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Retirement Adequacy in the United States: Should We Be Concerned?

Interview with Julie Curtis and Deb Tully

The Retirement Section Council, working together with the Committee on Post Retirement Needs and Risks, commissioned Vickie Bajtelsmit and Anna Rappaport to write a report to help them understand the many different studies on retirement adequacy. The report puts into context and explains the vast difference in conclusions reached by these studies. The report can be downloaded from the Society of Actuaries (SOA) website: <https://www.soa.org/research-reports/2018/retire-adequacy-us-concern/>. Two members of the project oversight group have been interviewed to provide their perspective on this report.



Julie Curtis, FSA, EA, is recently retired from Boeing, where she was director of Actuarial Services. She now spends much of her time volunteering for the SOA.

What did you find most interesting about the report?

I think that most people would agree that whenever media pundits discuss retirement and late-life financial security, they convey a vague sense of doom. They often imply, or sometimes state outright, that people will not have enough money to retire. Occasionally, there will be an article or television blurb that states the opposite—things might not be so bad after all, and most of us can look forward to a reasonably comfortable retirement. The few optimistic outliers tend to emphasize the uncertainty of the subject, and I think make it difficult for many people to engage in the topic.

There just isn't much literature readily available to the layperson that can help an individual, or even a policymaker, develop an informed conclusion about the nation's "retirement readiness." As a result, many members of the public, and even retirement actuaries, are left with an uneasy feeling that we can't quite define what an adequate retirement is, but the chances are that most people in the United States will not quite achieve it.

Although this report does not try to come up with a single, all-purpose definition or bright-line test for retirement adequacy, it explains some key, commonly accepted measures of adequacy. This report looks at much of the academic literature and explains the results of several key studies. It shows how the studies come to different conclusions and how they measure different aspects of financial security. I found the variation among the key studies fascinating. I also appreciated how the authors of this report explored the different stakeholders within the U.S. retirement system, and how each stakeholder may look at retirement adequacy differently.

What surprised you about the work?

The most surprising and pleasant aspect of the study was how readable it was. The authors distilled a large amount of detailed, often dry, information and presented it in a way that was readily understandable and permitted the reader to draw his or her own conclusions. The report identified the several aspects of retirement adequacy that most researchers in key studies shared, and identified other aspects, such as future health care and long-term care costs, that were considered in some studies but not others.

One of the biggest surprises to me about the risk factors was how few of the key studies described in this report looked at large financial/health system shocks when these studies measured retirement adequacy. I suspect that large shocks are "unknown unknowns" and therefore difficult to quantify. So they were disregarded.

A positive surprise was an observation the authors made in section 6 of the report. Based on surveys conducted by the Committee for Post Retirement Needs and Risks, most retirees are surprisingly resilient in accommodating shocks and/or reduced financial circumstances. Despite these setbacks, they continue to indicate that they are content.

What stakeholders do you think will find the report most interesting and why?

I would encourage retirement actuaries to read the report. It provides a strong background for discussing retirement plan designs with clients and within the public policy arena. I think that financial advisers would find the identification of risks extremely helpful. While advisers tend to look at the circumstances surrounding a particular individual, the results of this study could reveal some risks that would not have been considered otherwise. I also think that anyone involved with setting public policy for retirement, savings and social programs would benefit from this report. It is a comprehensive overview of what earlier studies have discovered, and it may help shape the debate over the future direction of retirement plans.

There has been considerable discussion about a retirement crisis in America. Did the report help you to sharpen your perspective about whether there is a crisis or not? How and why?

Spoiler alert—my favorite line in this report is in the conclusion. The authors state, “After careful consideration of this body of research, it is clear that the U.S. retirement system lies somewhere between crisis and serendipity.”

This report helped to put my vague unease into focus. I realized that many, perhaps most, people will be fine in retirement—at least for most of their retirement years. The report made me aware that beneath the generally favorable outlook, there are vulnerable groups who might face a crisis, such as the disabled

and the long-term unemployed. The authors also mention that future generations, which will have fewer defined benefits, may not fare as well.

How do you think actuaries can use this report?

In the context of daily work with plan sponsors and other actuarial clients, the report provides a useful overview of the stakeholders within our national retirement system. Seeing the other stakeholders identified broadens the view and reminds all of us that there are more parties affected by retirement plan decisions than just the plan sponsor and participant. The report also clearly identifies many of the financial risks that retirees face after retirement, and how those risks can affect retirement adequacy. The more that risks can be mitigated, the more effective retirement planning can be as a recruitment/retention/workforce management tool for a plan sponsor, as a tool for financial stability from a public policy perspective, and as a tool to ensure lifelong financial security for the individual.

Is there anything else you would like to tell us?

This report’s scope was limited to looking at key studies on retirement adequacy in the United States, comparing these studies, providing an overview, summarizing key studies and drawing general conclusions. It was not a political study, nor did it speculate on potential future changes in the existing social programs or existing private pension/savings environment.

The authors’ conclusions were sound and will be helpful in looking at future changes. But the one thing that struck me most about the conclusions of the paper and of the underlying key studies that were evaluated was how much the nation’s current retirement adequacy depends on the continuation of our current social programs. Without the financial support provided by Social Security and Medicare, the current measures of retirement adequacy would be far less favorable.



Deb Tully, FSA, is a senior director at Willis Towers Watson and is currently vice-chairperson of the Retirement Section Council.

What did you find most interesting about the report?

In the professional retirement community, there is frequent debate and discussion around the “retirement crisis” that we face as a society. This report sheds new light on the different constituents and perspectives upon which existing research is based. Understanding the purpose and the intended audience for specific research projects is critical when interpreting and using the results. The report dives into the fact that different studies often use different inputs and methods to evaluate retirement adequacy and, as a result, come to a wide range of conclusions regarding whether and to what extent a retirement adequacy crisis really exists. Current reputable studies range from claiming that we are in the midst of a full retirement crisis to claims that we are in good shape with respect to our retirement system, and the results are directly related to the assumptions and motivations of those sponsoring the studies. The reality is that, on an individual basis, there are winners and losers in our retirement systems. Vickie and Anna highlight this distinction compared with the aggregate view of success that is often the focus of many studies. They point to the fact that, in some cases, we may be overexaggerating the retirement crisis; while, for others, we may not fully capture how challenging

their situations can be. When looking at aggregate or average results, the individual impact can be lost. That said, the studies also often do not reflect the fact that individuals modify their behavior to meet their individual circumstances, and, ultimately, live within their means at whatever measure, averting their own individual retirement crisis. In reality, our systems have some good aspects and some opportunities for improvement. The retirement adequacy report brings this to light by clearly summarizing and pointing out the distinctions in the existing research on the topic.

What surprised you about the work?

The report highlights the fact that the populations most at risk of not being sufficiently prepared for retirement are generally underrepresented in existing studies. This is an important factor to consider as we evaluate these studies. If we are potentially not capturing at-risk populations in retirement adequacy analysis, then we may not be fully reflecting the true extent of the issue that exists on an individual basis. This also raises the interesting question of whether current studies could potentially be overrepresenting some populations who are more likely to be prepared for retirement, depending upon how we choose to define success. For example, as the study notes, it is not surprising that individuals who participate in some form of employer retirement programs, whether defined benefit or defined contribution in nature, are more likely than others to achieve retirement adequacy goals. This population is commonly captured in various studies, likely due to the fact that plan sponsors are often stakeholders in the study and the data on this particular population is readily available. In contrast, data on populations at most risk of not having adequate resources in retirement is not as easily accessible, and those populations may not even be the focus of the studies in the first place given the particular sponsor and audience for the study.

What stakeholders do you think will find the report most interesting and why?

This report potentially appeals to a broad range of constituents. I could see plan sponsors using this as a point of reference as they make defined benefit and defined contribution plan design considerations, and I could also see government entities using this report to better understand potential policy decisions. I even think it would be valuable for individuals to understand the variables that come into play when evaluating their own

retirement readiness and the fact that when they hear sound bites on the topic, they should understand the assumptions and that the broad commentary may not necessarily translate to their own specific situation, as many studies focus on the aggregate societal results and not specific individual circumstances and needs.

There has been considerable discussion about a retirement crisis in America. Did the report help you to sharpen your perspective about whether there is a crisis or not? How and why?

Absolutely. The report highlighted the multiple lenses through which we can potentially define retirement readiness. Our industry has often taken a traditional “replacement ratio” view of retirement readiness, but that doesn’t necessarily take into account individual circumstances and the changing spending patterns and needs at different phases of retirement. This report, coupled with the other qualitative research conducted by the Committee on Post Retirement Needs and Risks, provides a more comprehensive perspective on how to evaluate whether we have a retirement crisis and who is truly in need.

How do you think actuaries can use this report?

I think actuaries can use this report as a tool to have more robust discussions with their clients and colleagues around retirement readiness and what that really means. Actuaries are in a unique position to continue the broader societal discussion and debate on retirement adequacy and to bring a balanced perspective to the debate. As actuaries, we are keenly aware of how results are directly impacted by the assumptions made in any analysis. We can play a role in ensuring that constituents evaluating retirement adequacy understand the underlying data and assumptions driving the conclusions in existing research on the topic.

Is there anything else you would like to tell us?

“Retirement Adequacy in the United States: Should We Be Concerned?” is a well-written, easy-to-digest assessment of current research and the various perspectives on this topic. Vickie Bajtelsmit and Anna Rappaport have put forth many thought-provoking questions and observations, and any professional in the retirement community would be well-served to take the time to read this report. ■

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