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Research helps untangle the issues in retirement income policy

by Marc M. Twinney

The pressure continues to build for more research that can be used to help develop the nation's policies for retirement income security. The problem is the developing old-age crisis and the demand put on economic resources by a population segment that is largely financially nonproductive. The question is: What policies can be put into place to solve this problem over the long term?

Some excellent research has been conducted by the American Enterprise Institute, the Urban Institute, the World Bank, Watson Wyatt Worldwide, and others on the issues related to public policy on Social Security. Much of this was considered by the current U.S. Advisory Council for Social Security.

Much of the research done for public policy reasons has an anti-poverty or social perspective that doesn't relate to the working sector very well or, worse, is inconsistent with it. For example, at the income level used to draw poverty lines, recent research indicated that a single person needs 75% of the income of a couple. Current law for Social Security provides less, about 66% before age adjustments, and private plans require 50% for the single survivor. This recent research recommends that the surviving spouse percentage in Social Security should be increased to 75%. If this happens, what will become the requirement for private plans? Should policy be based on remedies formed to ease life among society's poorest?

Research on individual accounts

Economists, investment experts, and academics also have begun to do impressive work on individual accounts and investments. Last spring, two excellent papers on how individuals invest their 401(k) or defined contribution accounts were presented at a session of the Wharton School's

Pension Research Council. The papers showed that individual participants in private plans were making better decisions about asset allocation or mix among major investment classes. This showed progress overall, if the data were sorted for other characteristics, such as age or size of account. During the key middle working years, the allocation to common stocks was beginning to approach the percentage suggested by modern portfolio theory. It is harder to tell how well these allocations were or will be maintained in the face of short-term price adversity. One of the discouraging findings was that even when asset size was taken into account, women were much more risk averse than men and thus tended to earn lower returns long term.

Public policy research

Because of these issues, more and better research — and better communication and understanding by actuaries — is needed of the policies appropriate to private plans. The Employee Benefit Research Institute, the Pension Research Council, the ERISA Industry Committee (ERIC), and the American Academy of Actuaries are all pursuing issues related to retirement income security. The SOA is currently sponsoring a study of the software now available for modeling retirement income. By producing a report summarizing the features of existing software, the *Macrodemographic Model Feasibility Study* can help actuaries choose the most efficient route to helping policymakers understand the long-range impact of proposed changes to Social Security.

Cross-discipline studies of better ways to project plan termination liabilities facing the PBGC are being undertaken. Progress here could lead to an improved financial model and, perhaps, a more realistic premium basis for plan sponsors.

It is also instructive to review the paper released this summer by ERIC. It is called "Getting The Job Done: A White Paper on Emerging Pension Plan Issues." It is available from the ERIC office, 202/789-1400 (fax: 202/789-1120) and "ERIC On Line" (www.eric.org). It voices a concern by major companies about the drift in policy and the need for a complete policy review. ERIC is concerned that in revising Social Security and Medicare, the role of private plans may be taken for granted. ERIC members think there is a substantial risk that, by overlooking or misunderstanding the private retirement plan system, Congress will be tempted to shift liabilities to them.

Actuaries who take advantage of recent research to become better informed will be ready to participate in these discussions as plan sponsors work out their own policies and suggestions for national policy.

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Summary of OASDI and Medicare programs

Robert J. Myers, former chief actuary of the Social Security Administration, has completed a revision of his *Summary of the OASDI and Medicare Programs*. This 58-page document describes the program as of January 1997. Copies may be obtained by writing to him at 9610 Wire Avenue, Silver Spring, MD 20901, and enclosing five 32-cent stamps (U.S. or Canadian) and a self-addressed mailing label.