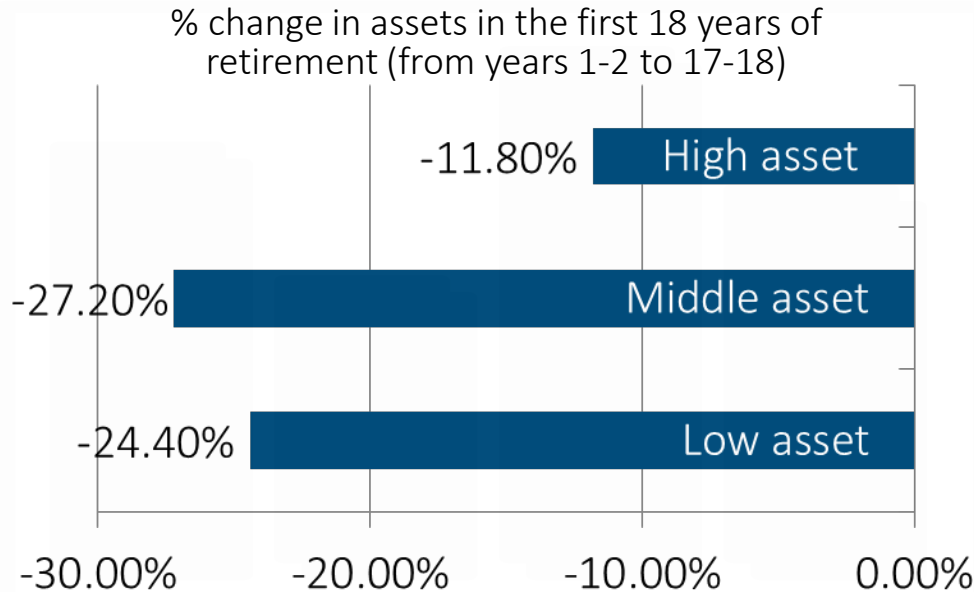
RETIREE BEHAVIOR

Median ratio of household spending to household income from 2001-2013



RETIREE BEHAVIOR

Analysis of non-housing assets post-retirement using Health and Retirement Study (HRS) data



High Asset Group
 \$500,000 or more

Middle Asset Group
 \$200,000 - \$500,000

Low Asset Group
 under \$200,000

EBRI – Asset Decumulation or Asset Preservation? What Guides Retirement Spending, April 2018

IMPLICATIONS FOR WORKPLACE RETIREMENT PLANS

- Participants want a combination of:
 - Steady income
 - Resources to meet larger, irregular expenses
 - Legacy
- Support in determining income draw
- Address concerns over loss of legacy

UNIFIED DC AND DB - DRAWDOWN

- Plan features
 - Annuity options
 - Income-focused investment options
 - Managed accounts
 - Partial / ad hoc withdrawals
- Education and tools
 - Social security optimization
 - Tax implications of payment from different sources
 - Retirement resource aggregator – DC & DB

The Impact of DB Plans on Target Date Design – Arin Bratt



Competing Approaches

There are two common perspectives on what the impact of a DB Plan should have on target date design

- Total portfolio perspective
 - The allocation of the total portfolio between the DC glidepath and DB plan should be kept as close as possible to a standard DC glidepath
 - Glidepath that has a larger allocation to growth and inflation protecting assets and sometimes less duration in the fixed income portfolio
- Replacement rate target perspective
 - The combined DB and DC plan should have a similar expected replacement rate as a standalone DC plan
 - Lower equity allocation in the glidepath

Typical Customization Approaches

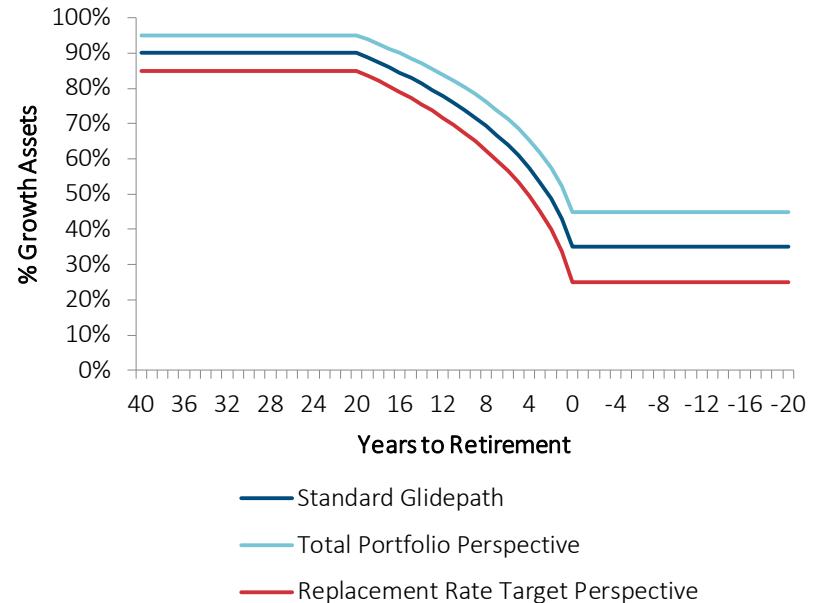


Chart depicted above are intended for illustrative purposes only.

In the Real World - Standard Problems

- Both approaches require estimating the relative difference between the value of the DB and DC plan, which is different for each participant in the plan
- The value of DB benefits tend to be very large relative to the value of DC allocations, as a result a pure implementation of either method would result in very extreme glidepaths
- The replacement rate target perspective is very focused on the representative participant and leads to non-logically consistent behavior for participants with savings rates, balances, and DB accruals different than the representative participant

In the Real World - When to Customize

- The relative role of DC and DB benefits for participants is highly variable and requires detailed plan analysis and examination of each TDF vintage due to:
 - DB plan terminations and mergers
 - Differences between DB accruals and DC contributions and growth rates
- This raises the question of how consistent does the DB benefit have to be in each vintage to customize
- One of the best ways to approach this is to compare the accrued value of DB benefits to DC balances for each participant in each target date fund vintage

Sample Distribution of DB to DC Plan Value Ratio by TDF Vintage

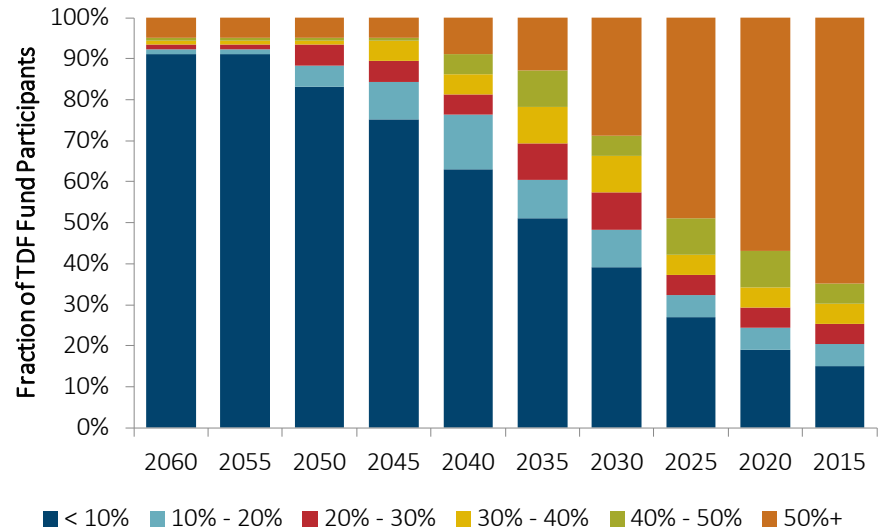


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Questions?

