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Hindsight: What Has Changed Since *Retirement 20/20*?

By Grace Lattyak

If you could design the perfect retirement system, what would it look like? In broad terms, that is what the Society of Actuaries' (SOA's) *Retirement 20/20* initiative sought to define. Over five years, this question was studied and culminated in two conferences in 2010 where winning papers (and others) were presented. There were a number of common themes drawn from the papers:

- Focusing retirement accumulations on annuity income provided
- Requiring or defaulting individuals to take a portion of their benefit as annuity income
- Preselecting investment mixes
- Building some variability into retirement income
- Changing the role of the employer, which may manifest through a two-layer system of annual income for basic expenses and account balances for discretionary income. Funding would be shared between the employers and employees.

Six years later, have we moved closer or farther away from the ideal identified? Should any of the themes be changed or adjusted based on what we know now, that we did not know seven years ago? In this article, we attempt to start the discussion and welcome your thoughts.

BACKGROUND

In late 2005, the SOA Pension Section Council started the *Retirement 20/20* initiative, based on a desire to develop a better retirement system by improving on the shortcomings of both defined benefit and defined contribution plans. Several conferences ensued to evaluate the issues.

The 2006 conference, "Building the Foundation for New Retirement Systems," looked at the needs, risks and roles for the four major system stakeholders (individuals, society, markets and employers). The 2007 conference, "Resolving Stakeholder Tensions Aligning Roles with Skills," focused on determining and aligning the optimal roles for the various stakeholders. The 2008 conference, "Defining the Characteristics of the 21st Century Retirement System," discussed optimal characteristics for successful retirement systems.

Based on the work of these conferences, the SOA issued a call for models in the summer of 2009 to solicit ideas for new Tier II retirement systems that align with the principles of the *Retirement 20/20* initiative. Four of these papers were discussed at 2010 conferences in Washington, D.C. and Toronto.

OBSERVATIONS ON CHANGES IN LAST SEVEN YEARS

Although in 2012 Senator Harkin introduced the "USA Retirement Funds" bill, which addressed many of the issues raised in *Retirement 20/20*, the bill stalled in Congress. Many companies and consultants have come to the conclusion that employers should not be the stakeholder holding the investment risk, and many companies have embraced lump-sum payouts and annuity buyouts as a way to remove large portions of the liability from their balance sheets.

FOCUSING RETIREMENT ACCUMULATIONS ON INCOME PROVIDED

The Department of Labor has been working on lifetime income disclosure rules for the past few years, and we have seen proposals requiring such disclosures in potential legislation and in the report of the Bipartisan Policy Commission.

Hindsight 20/20:
Good intentions but no concrete changes

REQUIRE OR DEFAULT INDIVIDUALS TO TAKE A PORTION OF THEIR BENEFIT AS ANNUITY INCOME

In 2008, the Department of Labor Advisory Council issued the report "Spend Down of Defined Contribution Plan Assets at Retirement." Components of that report addressed simplifying proposed annuity provider selection rules, encouraging additional participant disclosure regarding conversion of account balances into annual retirement income. Recent legislative proposals and the Bipartisan Policy Commission report both propose safe harbors to allow employers to include annuities through their defined contribution plans.

Hindsight 20/20:
Good intentions around defined contribution annuity availability but minimal concrete changes; defined benefit lump sums in conflict with this tenet

However, there has not been much change in defined contribution plan distributions. There has been much discussion about the advantages, but little action has been taken. There are continuing reservations regarding annuity options both from the employer and employee perspectives.

In defined benefit plans, there has been a trend to providing windows for electing lump sums in order to reduce the employer's exposure to financial risk.

PRESELECTING INVESTMENT MIXES

Target date funds have been increasingly popular in 401(k) plans. They simplify employee investment decisions by focusing on when the payout is to occur with little attention to the employee's appetite for risk. In 2016 Aon Hewitt research noted 70 percent of 401(k) participants are invested in target date funds. This has allowed many sponsors to reduce the number of investment options available. Many plans provide that the default investment option is a target date fund.

Hindsight 20/20:
Positive movement toward this tenet

BUILDING SOME VARIABILITY INTO RETIREMENT INCOME

Target benefit plans are hybrid plans where the contribution is determined based on funding to a level of target retirement income. Benefits can increase or decrease based on investment or demographic experience. We have seen implementation of these plans in Canada recently.

Hindsight 20/20:
Exploration of this tenet in systems with design flexibility

Although many states are facing serious issues in their state plans, Wisconsin's long-standing plan design provides a different approach to one controversial, but common, component—the cost of living allowance (COLA). In Wisconsin, the COLA is based on investment returns; if investment returns are negative, benefits to retirees from prior COLAs can be reduced.

CHANGING THE ROLE OF THE EMPLOYER

A handful of states have passed laws mandating automatic enrollment of employees into state retirement plans if the employer does not provide a retirement plan. The Bipartisan Policy Commission report also suggests a federal system that allows for employees without access to employer retirement plans to automatically defer income into a federal retirement plan.

Hindsight 20/20:
States are experimenting with ways to expand coverage

So what are your thoughts on how to improve the retirement system? Look for a survey coming to your inbox soon to share your ideas. ■

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ENDNOTES

1 See the conference report at *http://retirement2020.soa.org/Files/2012-new-designs-soa.pdf*.

2 Aon Hewitt's *2016 Universe Benchmarks*.